vision eye institute

Appendix 4E

For the year ended 30 June 2012

Vision Eye Institute Limited

ABN 21 098 890 816

RESULTS FOR ANNOUNCEMENT TO THE MARKET

For the year ended 30 June 2012 ("current period")

	FY12 $'000	FY11 $'000		Change from FY11 %
Revenue from ordinary activities	111,220	107,277	up	3.7%
Profit/(loss) from ordinary activities after tax attributable to members	8,943	(23,962)	up	n/a
Net profit/(loss) for the period attributable to members	8,943	(23,962)	up	n/a
Earnings per share per share (cents)	10.2	(28.1)	up	n/a
Net tangible assets per share (cents)	(77.8)	(90.9)	up	n/a

Dividend information

The company has not declared a dividend for the year ended 30 June 2012 (2011: $nil).

This report is based on the consolidated financial report for the year ended 30 June 2012 which has been audited by Deloitte. The audited consolidated financial statements for the year ended 30 June 2012 are attached to this report.

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in, and should be read in conjunction with, the notes to the Consolidated Financial Statements and the Directors' Report for the year ended 30 June 2012.

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Overview of Results

Vision Eye Institute Limited (ASX: VEI) and its subsidiary companies (together the Group) recorded revenue of $111.2 million for the year ended 30 June 2012, an increase of 3.7% from 2011.

Gross profit remained consistent with the prior year at $45.0 million, reflecting the impact of the Doctor Partner EBIT based remuneration equivalent model that was introduced to facilitate longevity of doctor engagement and growth.

EBITDA for the 2012 financial year was $27.1 million, a 15.5% increase from $23.5 million (before impairment) in 2011. In addition over the same period the EBITDA/Revenue margin has increased from 21.9% to 24.4%. This reflects the Group's continued focus on operating costs as well as a significant reduction in consultancy and legal expenses.

Net finance costs decreased 24% to $8.6 million in 2012 as the Group continued to reduce its debt (by $15 million) and benefit from lower interest rates and funding costs.

Profit after tax in 2012 was $8.9 million compared to a $24.0 million loss in the prior year after a $27.7 million impairment charge in 2011.

The Group's operating cash flow in 2012 was $26.6 million, a 25.5% increase from $21.2 million in 2011.

The Group continues to experience solid growth in our day surgeries with revenues from these now accounting for 35% of the Group's total revenue.

The consultation process entered into by the Department of Health and Ageing to assist in the determination of the most appropriate classification for intravitreal injections and referred to by the Group in its ASX Announcement on 23 April 2012, is still ongoing.

The Group's consolidated financial statements for the year ended 30 June 2012 following this Appendix 4E are based on financial statements that have been audited.

The Group's 2012 Annual General Meeting is to be held on Monday, 26 November 2012. The Meeting will be held at the Royce Hotel, 379 St Kilda Road, Melbourne at 12:30 PM.

vision eye institute

VISION EYE INSTITUTE LIMITED (ACN 098 890 816)

ASX Code: VEI

SUMMARY OF RESULTS FOR THE YEAR ENDED 30 JUNE 2012*

	FY12 $'M	**FY11 $'M**	% change
Revenue from ordinary activities	111.2	107.3	3.7%
Cost of services	(66.2)	(61.7)	7.2%
Gross profit	45.0	45.6	(1.1%)
Gross profit margin	*40.5%*	*42.5%*	
Operating expenses**	(17.9)	(22.1)	(18.8%)
Earnings before interest, income tax and depreciation (EBITDA)**	27.1	23.5	15.4%
*EBITDA** margin*	*24.4%*	*21.9%*	
Depreciation	(5.3)	(6.0)	(10.6%)
EBIT**	21.8	17.5	24.5%
Impairment	-	(27.7)	n/a
Results from operating activities	21.8	(10.2)	n/a
Net finance costs	(8.6)	(11.3)	(24.0%)
Profit/(loss) before tax	13.2	(21.5)	n/a
Income tax expense	(4.3)	(2.5)	73.2%
Net profit/(loss) after tax	8.9	(24.0)	n/a

*The numbers contained in this table are derived from the Group's consolidated financial statements for the year ended 30 June 2012.

**Before impairment

For investor enquiries please contact:

Brett Coverdale
Chief Financial Officer
(03) 8844 4000

vision eye institute limited

(formerly Vision Group Holdings Limited)

consolidated financial report for the year ended 30 june 2012

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corporate information

ABN 21 098 890 816

Directors

Mr Shane Tanner	Non-Executive Director - Chairman
Mr Iain Kirkwood	Non-Executive Director
Ms Zita Peach	Non-Executive Director
Dr Michael Wooldridge	Non-Executive Director
Mr Geoff Thompson	Chief Executive Officer and Managing Director
Dr Michael Lawless	Medical Director
Dr Joseph Reich	Executive Director
Dr Chris Rogers	Executive Director

Company secretaries
Mr Brett Coverdale
Ms Karen Lopreiato

Registered office
Level 5, 390 St Kilda Road
Melbourne VIC 3004

Share registry
Link Market Services Pty Ltd
Level 4, 333 Collins Street
Melbourne VIC 3000

Vision Eye Institute Limited shares are listed on the Australian Securities Exchange (ASX: VEI).

Auditor
Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne VIC 3000

Website
www.vgaustralia.com

Your Directors submit their report on the consolidated entity (referred to herein after as the Group) consisting of Vision Eye Institute Limited (the Company or Vision Eye Institute) and the entities it controlled at the end of, or during the year ended 30 June 2012.

Directors

The names of the Directors of the Company in office during the year ended 30 June 2012 and until the date of this report are as follows. All Directors, unless otherwise indicated were in office from the beginning of the financial period until the date of this report.

Names, qualifications, experience and special responsibilities

Mr Shane Tanner FCPA, ACIS, AAIM
(Non-Executive Chairman)

Mr Tanner has been Chairman since the Group formed in December 2001. Mr Tanner has extensive commercial and financial experience in a number of industries including health. Presently he is the Vision Eye Institute Chairman and Chairman of both the Nomination & Governance and Remuneration committees. He also serves on the Audit & Risk Management committee. During the past three years he has also served as a Director of the following other listed companies:

- Paragon Care Limited (Appointed December 2005) - Chairman
- Funtastic Limited (Appointed March 2009) - Chairman

Mr Iain Kirkwood MA(Hons)(Oxon), FCPA, CA, MAICD
(Non-Executive Director)

Mr Kirkwood joined the Board in November 2004, immediately prior to the Company joining the ASX. He brings extensive financial experience gained from a range of healthcare businesses during his career. He is presently Chairman of the Audit and Risk Management committee and serves on the Nomination & Governance and Remuneration committees. During the past three years he has also served as a Director of the following other listed companies:

