ORION HEALTH GROUP LIMITED

# Interim Financial Statements

For the six months ended 30 September 2018

ORION HEALTH

# Independent review report

To the shareholders of Orion Health Group Limited

## *Report on the interim financial statements*

We were engaged to review the accompanying interim financial statements ("financial statements") of Orion Health Group Limited ("the Company") and its controlled entities ("the Group") on pages 4 to 23, which comprise the consolidated balance sheet as at 30 September 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month period ended on that date, and selected explanatory notes.

## *Director's responsibility for the financial statements*

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## *Our responsibility*

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. However, because of the matters described in the basis for disclaimer of conclusion paragraphs, we were not able to obtain sufficient appropriate evidence as a basis for expressing a conclusion on the financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of treasury services, a review opinion on the Group's Confirmation of Eligible Research & Development Expenses for Callaghan Innovation, agreed upon procedures reporting of the constant currency schedule, agreed upon procedures reporting in regards to shareholder voting at the 2018 Annual General Meeting and agreed upon procedures in respect of the cash reconciliation in relation to the share buy-back. The provision of these other services has not impaired our independence.

## *Basis for disclaimer of conclusion*

As described in Note 2.1 to the financial statements, subsequent to year end the Group has sold the Rhapsody business and retained majority shareholdings in Population Health Management and Hospitals. The Population Health Management business currently makes significant losses and requires restructuring.

The appropriateness of the use of the going concern basis in the preparation of these financial statements is dependent on the ability of the Group to achieve forecasted revenue and cash receipts, the ability to realise significant additional cost savings whilst continuing to deliver on contractual customer commitments and/or the ability to secure alternative sources of funding.

The Group intends to significantly reduce the Population Health Management cost base to achieve profitability. If the significant cost reductions are not achieved at the current cash burn rate additional funding would be required within the next twelve months. Management has prepared further plans to achieve the required cost reductions, which implies no further funding is required. However, given the fact that these cost reductions have not been fully implemented, there is insufficient evidence of the actual realisation of these cost reductions and/or specific feasible plans supporting alternative sources of funding as at the date of this report.

As a result of these uncertainties we were not able to obtain sufficient appropriate evidence to enable us to form a conclusion as to whether the going concern assumption is appropriate and therefore whether any adjustments are necessary to the amounts recorded in the consolidated balance sheet and the consequential impact on the consolidated statement of comprehensive income and the consolidated statement of changes in equity.

## *Disclaimer of conclusion*

Due to the significance of the matters described in the *Basis for disclaimer of conclusion* paragraphs, we were unable to obtain sufficient appropriate evidence to form a conclusion on the accompanying financial statements. Accordingly, we do not express a conclusion on these financial statements.

## *Who we report to*

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
Auckland
20 December 2018

# Consolidated Statement of Comprehensive Income

for the six months ended 30 September

| | Note | 6 months<br>Unaudited<br><br>30 Sep 2018<br>NZ$'000 | 6 months<br>Unaudited<br>(restated)<br>30 Sep 2017<br>NZ$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Operating revenue** | 3 | **54,653** | **58,399** |
| Other income | | 3,778 | 3,719 |
| **Total Income** | | **58,431** | **62,118** |
| **Expenses** | | | |
| Direct operating costs and expenses | | 15,215 | 14,386 |
| Employee benefits expense | | 59,627 | 70,364 |
| Promotional expenses | | 651 | 1,186 |
| Administration and other expenses | | 2,716 | 1,325 |
| Occupancy expenses | | 4,660 | 4,897 |
| Depreciation and amortisation expense | | 2,158 | 3,115 |
| Net foreign exchange (gain)/loss | | 1,427 | (775) |
| Other operating losses | | 1,998 | 56 |
| | 4 | **88,452** | **94,554** |
| **Operating loss** | 3 | **(30,021)** | **(32,436)** |
| Finance income | | 298 | 259 |
| Finance costs | | (248) | (371) |
| Finance income – net | | 50 | (112) |
| **Loss before income tax** | | **(29,971)** | **(32,548)** |
| Income tax expense/(credit) | | 420 | 598 |
| **Loss from continuing operations** | | **(30,391)** | **(33,146)** |
| **Profit from discontinuing operations** | 5 | **13,013** | **7,213** |
| **Loss for the period attributable to equity holders of the Parent** | | **(17,378)** | **(25,933)** |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Currency translation differences | | 1,783 | 86 |
| **Total other comprehensive income** | | **1,783** | **86** |
| **Total comprehensive loss attributable to equity holders of the Parent** | | **(15,595)** | **(25,847)** |
| **Earnings per share** | | | |
| Basic and diluted loss per share – continuing operations (cents) | | (15.5) | (17.8) |
| Basic and diluted loss per share (cents) | | (8.9) | (13.2) |