- Medical Developments International Limited (Appointed October 2003)
- Avexa Limited (Appointed August 2010) – Chairman
- Bluechiip Limited (Appointed November 2007) – Chairman

Ms Zita Peach BSC, FAMI, MAICD
(Non-Executive Director)

Ms Peach joined the Board in October 2011. Ms Peach has had a long career in the healthcare industry having held a number of key management, business development, strategic planning and marketing roles. She is currently the Managing Director/Executive Vice-President, South Asia Pacific of Fresenius Kabi Pty Ltd, which is part of the global Fresenius Kabi health care group. Prior to that, she was Vice-President/Director, Business Development at CSL Limited. Ms Peach was a former director of not-for-profit organisation, BioMelbourne Network. She is presently a member of the Audit and Risk Management, Nomination & Governance and Remuneration committees. During the past three years she has also served as a Director of the following other listed companies:

- Starpharma Holdings Limited (Appointed October 2011)

Dr Michael Wooldridge BSc, MBBS, MBA, LLD
(Non-Executive Director)

Dr Wooldridge joined the Board in July 2012. He was Australia's Federal Minister for Health from 1996 to 2001, during which time he was widely acknowledged for his commitment to public health, community pharmacy, and biomedical research. Dr Wooldridge is Chairman of the Mental Health Cooperative Research Centre, the Oral Health Cooperative Research Centre and Deputy Chairman of Aspen Medical. Dr Wooldridge is also an Adjunct Professor at Monash University. During the past three years he has also served as a Director of the following other listed companies:

- Australian Pharmaceutical Industries Limited (Appointed February 2006)
- Prime Retirement and Aged Care Property Trust (Resigned July 2011)
- Cogstate Limited (Resigned June 2011)
- Dia-B Tech Limited (Resigned October 2009)

Mr Geoffrey Thompson BBus, Assoc. ICA
(Chief Executive Officer and Managing Director (CEO))

Mr Thompson was appointed CEO of the Group on 4 May 2010 and joined the Board as Managing Director on 24 May 2010. Before joining the Group, Mr Thompson was a founding director of Lifehealthcare and National Hearing Care (NHC). Prior to Lifehealthcare and NHC Mr Thompson was Chief Financial Officer of the diagnostic imaging company, MIA Group in the 18 month period leading to the Company's sale to DCA in September 2004.

Mr Thompson has given the Board notice of his resignation effective 31 August 2012, in order to pursue other business and personal interests.

Dr Michael Lawless MBBS, FRANZCO, FRACS, GAICD
(Medical Director)

Dr Lawless is an experienced ophthalmologist and administrator having performed in excess of 20,000 LASIK, lens replacement and corneal transplant operations.

Dr Lawless is a Fellow of the Royal Australian and New Zealand College of Ophthalmologists, a Fellow of the Royal Australian College of Surgeons and a graduate of the Australian Institute of Company Directors. He served as Chairman of the Department of Ophthalmology at Royal North Shore Hospital in Sydney from 2000 to 2006 and is past president of the International Society of Refractive Surgery. Dr Lawless is convener of the cataract programme for the Asia Pacific Academy of Ophthalmology and in 2012 received the Senior Achievement Award from the American Academy of Ophthalmology for services to ophthalmic education.

Dr Joseph Reich MBBS, DO (Melbourne), FRACS, FRANZCO, MAICD
(Executive Director)

Dr Reich is a specialist cataract and refractive surgeon and a founding partner of the Camberwell Eye Clinic. He is a former Head of Clinic and Chairman of the Senior Medical Staff at the Royal Victorian Eye and Ear Hospital.

He has held the posts of Chairman of the Qualification and Education Committee (Victoria) and Federal Councillor for the Royal Australian and New Zealand College of Ophthalmologists. His teaching experience includes the Undergraduate Lectures in Ophthalmology at the Royal Victorian Eye and Ear Hospital (Melbourne), lecturer at the Lincoln Institute School of Orthoptics and editorial board member for the American Academy of Ophthalmology textbook on Lens and Cataract. He is in active practice and lectures in his areas of specialty both in Australia and overseas.

He is also currently the Regional Director in Victoria.

Dr Christopher Rogers MBBS, FRANZCO
(Executive Director)

Dr Rogers is recognised both in Australia and overseas for his work in the field of refractive surgery. He brought the first excimer laser to the country. He has served on the medical advisory board of various international ophthalmic companies and has been actively involved in the development of new laser technology. He has published and lectured widely on the subject of refractive surgery and laser vision correction. He is an emeritus consultant in ophthalmology at Royal North Shore Hospital in Sydney.

Directors' interests in the shares of the Company

As at the date of this report, the interests of the Directors in the shares of the Company were:

Director	No. of Ordinary Shares	No. of Ordinary Non-voting Shares
Mr Shane Tanner	550,000	-
Mr Iain Kirkwood	43,232	-
Ms Zita Peach	-	-
Dr Michael Wooldridge	-	-
Mr Geoff Thompson	528,226	-
Dr Michael Lawless	1,481,823	-
Dr Joseph Reich	1,635,468	7,513
Dr Christopher Rogers	808,023	-

Company secretaries

Mr Brett Coverdale BBus, CA

Mr Coverdale was appointed Company Secretary in October 2011. He joined the Company as Chief Financial Officer (CFO) in February 2011. Mr Coverdale has extensive senior executive experience having previously held the roles of CEO and Managing Director at SteriHealth Limited, Chief Operating Officer at Nylex Limited and CFO at Mayne Express. He is a Chartered Accountant and spent the first 12 years of his career with KPMG. Mr Coverdale has been appointed CEO and Managing Director of the Group, effective 1 September 2012.

Ms Karen Lopreiato BCom, FCIS, DipAppCorpGov

Ms Lopreiato was appointed Company Secretary in November 2011. She has many years of company secretarial experience with listed companies including Symbion Health Limited, Mayne Pharma Limited, Mayne Group Limited and Colonial Limited.

Nature of operations and principal activities

During the financial period the Company was the ultimate holding company for a number of subsidiaries that provide private ophthalmic services. There were no significant changes in the nature of these activities during the year.

Group overview

Vision Eye Institute Limited provides ophthalmic services through the ownership and management of eighteen consulting clinics, eight day surgeries, and seven refractive surgery facilities in Victoria, New South Wales and Queensland.

The Group derives its revenue from:

- Consultation fees for patient examinations, investigative and diagnostic tests
- Surgical fees for ophthalmic procedures
- Day surgery theatre fees
- Refractive surgery fees

This revenue is sourced from a combination of Medicare rebates, Department of Veterans Affairs contributions, private health insurer contributions and from patients directly.

The following table outlines the Group's operations:

Location	Consulting	Day Surgery	Laser Refractive
Victoria			
Camberwell	✓	✓	
Blackburn South	✓		
Coburg	✓		
Footscray	✓	✓	
St Kilda Road	✓		✓
Box Hill	✓	✓	
New South Wales			
Bondi Junction	✓		✓
Chatswood	✓	✓	✓
Mosman	✓		
Drummoyne	✓		
Hurstville	✓	✓	✓
Queensland			
Southport	✓	✓	✓
Varsity Lakes	✓		
Coolangatta	✓		
Upper Mt Gravatt	✓		
Brisbane	✓	✓	✓
Townsville	✓	✓	✓
Mackay	✓		

Operating results for the year ended 30 June 2012

The Group's operating revenues for the 2012 financial year are $111.2 million, a 3.7% increase on prior year.

Gross profit was consistent year on year at $45.0 million with reduction in gross margin from 42.5% to 40.5% reflecting the impact of the Doctor Partner EBIT based remuneration equivalent model introduced to facilitate longevity of doctor engagement and growth.

Results from operating activities for the year was $21.8 million compared to $17.5 million in prior year (before goodwill impairment). This reflects management's focus on cost control over the period.

Profit after tax for the year was $8.9 million compared to a $24.0 million loss in the prior year.

Capital structure

Vision Eye Institute Limited, through its voluntary escrow arrangements with doctor partners, has a relevant interest in 12.2% of its issued share capital. It is not permitted to issue any further voting shares subject to escrow restrictions without either being in breach of the takeover provisions of the Corporations Act, or applying for ASIC relief.

Accordingly, to ensure compliance with the Corporations Act, Vision Eye Institute issued, with ASX consent, non-voting ordinary shares as part consideration to the partners of practices acquired during the year. These shares will convert into ordinary voting shares when the escrow period lapses and the restrictions under the Corporations Act against the issue of ordinary voting shares cease to apply to those shares.

Vision Eye Institute has maintained a Practice Enhancement Fund (PEF) which is a pool of notional (un-issued) shares. At acquisition a notional amount equivalent to 7.5% of the assessed fair value of each acquisition is set aside in the PEF. This amount is quantified as a number of notional shares, based on the market price of Vision Eye Institute shares at the time the acquisition is settled.

Issues from the PEF are made at the discretion of the Board as a means of attracting, retaining and increasing the equity participation of certain Doctor Partners, Associate Doctors, Visiting Surgeons and other eligible staff. During the current year Vision Eye Institute Limited did not issue any shares from the PEF, nor were there any additions in 2012 (2011: nil).

At 30 June 2012, Vision Eye Institute had accumulated 5,352,199 (2011: 5,352,199) notional unissued shares within the PEF.

The Company will not pay a final dividend for the year ended 30 June 2012. On 28 September 2011, a Deed of Amendment to the existing debt facility with Westpac and ANZ was executed. A requirement of the Deed is that no dividends can be paid for the remaining term of the facility ending 30 September 2012.

Liquidity and funding

The consolidated cash flow statement illustrates there was a decrease in cash and cash equivalents in the year ended 30 June 2012 of $1.6 million (2011: $0.6 million) after repayment of $15.0 million on the revolving loan facility during the year (2011: $8.0 million).

The Group had the following funding facilities available at 30 June 2012:

Westpac	Facility	Available
Guarantee facility	$1.15 million	($0.14 million un-drawn)
Revolving loan facility	$42.50 million	($nil un-drawn)
ANZ		
Revolving loan facility	$42.50 million	($nil un-drawn)
Total	$86.15 million	($0.14 million un-drawn)

On 28 September 2011, a Deed of Amendment to the existing debt facility with Westpac and ANZ was executed with a facility limit of $95.0 million shared equally between the two banks with the term extended to 30 September 2012.

A Guarantee facility exists to provide guarantees over leased premises.

Notwithstanding the matters outlined in Note 2(c) to the financial statements, the Group has sufficient funds to finance its operations and maintain the facilities set out above to ensure the Group is able to continue to take advantage of appropriate business development opportunities and unforeseen expenditure.

Refer further in this report to "Significant events after balance date".

Performance indicators

Management and the Board monitor the Group's overall performance, from its implementation of the strategic plan through to the performance of the Company against operating plans and financial budgets.

The Board, together with management, has identified key performance indicators (KPI's) that are used to monitor performance. Management monitor KPI's on a timely basis. Directors receive various financial KPI's for review prior to each monthly Board meeting allowing all Directors to actively monitor the Group's performance.

Risk management

The Board is actively involved in the risk management process and has delegated responsibility for the development and maintenance of a framework of risk identification, management and control to the Audit and Risk Management Committee. Risk management committees also operate at a state and individual clinic level to monitor and respond to issues and risks identified by senior management and the Board.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with potential business risks and opportunities. These include the following:

- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including financial and non-financial key performance indicators.
- The ongoing monitoring by the Audit & Risk Management Committee.
- The establishment of committees at a group, state and local clinic level to monitor and report on specific business risks. Committee members include management, doctors, nursing staff, orthoptists and clinical staff. Established committees include infection control, health and safety, medical advisory committee, day surgery accreditation. The Company makes its risk management processes and procedures available for all staff via the Vision Eye Institute Limited intranet facility.

Significant changes in the state of affairs

During the 2012 financial year, debt was reduced by a further $15.0 million and four Doctors were re-contracted on long term contracts.

In the opinion of the Directors, there were no other changes in the significant state of affairs of the Group that occurred during the financial year.

Significant events after balance date

On 28 August 2012, an Amendment and Restatement Deed was executed amending the existing debt facility with Westpac and ANZ. Key terms include:

- A two year extension of the facility term until 30 September 2014;
- A reduction in the facility limit to $80.0 million on 30 September 2012; and
- Principal repayment of $10.0 million per year.

Mr G Thompson has resigned as CEO and Managing Director of the Group with effect from 31 August 2012 and the Group has announced the appointment of Mr B Coverdale as CEO and Managing Director and Ms A McGrath as CFO from 1 September 2012.

Dr Michael Wooldridge was appointed a director on 1 July 2012.

Likely developments and expected results

During 2013 the Group will continue to reduce debt, re-contract Doctors and pursue growth opportunities. Recruitment of new Doctors remains a key focus.

Share options and tenure rights

Unissued shares

As at the date of this report, there were 5,352,987 notional unissued ordinary shares under performance options, tenure rights and the Practice Enhancement Fund (5,352,987 at the reporting date). Refer to the Remuneration Report for further details of the options and tenure rights outstanding.

Performance options and tenure right holders do not have any right, by virtue of the option or tenure right, to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the exercise of performance options and tenure rights

During the financial year, employees and executives have exercised tenure rights to acquire 136,423 fully paid ordinary shares in the Company at a weighted average exercise price of $nil per share.

Indemnification and insurance of directors and officers

During the financial year the Company continued to insure the Directors, secretaries and senior officers of the Group.

The liabilities insured are losses that may be incurred as the result of civil or criminal proceedings that may be brought against the officer in their capacity as an officer of the Company.