*The accompanying notes form an integral part of these financial statements*

# Consolidated Balance Sheet

as at 30 September

| | Note | Unaudited 30 Sep 2018 NZ$'000 | Audited 31 Mar 2018 NZ$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 6,848 | 9,628 |
| Restricted cash | | 2,135 | 1,079 |
| Trade and other receivables | | 26,985 | 63,082 |
| Accrued revenue | | 9,354 | 9,872 |
| Current income tax asset | | 2,134 | 2,642 |
| | | **47,456** | **86,303** |
| **Assets classified as held for sale** | **5** | **25,635** | **3,900** |
| | | **73,091** | **90,203** |
| **Non-current assets** | | | |
| Trade and other receivables | | - | 7,051 |
| Accrued revenue | | 343 | 672 |
| Deferred tax assets | | 2,560 | 1,975 |
| Property, plant and equipment | | 5,495 | 6,572 |
| Intangible assets | | 1,475 | 1,781 |
| | | **9,873** | **18,051** |
| **TOTAL ASSETS** | | **82,964** | **108,254** |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Bank overdraft | 8 | 4,582 | 5,172 |
| Short-term borrowings | 8 | 756 | 4,382 |
| Trade and other payables | | 16,992 | 22,689 |
| Employee benefits | | 9,130 | 11,241 |
| Revenue in advance | | 17,920 | 37,044 |
| Secured borrowings | | - | 4,158 |
| Provisions for other liabilities | | 212 | 447 |
| | | **49,592** | **85,133** |
| **Liabilities classified as held for sale** | 5 | 24,515 | - |
| | | 74,107 | 85,133 |
| **Non-current liabilities** | | | |
| Trade and other payables | | 166 | 298 |
| Revenue in advance | | 1,569 | 2,003 |
| Employee benefits | | 1,554 | 1,114 |
| Provisions for other liabilities | | 730 | 507 |
| | | **4,019** | **3,922** |
| **TOTAL LIABILITIES** | | **78,126** | **89,055** |
| **NET ASSETS** | | **4,838** | **19,199** |
| | | | |
| **EQUITY** | | | |
| Share capital | 9 | 190,809 | 190,735 |
| Treasury shares | 9 | (2,120) | (2,120) |
| Share-based payment reserve | 9 | 2,534 | 2,296 |
| Accumulated losses | | (186,130) | (172,050) |
| Foreign currency translation reserve | | (255) | (2,038) |
| Revaluation surplus | | - | 2,376 |
| **TOTAL EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT** | | **4,838** | **19,199** |

For and on behalf of the Board, 20 December 2018

**Andrew Ferrier**
CHARIMAN

**Ian McCrae**
DIRECTOR and CHIEF EXECUTIVE OFFICER

*The accompanying notes form an integral part of these financial statements*

# Consolidated Statement of Changes in Equity

for the six months ended 30 September

| | Note | Issued capital NZ$'000 | Treasury shares NZ$'000 | Share-based payment reserve NZ$'000 | (Accumulated losses)/ Retained earnings NZ$'000 | Foreign currency translation reserve NZ$'000 | Asset revaluation reserve NZ$'000 | Total equity NZ$'000 |
|---|---|---|---|---|---|---|---|---|
| **GROUP (unaudited 30 September 2018)** | | | | | | | | |
| **Balance at 1 April 2018** | | **190,735** | **(2,120)** | **2,296** | **(172,050)** | **(2,038)** | **2,376** | **19,199** |
| NZ IFRS 15 'Revenue from contracts with customers' opening adjustment | 2.3 | - | - | - | 922 | - | - | 922 |
| **Restated balance as at 1 April 2018** | | **190,735** | **(2,120)** | **2,296** | **(171,128)** | **(2,038)** | **2,376** | **20,121** |
| Loss for the period | | - | - | - | (17,378) | - | - | (17,378) |
| Other comprehensive income for the period | | - | - | - | - | 1,783 | - | 1,783 |
| **Total comprehensive (loss)/income for the six months ended 30 September 2018** | | **-** | **-** | **-** | **(17,378)** | **1,783** | **-** | **(15,595)** |
| Transfer of reserve upon disposal of an asset | | - | - | - | 2,376 | - | (2,376) | - |
| Issue of share capital | 9 | 74 | - | - | - | - | - | 74 |
| Accrual of share-based employee benefits | 9 | - | - | 758 | - | - | - | 758 |
| Vesting of shares – employee share schemes | 9 | - | - | (520) | - | - | - | (520) |
| **Total transactions with owners in their capacity as owners** | | **74** | **-** | **238** | **2,376** | **-** | (2,376) | **312** |
| **Balance at 30 September 2018** | | **190,809** | **(2,120)** | **2,534** | **(186,130)** | **(255)** | - | **4,838** |
| | | | | | | | | |
| **GROUP (unaudited 30 September 2017)** | | | | | | | | |
| **Balance at 1 April 2017** | | **159,057** | **(2,120)** | **2,070** | **(131,412)** | **(1,529)** | **2,376** | **28,442** |
| Loss for the period | | - | - | - | (25,933) | - | - | (25,933) |
| Other comprehensive income for the period | | - | - | - | - | 86 | | 86 |
| **Total comprehensive (loss)/income for the six months ended 30 September 2017** | | **-** | **-** | **-** | **(25,933)** | **86** | **-** | **(25,847)** |
| Issue of share capital | 9 | 31,246 | - | - | - | - | - | 31,246 |
| Issue of share capital – employee share schemes | 9 | - | - | - | - | - | - | - |
| Accrual of share-based employee benefits | 9 | - | - | 841 | - | - | - | 841 |
| Vesting of shares – employee share schemes | 9 | 325 | - | (325) | - | - | - | - |
| **Total transactions with owners in their capacity as owners** | | **31,571** | **-** | **516** | **-** | **-** | **-** | **32,087** |
| **Balance at 30 September 2017** | | **190,628** | **(2,120)** | **2,586** | **(157,345)** | **(1,443)** | **2,376** | **34,682** |