Under the terms of the insurance contracts the premium paid for these policies cannot be disclosed.

Directors' meetings

The number of meetings of the Board of Directors and of each Board Committee held during the year and each Director's attendance at those meetings are set out in the table below.

	Meetings of the Board & Committees			
	Directors Meetings	**Nomination & Governance**	**Audit & Risk Management**	**Remuneration**
Number of meetings held	18	3	6	3
Number of meetings attended				
S Tanner	18	3	6	3
I Kirkwood	15*	3	6	3
G Thompson	16	-	-	-
Dr M Lawless	13	-	-	-
Dr J Reich	15	-	-	-
Dr C Rogers	18	-	-	-
Z Peach	10 (eligible 12)	0 (eligible 1)	2 (eligible 3)	1 (eligible 1)

** Mr Kirkwood abstained from attending 2 special meetings due to a conflict of interest in the business being discussed.*

Committee memberships

At the date of this report, the Company had a Nomination and Governance Committee, an Audit and Risk Management Committee and a Remuneration Committee of the Board of Directors.

Nomination & Governance	Audit & Risk Management	Remuneration
S Tanner (Chairman)	I Kirkwood (Chairman)	S Tanner (Chairman)
I Kirkwood	S Tanner	I Kirkwood
Z Peach	Z Peach	Z Peach

Rounding

The amounts contained in this report and in the financial report have, unless otherwise stated, been rounded to the nearest $1,000 under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Auditor independence and non-audit services

During the financial year no non-audit services were provided by Deloitte Touche Tohmatsu, the auditor of the Company.

The Directors have received the Declaration of Independence from the auditor of the Company, a copy of which follows the Directors' Report on page 21.

REMUNERATION REPORT

This Remuneration Report for the year ended 30 June 2012 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. The Remuneration Report has been audited as required by Section 308 (3c) of the Act.

For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company and the Group.

For the purposes of this report, the term 'executive' includes the chief executive officer and senior executives of the Company and the Group.

Details of Key Management Personnel

S Tanner	Non-Executive Director - Chairman
G Thompson	Chief Executive Officer and Managing Director (CEO)
I Kirkwood	Non-Executive Director
Z Peach	Non-Executive Director (appointed 1 October 2011)
Dr M Wooldridge	Non-Executive Director (appointed 1 July 2012)
Dr M Lawless	Medical Director
Dr J Reich	Executive Director
Dr C Rogers	Executive Director (alternate director prior to appointment on 26 March 2012)
B Coverdale	Chief Financial Officer (CFO) & Company Secretary

Except as noted, the named persons held their current position for the whole of the financial year and there were no changes to KMP after reporting date and before the date the financial report was authorised for issue. Mr G Thompson has resigned with effect from 31 August 2012 and the Company has announced the appointment of Mr B Coverdale as CEO and Managing Director and Ms A McGrath as CFO from 1 September 2012.

Remuneration Philosophy
The ultimate performance of the Group depends on the quality of its Directors and executives to deliver the Group's operational and financial plan. To prosper the Group must attract, motivate and retain appropriately skilled Directors and executives.

The Group incorporates the following principles in its remuneration framework:

- Provision of competitive remuneration and rewards to attract and retain appropriate skilled executives
- Linking of executive rewards to shareholders' returns
- Components of executive remuneration are at risk and dependent upon meeting pre-determined performance benchmarks
- Inclusion of appropriate challenging performance hurdles in relation to variable executive remuneration
- Provision of a Non-Executive Director share ownership scheme providing the ability for Non-Executive Directors to sacrifice a percentage of their annual directors' fees to acquire shares.

REMUNERATION REPORT (continued)

Remuneration Committee
The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors and CEO and the executives reporting directly to the CEO.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of senior executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality executive team.

Nomination and Governance Committee
The Nomination and Governance Committee is responsible for recommending the appointment and reviewing the performance of Directors and the CEO. The Committee also makes recommendations to the Board in respect of conditions of service for Directors and senior executives.

Remuneration Structure
In accordance with best practice corporate governance, the structure of Non-Executive Director and executive remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective
The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is appropriate for the Company's current size and is acceptable to shareholders.

Structure
The Company's constitution provides that the Non-Executive Directors are entitled to be paid directors' fees in aggregate up to a maximum of $400,000 per annum or such other amount determined from time to time at a general meeting.

The amount of aggregate remuneration sought is to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually.

The Non-Executive Director share ownership scheme provides the ability for Non-Executive Directors to sacrifice a percentage of their annual Directors fees to acquire shares. No shares have been acquired under this scheme during the year (2011: nil).

The Non-Executive Directors do not receive retirement benefits nor do they participate in any incentive programs.

The remuneration of Non-Executive Directors for the years ended 30 June 2012 and 30 June 2011 is detailed in Tables 1 and 2 respectively on pages 18 and 19.

Executive remuneration

Objective
The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- Reward executives for Group and individual performance against targets set by reference to appropriate internal benchmarks;
- Align the interests of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

REMUNERATION REPORT (continued)

Structure
In determining the level and make-up of senior executive remuneration, the Remuneration Committee has sought external independent advice in respect to market levels of remuneration for comparable executive roles.

Remuneration may consist of the following elements:

- Fixed remuneration (Base salary, superannuation)
- Variable remuneration
    - Short term incentives (STI)
    - Long term incentives (LTI)

The proportion of fixed remuneration and variable remuneration established for each executive by the Remuneration Committee for the years ended 30 June 2012 and 30 June 2011 is set out below in Tables 1 and 2 respectively.

Fixed Remuneration

Objective
The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of Group and individual performance, relevant comparative remuneration in the market and, where appropriate, external advice on policies and practices.

Structure
Executives are given the opportunity to receive their fixed remuneration in several forms including cash and fringe benefits such as motor vehicles.

Variable Remuneration

Short-Term Incentive (STI) and Long-Term Incentive (LTI)
The objective of the variable remuneration plan is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. Variable remuneration grants are made to senior executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance against relevant performance hurdles, and in the case of other personnel, for their contribution to the achievement of performance targets.

Short-Term Incentive (STI)
The STI component of the variable remuneration may vary from approximately 60% to 100% of the total variable remuneration payable in any one year and will be payable in cash, but only upon achievement of a mix of financial and non-financial targets set by the Remuneration Committee at the commencement of each financial year.

REMUNERATION REPORT (continued)

The STI is:

(a) Equal to an agreed percentage of the annual fixed remuneration;
(b) Payable when the audited Group EBIT meets or exceeds the agreed EBIT set by the Board and certain other performance criteria set by the Remuneration Committee prior to the start of the financial year); and
(c) Payable following the release of the Group's audited final result as a cash bonus so long as the executive was an employee of the Group at the time all payments are due.

The maximum potential STI bonus for the 2012 financial year is $710,000 (2011: $460,000). Of this amount $460,000 (65%) has been accrued based on an assessment of each executive's performance against performance criteria for the year, as determined by the Remuneration Committee.

There have been no alterations to the STI bonus plans since their grant date.

For the 2011 financial year, 46% of the STI bonus as previously accrued in that period vested to executives and was paid in the 2012 financial year.

Long-Term Incentive (LTI)
LTI awards to executives are delivered in form of performance options and tenure rights. Each performance option entitles the executive to one fully paid ordinary share in the Company. The number of performance options issued is based on the executive's contract with the options vesting over a period of three years subject to meeting performance measures, with no opportunity to reset. Tenure rights entitles the executive to one fully paid ordinary share at nil cost vesting in three equal instalments over a period of three years as long as the executive is an employee on the vesting date.

LTI awards for FY 2012
There were no performance options or tenure rights granted during the year ended 30 June 2012.

Executive Share Purchase Plan

In March 2008 the Company introduced an Executive Share Purchase Plan (ESP) for senior executives. The Company offered eligible senior executives an unsecured full recourse loan facility to acquire Vision Eye Institute Limited ordinary shares on-market during a permitted trading window in the Company's shares.

As of 30 June 2012, all loans were settled with the exception of one which is still subject to negotiation of suitable settlement arrangements.

Hedging of Equity Awards

Employees may not enter into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of shares in the Company which are subject to a restriction on disposal under an employee share or incentive plan; or options or performance rights (or shares in the Company underlying them) granted under an employee share or incentive plan. All employees who are the recipients of equity awards have confirmed that no such transactions have been entered into.

REMUNERATION REPORT (continued)

Group Performance

The table below sets out the Group's profitability (Revenue, Results from operating activities (EBIT) and EBIT adjusted for goodwill impairment) for the past five financial years.

$'000	2012	2011	2010	2009	2008
Revenue	111,220	107,277	108,069	113,853	109,782
EBIT	21,785	(10,189)	(45,898)	27,367	32,269
Goodwill impairment	-	(27,681)	(66,014)	-	-
EBIT (adjusted for impairment)	21,785	17,492	20,117	27,400	32,300

The Group performance is also reflected in the movement of the Group's earnings per share (EPS) over time. The table below sets out the Group's EPS history for the past five years (including the current year).

Cents per share	2012	2011	2010	2009	2008
EPS -basic	10.2	(28.1)	(71.9)	16.6	23.1
EPS - diluted	10.2	(28.1)	(71.9)	15.3	21.4

The financial performance measures that the Group uses to drive STI payments and LTI vesting outcomes are EBIT and Return on Capital Employed (ROCE). Over the 5 year period from 1 July 2007 to 30 June 2012 the EBIT (adjusted for goodwill impairment) and ROCE achieved were:

$'000	2012	2011	2010	2009	2008
EBIT (adjusted for impairment)	21,785	17,492	20,117	27,400	32,300
ROCE	9.6%	7.5%	8.6%	12.0%	14.5%

No dividends were paid during the year (2011: nil)

Employment contracts

Chief Executive Officer and Managing Director

The CEO, Mr Thompson, is employed under a rolling contract. The current employment contract commenced 4 May 2010 and will conclude on 31 August 2012. Under the terms of the contract:

- Mr Thompson receives fixed remuneration of $500,000 per annum inclusive of superannuation and all other allowances.
- For the year ended 30 June 2012 Mr Thompson was eligible to participate in the Company's STI plan. The target is up to 100% of fixed remuneration subject to meeting specified performance criteria. The Remuneration Committee in consideration of Mr Thompson's performance against the specified performance criteria has determined that his actual STI bonus will be 60% of his fixed remuneration for the year 30 June 2012.
- There was no LTI component of remuneration for the year.
- Mr Thompson may resign from his position and thus terminate this contract by giving three months written notice. On resignation any unvested tenure rights and options will be forfeited.
- The Company may terminate this employment agreement by providing twelve months written notice or providing payment in lieu of the notice period (based on the fixed component of Mr Thompson's remuneration). On termination on notice by the Company, any tenure rights and options that have vested or that will vest during the notice period will be released. Tenure rights and options that have not yet vested will be forfeited.

REMUNERATION REPORT (continued)

- The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the CEO is only entitled to that portion of remuneration that is fixed and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

Doctor Directors

Doctor Partners (including Doctor Directors) are engaged by the Group under various employee and contractor arrangements. Typically Doctor Partners contract with the Group for an initial 5 year term, following the Group’s acquisition of their ophthalmology practice. Contract terms are then usually extended by mutual agreement, mostly for further 5 year terms.

Doctor Partners are contractually required to provide 12 months’ notice if they wish to terminate their contract at the end of their current contract term. Furthermore if a Doctor Partner leaves the Group, certain time and location based non-compete restraints apply.

Remuneration arrangements for Doctor Partners vary depending on the manner and timing of the acquisition of their practice. Historically there has been a fixed and variable component to each Doctor Partners’ remuneration. The Company is transitioning to a doctor remuneration equivalent model based upon pay-for-performance that is designed to incentivise Doctor Partners to increase revenue and better manage costs, as well as work more collaboratively to manage clinic profitability, while also making the Company more attractive to doctors considering joining the Company.

Other Executives (standard contracts)

All executives have rolling contracts. The Group may terminate an executive’s employment by providing written notice for periods between 1 and 6 months or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). On termination on notice by the Group, any tenure rights and options that have vested or that will vest during the notice period will be released. Tenure rights and options that have not yet vested will be forfeited. The Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed and only up to the date of termination. On termination with cause any unvested tenure rights and options will immediately be forfeited.

REMUNERATION REPORT (continued)

Table 1: Remuneration for the year ended 30 June 2012

	Short term	Short term	Short term	Post employment	Long term	Term-ination	Share based payments		
	Salary & fees	Cash bonus	Non-monetary	Super-annuation	Long service leave		Options/ Tenure Rights (2)	Total	Perfor-mance related
	$	$	$	$	$	$	$	$	%
Non-Executive Directors									
S Tanner - Chairman	123,853	-	-	11,147	-	-	-	135,000	-
I Kirkwood	61,927	-	-	5,573	-	-	-	67,500	-
Z Peach (1)	46,445	-	5,500	4,180	-	-	-	56,125	-
Sub-total Non-Executive Directors	**232,225**	**-**	**5,500**	**20,900**	**-**	**-**	**-**	**258,625**	
Executive Directors									
G Thompson - CEO	450,000	300,000	-	50,000	2,267	-	56,996	859,263	41.5
Dr M Lawless - Medical Director (3)	1,306,034	-	-	4,008	-	-	-	1,310,042	-
Dr J Reich (4)	535,845	-	-	-	-	-	-	535,845	-
Dr C Rogers (4)	425,004	-	-	-	-	-	-	425,004	-
Other key management personnel (KMP)									
B Coverdale - CFO (5)	308,333	160,000	-	50,000	-	-	-	518,333	30.9
Sub-total Executive Directors and other KMP	**3,025,216**	**460,000**	**-**	**104,008**	**2,267**	**-**	**56,996**	**3,648,487**	
Total	**3,257,441**	**460,000**	**5,500**	**124,908**	**2,267**	**-**	**56,996**	**3,907,112**	