*The accompanying notes form an integral part of these financial statement*

# Consolidated Statement of Cash Flows

## for the six months ended 30 September

| | Note | 6 months Unaudited 30 Sep 2018 NZ$'000 | 6 months Unaudited 30 Sep 2017 NZ$'000 |
|---|---|---|---|
| CASH FLOW FROM OPERATING ACTIVITES | | | |
| **Cash provided from:** | | | |
| Receipts from customers | | 104,887 | 92,599 |
| Interest received | | 2 | 3 |
| | | **104,889** | **92,602** |
| **Cash applied to:** | | | |
| Payment to suppliers | | (44,628) | (35,224) |
| Payment to employees | | (61,225) | (76,817) |
| Interest paid | | (201) | (141) |
| Taxation paid | | (285) | (697) |
| | | **(106,339)** | **(112,879)** |
| **Net cash outflow from operating activities** | 5 & 14 | **(1,450)** | **(20,277)** |
| | | | |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| **Cash applied to:** | | | |
| Proceeds from property, plant and equipment – Assets held for sale | | 4,085 | - |
| Property, plant and equipment – additions | | (117) | (628) |
| Intangible assets – additions | | (276) | (225) |
| **Net cash inflow/(outflow) from investing activities** | | **3,692** | **(853)** |
| | | | |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| **Cash provided from:** | | | |
| Issue of shares | 9 | - | 31,246 |
| **Cash applied to:** | | | |
| Repayment of short-term borrowings | | (3,626) | - |
| **Net cash inflow from financing activities** | | **(3,626)** | **31,246** |
| | | | |
| TOTAL NET CASH INFLOW/(OUTFLOW) | | **(1,384)** | **10,116** |
| | | | |
| **Cash and cash equivalents at 31 March 2018 / 2017 net of overdraft** | | 5,535 | 5,893 |
| Effect of exchange rate on foreign currency balances | | 250 | 136 |
| Net cash inflow/(outflow) | | (1,384) | 10,116 |
| **Cash and cash equivalents at the end of period** | | **4,401** | **16,145** |
| | | | |
| **Composition of cash and cash equivalents** | | | |
| Cash and cash equivalents | | 6,848 | 16,253 |
| Bank overdraft | 8 | (4,582) | (108) |
| **Group net cash and cash equivalents** | | **2,266** | **16,145** |
| Restricted cash | | **2,135** | - |
| **Total cash and cash equivalents** | | **4,401** | **16,145** |

*The accompanying notes form an integral part of these financial statements*

# Condensed Notes to the Financial Statements

for the six months ended 30 September

**1. REPORTING ENTITY**

These unaudited consolidated condensed interim financial statements for the Orion Health Group Limited are for the economic entity comprising Orion Health Group Limited ('Parent' or 'Company'), its subsidiaries and its associates (together referred to as the 'Group' and individually as 'Group entities').

The Parent and Group are designated as profit-oriented entities for financial reporting purposes.

The Parent is incorporated and domiciled in New Zealand, is registered under the Companies Act 1993 and is a reporting entity for the purposes of the Financial Markets Conduct Act 2013. The Parent is listed with NZX Limited with its ordinary shares quoted on the NZX Main Board and the ASX Listing Rules.

The principal activity of the Group is to provide healthcare information technology advancing population health and precision medicine solutions for personalised care across the entire health community. With the head office in Auckland, New Zealand, the Company has a presence in 15 countries.

These interim financial statements were approved by the Directors on 20 December 2018.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

These interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and comply with the requirements of International Accounting Standard (IAS) 34 Interim Financial Reporting and with New Zealand Equivalent to International Accounting Standard (NZ IAS) 34 Interim Financial Reporting.

Except for the effects of applying NZ IFRS 9 'Financial Instruments' and NZ IFRS 15 'Revenue from contracts with Customers', as outlined in Note 2.2, the interim financial statements of the Group for the six months ended 30 September 2018 have been prepared using the same accounting policies and methods of computation as, and should be read in conjunction with, the financial statements and related notes included in the Group's Annual Report for the year ended 31 March 2018.

**2.1 GOING CONCERN ASSUMPTION**

As at 30 September 2018 the Group has net cash and cash equivalents of $2,266,000 (31 March 2018: $4,456,000), excluding restricted cash held by the PDH Joint Arrangement. In addition, the Group has a short term working capital facility drawn down of $756,000 (31 March 2018 $4,382,000). The Group has negative working capital of $1,016,000 (31 March 2018 positive working capital of $5,070,000). The Group incurred a net loss of $17,378,000 for the six-month period ended 30 September 2018 (30 September 2017 net loss of $25,933,000) and had a net operating cash outflow for the period ended 30 September 2018 of $1,450,000 (30 September 2017: $20,277,000).

As detailed in Note 3 Segment Information, the Group comprises three Solution Groups being Rhapsody, Population Health Management and Hospitals.

Subsequent to period end (as disclosed in Note 12) the Group has sold a majority position in the Rhapsody business and retained majority shareholdings in Population Health Management and Hospitals. While Rhapsody is profitable, Population Health Management and Hospitals currently make significant losses. The Company has taken approximately $40 million in expenses out of the Population Health Management business over the last 18 months to drive the business towards profitability. Management has developed plans to further reduce costs and transition to profitability for both these businesses. These plans are yet to be fully implemented at this point.

The Group has three areas of investment: Rhapsody (24.9% equity interest), Population Health (75.1%) and Hospitals (100%). The Rhapsody and Population Health investments each have their own governance board and shareholder agreement. There is no requirement for the shareholders to contribute additional equity under these agreements. As part of the Hg Transaction the Population Health Management business has $30 million of cash to fund ongoing operations.

The Group announced a share buy back for existing shareholders, whichis scheduled to be completed by 4 January 2019. It is unclear at this point the extent of the acceptances, if all shareholders accept this then this  will leave approximately $10 million of cash in the

Group. These funds are available to fund Hospitals and provide further funding to the Population Health Management, if required.

In assessing the adoption of the going concern assumption in the preparation of the financial statements the Directors have reviewed and adopted the Group forecasts. The forecasts are based on the new Group structure following the completion of the Hg transaction, including relevant sensitivity analysis. The Directors have reviewed the existing working capital against Group requirements and have considered achievability of the assumptions underlying the forecasts.

The Directors recognise that material uncertainties exist due to the current cash run rate of the Population Health Management business including:

- The ability to restructure the remaining loss making business into cash flow positive businesses through cost reductions whilst maintaining the operational performance of the business; and
- Forecasting revenue and cash receipts due to the inherent difficulty in assessing the timing of execution and payments for future contracts; and
- The ability to secure additional funding, if required.

These material uncertainties cast doubt on the Group's ability to continue as a going concern.

The Directors have concluded that it is appropriate to continue to prepare these financial statements on a going concern basis because in the Director's opinion:

- The forecast revenue assumptions are reasonable, having regard to recent sales performance, major identified prospects and the current level of committed contracts; and
- Forecast cash collections are reasonable; and
- The forecast sensitivities including forecast cost reductions indicate that the Group has a level of headroom in its cash balance against shortfalls in forecast revenue; and
- The Group retains flexibility to further reduce its cost base.

The financial statements do not reflect any adjustments should the Group not be able to continue as a going concern and realise the value of its assets and discharge its liabilities in the normal course of business.

**2.2 CHANGES IN ACCOUNTING POLICIES AND ESTIMATES**

The Group has adopted the new accounting pronouncements which have become effective this year and are as follows:

- **NZ IFRS 9 'Financial Instruments' ('NZ IFRS 9')** replaces the multiple classification and measurement models in NZ IAS 39 'Financial Instruments: Recognition and Measurement' and introduces a revised model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting.

  The Group is applying the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables and accrued revenue. To measure the expected credit losses, trade receivables and accrued revenue are grouped based on shared credit risk characteristics and the days past due. The loss allowance provision as at 31 March 2018 was not materially different under NZ IFRS 9.

- **NZ IFRS 15 'Revenue from contracts with customers' ('NZ IFRS 15')** replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction Contracts' and is effective for periods commencing on or after 1 January 2018. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The notion of control therefore replaces the existing notion of risks and rewards.

  The standard permits either a full retrospective or a modified retrospective approach for adoption. The Group has adopted the standard using the modified retrospective approach, which means the cumulative impact of the adoption will be recognised in retained earnings as at 1 April 2018 and that comparatives will not be restated.

Other new standards, amendments and interpretations issued by the International Accounting Standards Board (IASB) and the External Reporting Board (XRB) have been published that will be mandatory for the Group's accounting periods beginning on or after 1 April 2019. None of these standards have been early adopted by the Group. These new standards, amendments and interpretations potentially impacting the Group include:

- **NZ IFRS 16 'Leases' (NZ IFRS 16)** was issued in February 2016 and will replace NZ IAS 17 'Leases' (NZ IAS 17) and related interpretations and is likely to have a material impact on the Group. NZ IFRS 16 will require Orion Health, as a lessee, to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts.

  Management has established an IFRS transition working group and commenced collation of information from all its subsidiaries on the lease commitments. Management is working to a project plan to facilitate transition within the mandatory period.

  The standard can be applied early, but only in conjunction with NZ IFRS 15; otherwise, the mandatory effective date is for periods beginning on or after 1 January 2019. The standard will be effective for the Group from the year ending 31 March 2020.

There are no other standards, amendments or interpretations that are not yet effective that would be expected to have a material impact on the Group.

### 2.3 IMPACT OF ADOPTION OF NEW NZ IFRS STANDARDS

This note explains the impact of the adoption of NZ IFRS 9 and NZ IFRS 15 on the Group's consolidated interim financial statements.

- **NZ IFRS 9 'Financial Instruments' - impact of adoption**

  The Group has applied NZ IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

  Upon adopting NZ IFRS 9 there is no change in classification and recognition of financial assets and liabilities.

  **Trade Receivables & Accrued Revenue**

  The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and accrued revenue.

  To measure the expected credit losses, trade receivables and accrued revenue have been grouped based on shared credit risk characteristics and the days past due.

  The expected loss rates are based on historical bad debt profiles the last 2 full year periods as the most accurate predictor of historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Within the period the Group has identified the increased exposure in Turkey where it sells its goods and services to be the most relevant factor, and accordingly adjusted the historical loss rates based on expected changes in this factor to related receiveables.

  The loss allowance provision as at 1 April 2018 was not materially different from 31 March 2018.

- **NZ IFRS 15 'Revenue from contracts with customers' - impact of adoption**

  The Group adopted NZ IFRS 15 from 1 April 2018. The Group has applied NZ IFRS 15 using the modified retrospective approach with the practical expedient in paragraph C7 of NZ IFRS 15, under which the Group does not restate completed contracts for all reporting periods before the date of initial application (1 April 2018). Comparatives continue to be reported under NZ IAS 18 and have therefore not been restated, however, an adjustment was made to the opening retained earnings amount as at 1 April 2018.

Revenue recognition processes and accounting policies have been amended to ensure that the five-step method, as defined in NZ IFRS 15, is applied consistently to revenue recognition across the Group.

**Process and policy**

The Group reviewed its revenue recognition processes across a large coverage of contracts across its three Solution Groups (Hospitals, Population Health and Rhapsody) or revenue portfolios. The review was completed in the first half of 2019. The main areas of focus and judgement are listed below which overall resulted in a net adjustment to opening retained earnings of $922,000 representing additional revenue earned in a prior period.

- The Group has a number of Population Health and Hospital contracts that include implementation services and license sales where the implementation and license elements were previously accounted for separately. In the majority of cases, these are now accounted for as a single performance obligation under NZ IFRS 15 using the percentage of completion method. A $79,000 adjustment decreased retained earnings and increased revenue in advance as at 1 April 2018.
- Rhapsody licences are a distinct performance obligation to Rhapsody implementation services. The Group carries out implementation services of some of the Group's Rhapsody products. These contracts were reviewed to determine the appropriate method to measure the Group's performance over time and recognise revenue in accordance with NZ IFRS 15. The Group continues to recognise revenue according to the percentage of completion reached in the contract by measuring the proportion of hours incurred for work performed to date to estimated total contract hours. No NZ IFRS 15 differences were identified.
- In determining the transaction price of each performance obligation, the Group determined the standalone selling price for each item and allocated the transaction price based on each item's relative value to the total value of the goods and services in the arrangement. The best evidence of standalone selling price is the price the Group charges for that good or service when the Group sells it separately in similar circumstances to similar customers. However, goods or services are not always sold separately. The standalone selling price needs to be estimated or derived by other means if the good or service is not sold separately. This estimate often requires judgement, such as when goods or services are sold only as part of a bundled arrangement. Based on the assessment, except for several material contracts mentioned below, there is no significant difference resulting from the transaction price allocation exercise as compared to previous accounting.
  a. For one specific contract, the NZ IFRS 15 assessment led to a reallocation of the transaction price between the licence and the support service where more revenue should have been allocated to the licence. As such, retained earnings increased by $1,086,000 with a corresponding decrease in revenue in advance as at 1 April 2018.
  b. The Group identified a number of implementation service projects with selling prices outside the stand-alone selling price range compared to other similar sales as the Group granted deep discounts on either implementation services or perpetual licenses. In adopting NZ IFRS 15 the Group allocated the discount to all of the performance obligations in each arrangement based on their relative standalone selling price, so that the discount is allocated proportionately to all performance obligations. Consequently, the Group decreased retained earnings by $28,000 and increased revenue in advance as at 1 April 2018.
- The Group also identified a customer with a significant financing component because payment by the customer occurs significantly after performance of the obligation. The amount of revenue recognised differs from the amount of cash received from the customer when the Group determines a significant financing component exists. Revenue recognised will be less than cash received for payments that are received in arrears of performance, as a portion of the consideration received will be recorded as interest income. The difference arising due to application of NZ IFRS 15 has been reflected in the financial statements. There was no impact on retained earnings.