(1) Appointed Non-Executive Director 1 October 2011. (2) In accordance with AASB 2, this represents the accrued expense amortised over the vesting period of the grant. The accounting value includes the negative amount for options and tenure rights forfeited or lapsed during the year that failed to satisfy non-market performance targets. (3) In addition to fees related to Ophthalmic Services provided under contract, a Medical Director fee of $48,538 inclusive of superannuation was also paid. (4) No Director fees were received, all fees relate to Ophthalmic Services provided under contract. (5) Mr Coverdale was contracted as the interim CFO via a company, from 1 February 2011 to 31 August 2011. He was appointed CFO on 3 October 2011. Remuneration disclosed reflects the fees paid to that company and as an employee from 1 September 2011.

REMUNERATION REPORT (continued)

Table 2: Remuneration for the year ended 30 June 2011

	Short term	Short term	Short term	Post employment	Long term	Term-ination	Share based payments		
	Salary & fees	Cash bonus	Non-monetary	Super-annuation	Long service leave		Options / Tenure Rights	Total	Perfor-mance related
	$	$	$	$	$	$	$	$	%
Non-Executive Directors									
S Tanner - Chairman	119,266	-	-	10,734	-	-	-	130,000	-
K Wilson (1)	45,871	-	-	4,128	-	-	-	49,999	-
I Kirkwood	59,633	-	-	5,367	-	-	-	65,000	-
C Stamp (2)	13,922	-	-	577	-	-	-	14,499	-
Sub-total Non-Executive Directors	**238,692**	**-**	**-**	**20,806**	**-**	**-**	**-**	**259,498**	
Executive Directors									
C Stamp (2)	59,200	-	-	2,338	-	56,095	-	117,633	
G Thompson - CEO (3)	450,000	200,000	-	50,000	8,654	-	(27,819)	680,835	25.29
Dr M Lawless - Medical Director (4)	998,906	-	-	-	-	-	-	998,906	-
Dr J Reich (5)	605,144	-	-	-	-	-	-	605,144	-
Dr C Rogers - Alternate Director (5)	424,648	-	-	-	-	-	-	424,648	-
Other key management personnel (KMP)									
V Huxley - CFO & Company Secretary (6)	157,570	10,000	-	12,276	4,400	-	-	184,246	5.43
B Coverdale - CFO (7)	169,332	-	-	-	-	-	-	169,332	-
Sub-total Executive Directors and other KMP	**2,864,800**	**210,000**	**-**	**64,614**	**13,054**	**56,095**	**(27,819)**	**3,180,744**	
Total	**3,103,492**	**210,000**	**-**	**85,420**	**13,054**	**56,095**	**(27,819)**	**3,440,242**	

(1) Resigned 28 March 2011. (2) Resigned as Executive Director 4 August 2010, appointed Non-Executive Director 4 August 2010 and resigned 25 October 2010 (3) (2) In accordance with AASB 2, this represents the accrued expense amortised over the vesting period of the grant. The accounting value includes the negative amount for options and tenure rights forfeited or lapsed during the year that failed to satisfy non-market performance targets. (4) A Medical Director fee of $69,460 was received, all other fees relate to Ophthalmic Services provided under contract. (5) No Director fees were received, all fees relate to Ophthalmic Services provided under contract. (6) On maternity leave from 11 April 2011. (7) Mr Coverdale was contracted as the interim CFO via a company, with effect from 1 February 2011. Remuneration disclosed reflects the fees paid to that company.

REMUNERATION REPORT (continued)

Options and rights over equity instruments granted as compensation

No performance options or tenure rights were granted as compensation during the reporting period.

Analysis of options and rights over equity instruments granted as compensation

Details of vesting profiles of the options granted as remuneration to each key management person of the group are detailed in table 3 below.

Table 3: Value of equity instruments, exercised and lapsed during the year ended 30 June 2012

	Grant date	Fair value of equity instrument at grant date $	Expiry date	Value of equity instrument exercised during year $	Value of equity instrument forfeited during the year $	Granted No. ^	Vested %
Executive Director							
G Thompson							
Options	29 April 2009	0.15	29 April 2012	-	35,473	709,459	**- %**
Tenure Rights	29 April 2009	0.55	29 April 2012	35,000	-	190,909	100%
Tenure Rights	29 April 2010	0.56	29 April 2013	40,761	40,761	218,360	67%
Total				**75,761**	**76,234**		

^ Total number of equity instruments from the grant

There were no alterations to the terms and conditions of equity instruments awarded as remuneration since their award date.

Exercise of equity instruments granted as compensation

Shares issued on the exercise of performance options and vesting of tenure rights during the reporting period are detailed below in table 4.

Table 4: Shares issued on exercise of performance options and tenure rights (consolidated)

30 June 2012	Exercised No.	**Shares issued** No.	**Paid per share** $
Executive Director			
G Thompson	2009 Tenure rights	63,636	nil
G Thompson	2010 Tenure rights	72,787	nil
Total		136,423	nil

No performance options were exercised during the period. There were no amounts unpaid on the shares issued as a result of the exercise and issue of the performance options and tenure rights.

On behalf of the board

S.F. Tanner
Chairman
Melbourne, 28 August 2012

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The Board of Directors
Vision Eye Institute Limited
Level 5, 390 St Kilda Road
MELBOURNE VIC 3004

28 August 2012

Dear Board Members,

Vision Eye Institute Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Vision Eye Institute Limited.

As lead audit partner for the audit of the financial statements of Vision Eye Institute Limited for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountant

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Vision Eye Institute Limited (the 'Company') is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

Corporate governance of the Company is guided by the ASX Corporate Governance Council's (the Council) Corporate Governance Principles and Recommendations, 2nd edition published in August 2007, including the 2010 amendments (Recommendations). The Company's Corporate Governance Statement provides specific information and disclosure of the extent to which the Company follows the Recommendations. Where a Recommendation has not been followed, the fact is disclosed, together with the reasons for the departure.

Responsibilities and Structure of the Board

The Board's responsibilities include the appointment and removal of the Chief Executive Officer (CEO) and roles reporting directly to the CEO, determining their conditions of service, reviewing their performance and approving their remuneration (including financial incentives).