### 3. SEGMENT INFORMATION

During the period the Group changed its reporting base. In prior periods the Group has been managed by Region, however from 1 April 2018 the Group is managed by Solution Groups that represent a grouping of similar products. There are four reportable segments, three of which are the solution group categories of the Group's business operations; Rhapsody, Population Health and Hospitals. The fourth group, Shared Services is a shared service centre that services the other groups. For each reportable segment the Executive Leadership Team ('ELT', our Chief Operating Decision Maker) review internal management reports on a monthly basis.
Information regarding the results of each reportable segment is included below. The segment contribution is the key measure of performance, as included in the internal management reports that are reviewed by the ELT. The segment contributions shown below are non-GAAP measures. The assets and liabilities of the Group are reported to and reviewed by the ELT in total and are not allocated by operating segment. Therefore, operating segment assets and liabilities are not disclosed.

**Solution Group segmentation by category of product/service:**

| 6 months to 30 September 2018 Unaudited | Rhapsody NZ$'000 | Population Health NZ$'000 | Hospitals NZ$'000 | Shared Services NZ$'000 | Total NZ$'000 |
|---|---|---|---|---|---|
| **Revenue – external** | | | | | |
| **Operating revenue** | **28,309** | **49,185** | **5,133** | **335** | **82,962** |
| **Segment contribution – external** | **17,154** | **(17,751)** | **(3,332)** | **(11,518)** | **(15,447)** |
| Inter-segment transactions | (3,923) | (7,829) | (734) | 12,486 | - |
| **Segment contribution** | **13,231** | **(25,580)** | **(4,066)** | **968** | **(15,447)** |

| 6 months to 30 September 2017 Unaudited | Rhapsody NZ$'000 | Population Health NZ$'000 | Hospitals NZ$'000 | Shared Services NZ$'000 | Total NZ$'000 |
|---|---|---|---|---|---|
| **Revenue – external** | | | | | |
| **Operating revenue** | **22,486** | **53,412** | **4,652** | **335** | **80,885** |
| **Segment contribution – external** | **10,414** | **(24,856)** | **(834)** | **(10,492)** | **(25,768)** |
| Inter-segment transactions | (2,971) | (6,538) | (543) | 10,052 | - |
| **Segment contribution** | **7,443** | **(31,394)** | **(1,377)** | **(440)** | **(25,768)** |

The Group did not report by Solution Group for the 6 months to 30 September 2017. The Group has restated comparative numbers for this period based on a financial model that separates revenue to a Solution Group based on product code and then expenses depending on expense type according to several allocation methodologies with revenue being the main driver.

# Condensed Notes to the Financial Statements

## for the six months ended 30 September

**Reconciliation from segment contribution to consolidated operating loss:**

| | 6 months Unaudited 30 Sep 2018 NZ$'000 | 6 months Unaudited 30 Sep 2017 NZ$'000 |
|---|---|---|
| Segment contribution | (15,447) | (25,768) |
| Discontinued Operations | (13,231) | (7,443) |
| Precision Driven Health JV adjustment | 84 | - |
| Net foreign exchange gains/(loss) | (1,427) | 775 |
| **Continuing operations operating loss** | **(30,021)** | **(32,436)** |

### 4. OPERATING EXPENSES

The following disclosure provides additional information in relation to expenses included within the Consolidated Statement of Comprehensive Income.

| | 6 months Unaudited 30 Sep 2018 NZ$'000 | 6 months Unaudited 30 Sep 2017 NZ$'000 |
|---|---|---|
| **EXPENSES: BY FUNCTION – Continuing Operations** | | |
| Research and development | 20,465 | 28,609 |
| Sales and marketing | 10,838 | 13,955 |
| Implementation services | 18,073 | 20,371 |
| Support services | 2,551 | 1,402 |
| Managed services | 16,885 | 17,285 |
| General and administration | 19,640 | 12,932 |
| | **88,452** | **94,554** |

# Condensed Notes to the Financial Statements

## for the six months ended 30 September

**5. DISCONTINUED OPERATIONS**

On 3 July 2018 the Group entered into an agreement to sell its Rhapsody business to Hg Capital ("Hg") and retained a 24.9% interest and additionally sell a 24.9% shareholding of the remaining Population Health Management business to Hg. The transaction settled on 31 October 2018.

The following financial performance and cash flow information presented is in relation to the discontinued operation for the six months ended 30 September 2018:

| | 6 months<br>Unaudited<br>30 Sep 2018<br>NZ$'000 | 6 months<br>Unaudited<br>30 Sep 2017<br>NZ$'000 |
|---|---|---|
| Revenue | 28,309 | 22,486 |
| Expenses | 15,078 | 15,043 |
| Profit before tax | 13,231 | 7,443 |
| Income tax expense | 218 | 230 |
| Profit after income tax of the discontinued operation | 13,013 | 7,213 |
| Net cash inflows from operating activities | 15,758 | 8,815 |
| Basic and diluted loss per share – discontinued operations (cents) | 6.6 | 3.9 |

There were no financing or investing cashflows related to Rhapsody.

Tax expense in respect of discontinued operations has been calculated on the basis that the Rhapsody business is able to utilise Group tax losses in New Zealand from earlier periods to satisfy its tax liability.

The following assets and liabilities are reclassified as held for sale in relation to the discontinued operation as at 30 September 2018:

| | 6 months<br>Unaudited<br>30 Sep 2018<br>NZ$'000 |
|---|---|
| Assets classified as held for sale | |
| Trade and other receivables | 25,526 |
| Accrued revenue | 109 |
| Property, plant and equipment | - |
| Total assets of disposal group held for sale | 25,635 |
| Liabilities directly associated with assets classified as held for sale | |
| Trade and other payables | 4,662 |
| Revenue in advance | 18,661 |
| Employee benefits | 1,192 |
| Total liabilities of disposal group held for sale | 24,515 |

### 6. TAXATION

In accordance with section DB 34(7) and EE 1(5) of the Income Tax Act 2007, the Group has elected to defer the deduction of research and development expenditure for New Zealand taxation purposes and also has tax losses to carry forward.

As at 30 September 2018 the Group has a total of $229,225,000 (30 September 2017: $201,953,000) unrecognised deferred research and development expenditure and tax losses in New Zealand available to offset future taxable income, subject to shareholder continuity being maintained as required by New Zealand tax legislation.

The Group also has unrecognised tax losses in Spain of EUR 498,245 (30 September 2017: EUR 902,000). These tax losses do not have an expiry date.

The Hg Transaction that occurred after balance date outlined in Note 5 gave rise to no material tax liability for the Group.

### 7. ADDITIONS AND DISPOSALS OF NON-CURRENT ASSETS

During the six months ended 30 September 2018, the Group acquired property, plant, equipment and software assets with a total cost of $796,926 (30 September 2017: $892,297).

Property, plant and equipment with a net book value of $331,125 was disposed of during the period (30 September 2017: $97,922).

Land held for sale as at 31 March 2018 with a carrying amount of $3,900,000 was sold on 29 June 2018.

### 8. BANK FACILITY

The Group maintained a multi-currency working capital facility with a limit of NZD 20,000,000 (2017: NZD 30,000,000 multi-currency working capital facility and a standby facility with a limit of NZD 10,000,000). This facility was to expire on 31 May 2019.

The facility was secured by a general security deed over all the present and future assets and undertakings of the Group. In funds balances and any overdrafts held with ASB Bank were subject to a netting arrangement. This allowed for settlement on a net basis in the event of default.

The facilities were subject to a number of external bank covenants. These covenants were calculated and reported either monthly or quarterly. The Group breached its Profit & Loss covenant in the July, August and September 2018 months and received waivers from ASB Bank in relation to those periods. The Group tested and met all other covenants during the current and prior year.

As of the Hg Transaction execution date of 31 October 2018 the outstanding $756,000 short term borrowing facility was fully repaid and the above mentioned facility cancelled.

# Condensed Notes to the Financial Statements
## for the six months ended 30 September

### 9. CAPITAL AND STRUCTURE
This section outlines the Group's capital structure and details employee incentives which have an impact on equity.

### 9.1 SHARE CAPITAL

| | 6 months | 6 months | 12 months | 12 months |
|---|---|---|---|---|
| | Unaudited | Unaudited | Audited | Audited |
| | 30 Sep 2018 | 30 Sep 2018 | 31 Mar 2018 | 31 Mar 2018 |
| | No. shares | NZ$'000 | No. shares | NZ$'000 |
| Balance at the beginning of the period | 195,665,629 | 190,735 | 160,044,938 | 159,057 |
| Issue of ordinary shares - Rights offer | - | - | 35,541,112 | 31,246 |
| Issue of ordinary shares - LTI Scheme (refer note 9.3) | - | - | 117,277 | 325 |
| Issue of ordinary shares - Staff | 406,009 | - | - | - |
| Issue of ordinary shares - Directors | 69,596 | 74 | 163,597 | 145 |
| Shares cancelled | - | - | (201,295) | (38) |
| **Ordinary Shares on issue at the end of the period** | 196,141,234 | 190,809 | 195,665,629 | 190,735 |
| Treasury shares | - | - | - | - |
| **Net Ordinary Shares on issue at the end of the period** | 196,141,234 | 190,809 | 195,665,629 | 190,735 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends. All shares rank equally with regard to the Parent Company's residual assets.

# Condensed Notes to the Financial Statements

## for the six months ended 30 September

### 9.2 SHARE CAPITAL TRANSACTIONS

| | No. of Shares | Fair value NZ$/share | Total proceeds/ consideration NZ$'000 |
|---|---|---|---|
| | | | |
| **During the period ended 30 September 2018:** | | | |
| Cancellation of ordinary shares - LTI Scheme (refer note 9.3) | - | n/a | n/a |
| Issue of ordinary shares - Rights offer | - | - | - |
| Issue of ordinary shares - LTI Scheme (refer note 9.3) | - | - | - |
| Issue of ordinary shares - to staff | 406,009 | 0.77 | - |
| Issue of ordinary shares - to directors – 22 September 2018 | 69,596 | 1.07 | - |

| | No. of Shares | Fair value NZ$/share | Total proceeds/ consideration NZ$'000 |
|---|---|---|---|
| | | | |
| **During the year ended 31 March 2018:** | | | |
| Cancellation of ordinary shares - LTI Scheme (refer note 9.3) | 201,295 | n/a | n/a |
| Issue of ordinary shares - Rights offer | 35,541,112 | 0.88 | 31,246 |
| Issue of ordinary shares – to staff – 29 May 2017 - LTI Scheme (refer note 9.3) | 6,520 | 4.86 | - |
| Issue of ordinary shares – to staff – 28 July 2017 – LTI Scheme (refer note 9.3) | 43,919 | 1.48 | - |
| Issue of ordinary shares - to staff – 9 April 2017 – LTI Scheme (refer note 9.3) | 66,838 | 3.42 | - |
| Issue of ordinary shares – to directors – 2 November 2017 | 71,232 | 1.04 | - |
| Issue of ordinary shares - to directors – 31 March 2018 | 92,365 | 0.77 | - |

On 30 May 2017, the Company announced a 2:9 renounceable rights offer, which raised $31.99 million with issuing costs of $0.74 million, giving a net raise of $31.25 million which was completed on 4 July 2017. The cash inflow from the capital raise was mainly used to repay debt of $24.06 million.