The Board is responsible for approving the annual operating budget and business plan and monitoring the performance against the company's strategic and financial objectives. The Board also approves the Company's annual accounts, reports and other public documents and ensures policies and procedures are in place to effectively communicate the Company's financial position, trading performance and prospects to all stakeholders, in particular, shareholders, clients and employees. Prior to approving the annual accounts, the Board receives assurance from the CEO and Chief Financial Officer that the directors' declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Board has a Remuneration Committee, a Nomination and Governance Committee, and an Audit and Risk Management Committee to assist in the discharge of its responsibilities. The Board directly and through its committees, monitors compliance with regulatory requirements and ethical standards, risk management strategy and internal control systems.

The Board retains ultimate authority over management, however has delegated authority over the day-to-day management of the Company to the CEO and in turn to management. The Board approves any matters in excess of the discretion that it delegates to the CEO and management in relation to business transactions, credit transactions, risk limits and expenditure.

The Company's Board Charter is available in the Corporate Governance section of the Company's website (www.vgaustralia.com).

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the Annual Report is included in the Directors' Report on pages 4 to 6. Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

Relationships that may affect independence could occur if; the Director has directly or indirectly a substantial shareholding in the Company; has been previously employed or been a principal of a material professional adviser or consultant to the Company in the past three years; is a material supplier or customer or has a material contractual relationship with the Company.

In the context of director independence, “materiality” is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to operational decisions and shape the direction of the Company’s loyalty to external service providers.

In accordance with the definition of independence above, and materiality thresholds set, the following Directors of the Company are considered to be independent:

Name	Position
Mr S Tanner	Non-Executive Chairman
Mr I Kirkwood	Non-Executive Director
Ms Z Peach	Non-Executive Director
Dr M Wooldridge	Non-Executive Director

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company’s expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in Office
Mr S Tanner	10.5 years
Mr I Kirkwood	7.5 years
Dr C Rogers	6.5 years *
Dr M Lawless	5.5 years
Dr J Reich	2.5 years
Mr G Thompson	2.2 years
Ms Z Peach	1 year
Dr M Wooldridge	2 months

** Dr Rogers served for 6 years as an Alternate Director.*

The Company's Board comprises eight Directors of whom four are executives of the Company. Ms Zita Peach was appointed a Non-Executive Director in October 2011, Dr Chris Rogers was appointed an Executive Director in March 2012 (after serving as an Alternate Director for 6 years) and Dr Michael Wooldridge was appointed a Non-Executive Director in July 2012.

The Council’s Recommendation 2.1 is that “a majority of the board should be independent directors”. The Company has not adopted this recommendation. The Board considers that a fundamental aspect of the Company's business model is the development of its ophthalmologist’s medical and surgical practices and the "medical sovereignty" of its ophthalmologist’s. These aspects are both best promoted and safeguarded by a strong representation of ‘doctors’ on the Board. As a consequence half of the current Board are Executive Directors; however the members of the Board’s three sub-committees are all independent Directors.

Nomination and Governance Committee

Mr S Tanner (Chairman)
Mr I Kirkwood
Ms Z Peach

The Board has a Nomination and Governance Committee, which is required to meet at least annually to ensure that the Board continues to operate within established guidelines, including, when necessary, selecting candidates for the position of Director. The Nomination and Governance Committee is responsible for recommending the appointment, and reviewing the performance, of Directors and the CEO. The Committee also makes recommendations to the Board in respect to conditions of service for Directors, senior management and employees.

The Nomination and Governance Committee comprises independent Non-Executive Directors and the members as at the date of this report are shown above. The skills, experience and expertise relevant to each member of the Nomination and Governance Committee is included in the Directors' Report on pages 4 to 6. For details on the number of meetings of the Nomination and Governance Committee held during the year and the attendees at those meeting, refer to page 11 of the Directors' Report.

The Company undertakes a performance evaluation of the Board every two years. The Chairman undertook an evaluation of the Board for the year ended 30 June 2012. The Company has a formal self-assessment process for the evaluation of the Board and Director performance.

The Company has embarked upon a process of Board renewal in 2011 and after a detailed search and evaluation process, appointed Ms Zita Peach in October 2011 and Dr Wooldridge in July 2012.

The Nomination and Governance Committee Charter is available is available in the Corporate Governance section of the Company's website (www.vgaustralia.com).

Audit and Risk Management Committee

Mr I Kirkwood (Chairman)
Mr S Tanner
Ms Z Peach

The Board has an Audit and Risk Management Committee which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the Audit and Risk Management Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Committee are independent Non-Executive Directors and the members at the date of this report are shown above. The skills, experience and expertise relevant to the each member of the Audit and Risk Management Committee is included in the Directors' Report on pages 4 to 6. For details on the number of meetings of the Committee held during the year and the attendees at those meetings, refer to page 11 of the Directors' Report.

The Audit and Risk Management Committee Charter is available is available in the Corporate Governance section of the Company's website (www.vgaustralia.com).

Remuneration Committee

Mr S Tanner (Chairman)
Ms Z Peach
Mr I Kirkwood

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions.

To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive emoluments to the Company's financial and operational performance. The remuneration structure includes:

Retention and motivation of key executives
Attraction of quality management to the Company
Performance incentives which allow executives to share the rewards of the success of Vision Eye Institute

A full disclosure of the Company's remuneration philosophy and framework and remuneration received by Directors and executives in the current period is incorporated in the remuneration report, which is located on pages 12 to 20 of the Annual Report.

There is no scheme to provide retirement benefits, other than statutory superannuation to Directors and key executives.

The Board is responsible for determining and reviewing compensation arrangements for the Directors, the CEO and the executive team. It also evaluates the performance and remuneration of the direct reports to the CEO. The performance of the Company's key executives is reviewed regularly against both measurable and qualitative indicators. During the year the Remuneration Committee conducted performance evaluations which involved an assessment of key executives' performance for the previous annual year and the setting of performance expectations/targets for the current year.

The Board has established a Remuneration Committee, comprising three independent Non-Executive Directors and the members at the date of this report are shown above. The skills, experience and expertise relevant to the each member of the Remuneration Committee is included in the Directors' Report on pages 4 to 6. For details of the number of meetings of the Remuneration Committee held during the year and the attendees at those meetings, refer to page 11 of the Directors' Report.

The Remuneration Committee Charter is available is available in the Corporate Governance section of the Company's website (www.vgaustralia.com).

Code of conduct

The Company and its Board are committed to the highest ethical standards and promote an environment in which its ophthalmologists can practice with medical sovereignty and all practitioners and executives are accountable for responsible decision-making.

The Company's Code of Conduct is available in the Corporate Governance section of the Company's website (www.vgaustralia.com).

Diversity Policy

The Company is committed to providing the highest calibre of care to its patients by ensuring all of its employees are appropriately qualified, trained and competent to carry out their duties. Employees are engaged on the basis of qualifications, skills and personal attributes however the Company is also mindful of the benefits to be derived from having a diverse workforce. The Council recommends ASX listed companies disclose measurable objectives for achieving gender diversity. Women represent 89% of total Vision Eye Institute's employees and are in the majority in senior management and professional roles. The Directors do not consider it necessary to set a formalised policy.