### 9.3 SHARE-BASED PAYMENTS

**Orion Health Long Term Share Incentive Scheme**

The Orion Health Long Term Share Incentive Scheme ('LTI Scheme') was introduced for selected executives and employees of the Group. The number of awards is determined by the Board of Directors taking into account the recommendations of the Remuneration Committee of the Board. The Group has no legal or constructive obligation to repurchase the shares or settle the LTI Scheme for cash.

There were two active variants of this scheme as at 30 September 2018. The extent of the range is driven by the requirements of local law in different countries. One variant (VRSUS) was discontinued during the prior year.

The two active variants of this scheme as at 30 September 2018 were:

(a) Extended Share Awards Scheme (ESAS)
(b) Restricted Stock Unit Scheme (RSUS)

Movements in the number of share awards and restricted stock units allocated to employees and outstanding are as follows:

| | ESAS | RSUS | VRSUS |
|---|---|---|---|
| | No. of Units | No. of Units | No. of Units |
| **Unvested shares/units at 1 April 2018** | 33,334 | 1,779,535 | - |
| Awarded pursuant to the LTI Scheme | - | 1,418,074 | - |
| Forfeited | - | (457,297) | - |
| Vested | - | (384,185) | - |
| **Unvested shares/units at 30 September 2018** | 33,334 | 2,356,127 | - |
| | | | |
| **Unvested shares/units at 1 April 2017** | 33,334 | 1,021,422 | 321,324 |
| Awarded pursuant to the LTI Scheme | - | 1,858,338 | - |
| Forfeited | - | (1,100,225) | (210,567) |
| Vested | - | - | (110,757) |
| **Unvested shares/units at 31 March 2018** | 33,334 | 1,779,535 | - |

**Fair value of awards granted**

The weighted average fair values of the awards granted during the period under RSUS variants was $0.77 (31 March 2018: $1.52).

The RSUS variant has been valued using a Black-Scholes (Merton) pricing model with a Monte Carlo simulation approach. The key inputs for the rights granted in the prior period were as follows:

| | Weighted average share price | Expected volatility of share price | Expected volatility of peer group comparatives | Contractual life | Risk free rate | Expected divided yield |
|---|---|---|---|---|---|---|
| | NZ$ | % | % | Years | % | % |
| Restricted Stock Unit Scheme – 30 September 2018 | 0.77 | 37.8 | 21.3 | 4.0 | 2.02 | - |
| Restricted Stock Unit Scheme – 31 March 2018 | 1.52 | 37.8 | 21.3 | 3.0 | 2.02 | - |

# Condensed Notes to the Financial Statements

for the six months ended 30 September

## 10. RELATED PARTIES

### (a) Key management compensation

Key management includes Directors (executive and non-executive) and members of the Executive Leadership Team ('ELT'). The compensation paid or payable to key management personnel for employee services is as follows:

| | 6 months Unaudited 30 Sep 2018 NZ$'000 | 6 months Unaudited 30 Sep 2017 NZ$'000 |
|---|---|---|
| Short-term employee benefits | 2,112 | 1,862 |
| Share-based payments | 237 | 340 |
| Directors' fees | 351 | 317 |
| | **2,700** | **2,519** |

As at 30 September 2018, the ELT includes 8 members, with 10 members being part of the ELT across the period (2017: 12 members).

### (b) Transactions with related parties

**McCrae Limited**

The Group is controlled by McCrae Limited, which owned 49.75% of the shares in the Parent as at 30 September 2018 (31 March 2018: 49.84%). 16,666,666 shares in Orion Health Group Limited were issued to this company at NZ$0.90 per share with the rights offer in July 2017.

**Pioneer Capital Partners**

Neil Cullimore ceased being a Director for Orion Health Group on 20 September 2017. He is an Operating Partner at Pioneer Capital which provided professional services to the Group. There were no transactions in the period to 30 September 2019. 1,633,047 shares in Orion Health Group Limited were issued to Pioneer Capital at NZ$0.90 per share in connection with the rights offer in July 2017.

**New Zealand Trade and Enterprise**

Andrew Ferrier, Director, is the Chairman of New Zealand Trade and Enterprise. The Group sells software and services to this customer on an arm's length basis and on normal trade terms.

**Southern Cross Medical Care Society**

Roger France (retired on 30 September 2018), is a director of Southern Cross Medical Care Society. The Group sells software and services to this customer on an arm's length basis and on normal trade terms.

**University of Auckland**

Andrew Ferrier, Director, is a council member of the University of Auckland. The Group held conferences and attended career fairs at the University of Auckland and was charged these services on an arm's length basis and on normal trade terms. The Group also made award contributions to the University of Auckland.

**Salesforce.com**

John Halamka, Director, is an advisor to Salesforce.com which provided professional services to the Group. These transactions were on an arm's length basis on normal trade terms.

**Fisher and Paykel Healthcare Limited (NZ)**

Paul Shearer, Director, is a director of Fisher and Paykel Healthcare Limited (NZ) and various subsidiary companies of Fisher and Paykel Healthcare Corporation Limited. There were no transactions in the period to 30 September 2018.

**Empire Management Limited**

Michael Falconer, Director, is Managing Director of Empire Management Limited which provided professional services to the group prior to his appointment as director on 28 November 2017. His directorship ceased on 28 September 2018 and he was reappointed on 15 October 2018. There were no transactions in the period to 30 September 2018.

**(c) Trading transactions**

During the period, Group entities entered into the following transactions with related parties:

| | 6 months Unaudited 30 Sep 2018 NZ$'000 | 6 months Unaudited 30 Sep 2017 NZ$'000 |
|---|---|---|
| **Purchase of goods or services** | | |
| New Zealand Trade and Enterprise | 1 | 1 |
| Pioneer Capital Partners | - | 1 |
| University of Auckland | 1 | 2 |
| The University of Auckland Foundation | 5 | - |
| Southern Cross Medical Care Society | 7 | - |
| | | |
| **Sale of goods or services** | | |
| Fisher and Paykel Healthcare Limited (NZ) | - | 5 |
| Southern Cross Medical Care Society | 11 | 6 |

**(d) Directors participation in the renounceable rights offer:**

Directors participated in the renounceable rights offer at NZ$0.90 per share on 4 July 2017. There was no equivalent offer in the period to 30 September 2018:

| | Ownership | Rights Offer Ordinary Shares |
|---|---|---|
| Ian McCrae | Legal and beneficial | 16,666,666 |
| Andrew Ferrier | Legal and beneficial | 269,109 |
| Paul Shearer | Legal and beneficial | 223,162 |
| Neil Cullimore* | Legal | 110,080 |
| Roger France** | Legal and beneficial | 9,649 |
| Ronald Andrews** | n/a | n/a |
| John Halamka | n/a | n/a |

*Neil Cullimore retired as a Director on 20 September 2017.

** Roger France and Ronald Andrews retired as Directors on 30 September 2018.

# Condensed Notes to the Financial Statements

## for the six months ended 30 September

**11. CONTINGENT LIABILITIES**

The Group has outstanding letters of credit totalling $926,000 (31 March 2018: $912,000). As at 30 September 2018, the Group has:

- a standby letter of credit in place for $296,000 (31 March 2018: $291,000); and
- performance bonds totalling $75,000 (31 March 2018: $75,000) favour of customers; and
- lease bonds totalling $555,000 (31 March 2018: $546,000) in favour of premise landords.

**12. EVENTS AFTER REPORTING DATE**

**Hg Transaction**

In July 2018, the Group entered into a series of agreements with Hg where Hg acquired 75.1% of the Group's Rhapsody solution group and associated assets. The transaction was completed in late October following satisfaction of all pre-conditions and approval from Overseas Investment Office. Through this transaction, the Group ceased to have full control over Rhapsody but retains significant influence in a newly formed Rhapsody entity. The Group holds 24.9% equity interest in this entity and has the ability to nominate a director to its Board. The Group applied equity accounting to account for the investment in this investee from November 2018 onwards.

As part of the same transaction, Hg also acquired a 24.9% equity interest in Population Health Management, a subsidiary of the Orion Health Group in October 2018. The transaction has not resulted in a change in control with Hg obtaining a non-controlling interest. Population Health Management remains a subsidiary of the Orion Health Group.

Management is in the process of finalising the accounting of the transactions above and will reflect in the annual financial statements for the year ending 31 March 2019.

As discussed in Note 2.1, the Group announced a share buyback for existing Shareholders which is scheduled to be completed by 4 January 2019.

**Orion Health Long Term Share Incentive Schemes**

The directors resolved during July that the restricted stock units relating to the FY17 & FY18 schemes would be converted to cash and paid to the employees. A total of $1.3 million will be paid out as part of payroll payments during December and January. The directors also resolved to convert the restricted stock units relating to the FY19 scheme to cash during December and to hold the cash in trust. When the vesting conditions are met in the future the cash will then be paid to the employees. Any cash remaining in the Trust will be returned to the Group.

**Bank facility**

The Group's existing borrowing facilities were cancelled on 31 October 2018 as a result of the execution of the transaction (refer to Note 8). On 31 October 2018, the Group entered a new agreement with ASB that provides a $3 million working capital overdraft secured by a $5 million deposit and continues to bank with ASB on a transactional basis.

**13. COMMITMENTS**

**Capital commitments**

The Group has no capital commitments as a 30 September 2018 (31 March 2018: nil).

**Other commitments**

The Group has entered into an agreement with Auckland UniServices Limited and Waitemata District Health Board, under which the parties have agreed to jointly undertake research activities in the area of precision driven medicine, under the name Precision Driven Health ('PDH'). Transactions with PDH are at arm's length on normal trade terms.

The Group recognises its direct right to, or share of, the assets, liabilities, revenues and expenses of PDH. These have been incorporated in the financial statements under the appropriate headings.

The PDH agreement commits the Group to research spend of $2,000,000 by 31 March 2019, of which $1,000,000 had been invested by 30 September 2018 ($2,125,000 for the 12 months to 31 March 2018).

# Condensed Notes to the Financial Statements

## for the six months ended 30 September

### 14. RECONCILIATION OF NET LOSS FOR THE PERIOD WITH NET CASH FLOWS FROM OPERATING ACTIVTIES

| | 6 months Unaudited 30 Sep 2018 NZ$'000 | 6 months Unaudited 30 Sep 2017 NZ$'000 |
|---|---|---|
| NET LOSS AFTER INCOME TAX | (17,378) | (25,933) |
| Adjusted for: | | |
| **Non-cash items** | | |
| Depreciation and amortisation | 2,194 | 3,152 |
| Loss on disposal of property, plant and equipment | (260) | 56 |
| Interest received | (286) | (256) |
| Deferred tax | (585) | 383 |
| Net (gain)/loss on foreign exchange | 1,427 | (775) |
| Share based payments | 357 | 841 |
| **Impact of changes in working capital items** | | |
| Increase/(decrease) in trade and other payables | (5,829) | 315 |
| Increase/(decrease) in employee entitlements payable | (478) | (5,655) |
| Increase/(decrease) in revenue in advance | 27 | 3,845 |
| Increase/(decrease) in secured borrowings | 504 | - |
| Increase/(decrease) in provisions for other liabilities | (12) | 9 |
| (Increase)/decrease in trade and other receivables | 17,623 | 2,842 |
| (Increase)/decrease in accrued revenue | 738 | 1,152 |
| (Increase)/decrease in income tax asset | 508 | (253) |
| **Net cash flow from operating activities** | (1,450) | (20,277) |