The gender balance of Vision Eye Institute employees is as follows:

Vision Eye Institute Employees	Male	Female	Total
Directors	7	1	8
Senior Executives [2]	2	5	7
Professional staff [3]	31	128	159
Other employees	10	205	215
Total Employees (Full time equivalents) [1]	43	338	381
Percentages	11%	89%	100%

Notes:
1. Total full time equivalent employees, excluding contractors
2. Senior Executives – CEO direct reports
3. Professional Staff –Doctors , orthoptists, optometrists and nurses (employee only)

Trading in the Company's Securities

The Company's Securities Trading Policy distinguishes between Key Management Personnel (KMPs) and other employees, contractors, etc. KMP, include Directors, officers and senior executives of the Company. Persons, other than KMPs, are free to deal in the Company's securities at any time, upon the proviso that they are not in possession of price sensitive "inside information". KMPs may also deal at any time other than in "Blackout Periods" and if not in possession of any information that may have a material impact upon the Company's security price. Blackout Periods are the period between the end of the Company's financial year and the preliminary announcement of the full year results and the period between the end of the Company's half year and the announcement of the half year results. KMPs must comply with reporting and approval requirements before dealing at any time and are permitted to deal in a Blackout periods but only in defined exceptional circumstances.

The Company's Securities Trading Policy is available in the Corporate Governance section of the Company's website (www.vgaustralia.com).

Shareholder communication and disclosure

The Company communicates with its shareholders through its periodic reporting, publicly available presentations, the Company's website and at the Company's Annual General Meeting. It adheres to the ASX Continuous Disclosure requirements by announcing any information it may have or be aware of that could have a material effect on the price of the Company's securities and providing all other information as required under the ASX Listing Rules.

The Company's Continuous Disclosure Policy is available in the Corporate Governance section of the Company's website (www.vgaustralia.com).

		Consolidated	
		2012	**2011**
	Note	**$'000**	**$'000**
Rendering of services		111,220	107,277
Total revenue		**111,220**	**107,277**
Cost of services	6a	(66,185)	(61,727)
Gross profit		**45,035**	**45,550**
Occupancy expenses		(7,571)	(7,610)
Practice equipment expenses - depreciation		(5,328)	(5,960)
Practice equipment expenses - other		(1,800)	(1,697)
Advertising & Marketing		(1,794)	(2,264)
Impairment of goodwill	12c	-	(27,681)
Other expenses	6b	(6,757)	(10,527)
Results from operating activities		**21,785**	**(10,189)**
Finance income	6c	359	393
Finance costs	6c	(8,960)	(11,717)
Net finance costs		**(8,601)**	**(11,324)**
Profit/(loss) before income tax		**13,184**	**(21,513)**
Income tax expense	7	(4,241)	(2,449)
Profit/(loss) for the year		**8,943**	**(23,962)**
Other comprehensive income			
Cash flow hedge			
Fair value movement taken to equity, net of tax	16	-	253
Other comprehensive income for the year, net of tax		-	253
Total comprehensive income/(loss) for the year		**8,943**	**(23,709)**
Basic earnings/(loss) per share (cents per share)	8	**10.2**	**(28.1)**
Diluted earnings/(loss) per share (cents per share)	8	**10.2**	**(28.1)**

consolidated statement of financial position

as at 30 june 2012

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Current assets			
Cash and cash equivalents	19	7,306	8,881
Trade and other receivables	10	7,341	8,922
Inventory		892	1,070
Total current assets		**15,539**	**18,873**
Non-current assets			
Deferred tax assets	7	2,266	2,511
Plant and equipment	11	14,684	16,751
Goodwill	12a	124,475	124,475
Total non-current assets		**141,425**	**143,737**
Total assets		**156,964**	**162,610**
Current liabilities			
Trade and other payables	13	8,774	9,817
Interest bearing liabilities	14	84,763	100,000
Provisions	15	4,191	3,491
Current tax liability	7	1,777	1,336
Total current liabilities		**99,505**	**114,644**
Non-current liabilities			
Trade and other payables	13	688	792
Provisions	17	322	288
Total non-current liabilities		**1,010**	**1,080**
Total liabilities		**100,515**	**115,724**
Net assets		**56,449**	**46,886**
Equity attributable to the equity holder			
Contributed equity	18	93,557	93,557
Reserves		1,121	2,503
Accumulated losses		(38,229)	(49,174)
Total equity		**56,449**	**46,886**

consolidated statement of changes in equity

for the year ended 30 june 2012

	Contributed equity $'000	Share based Payment Reserve $'000	Cash flow Hedge Reserve $'000	Accumu-lated losses $'000	Total $'000
At 1 July 2011	**93,557**	**2,503**	**-**	**(49,174)**	**46,886**
Profit for the year	-	-	-	8,943	8,943
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	8,943	8,943
Share based payments	-	620	-	-	620
Expired share based payments transferred to accumulated losses	-	(2,002)	-	2,002	-
Balance at 30 June 2012	**93,557**	**1,121**	**-**	**(38,229)**	**56,449**

	Contributed equity $'000	Share based Payment Reserve $'000	Cash flow Hedge Reserve $'000	Accumu-lated losses $'000	Total $'000
At 1 July 2010	**93,492**	**1,509**	**(253)**	**(25,211)**	**69,537**
Loss for the year	-	-	-	(23,962)	(23,962)
Other comprehensive income	-	-	253	-	253
Total comprehensive loss for the year	-	-	253	(23,962)	(23,709)
Shares issued as part of acquisition consideration	65	-	-	-	65
Share based payments	-	994	-	-	994
Balance at 30 June 2011	**93,557**	**2,503**	**-**	**(49,174)**	**46,886**

	Note	Consolidated 2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		112,079	107,037
Payments to suppliers and employees (inclusive of GST)		(81,885)	(85,499)
Income tax paid		(3,553)	(328)
Net cash inflows from operating activities	19a	**26,641**	**21,210**
Cash flows from investing activities			
Acquisitions - earn outs		(902)	-
Purchase of plant and equipment		(4,145)	(3,308)
Proceeds from sale of plant and equipment		395	390
Net cash flows used in investing activities		**(4,652)**	**(2,918)**
Cash flows from financing activities			
Receipts of funds advanced to a Doctor		210	221
Interest received		359	474
Interest paid		(9,028)	(11,531)
Repayment of lease liability		(105)	(32)
Repayment of borrowings		(15,000)	(8,038)
Net cash flows used in financing activities		**(23,564)**	**(18,906)**
Net (decrease) in cash and cash equivalents		(1,575)	(614)
Add cash and cash equivalents at the beginning of the financial year		8,881	9,495
Cash and cash equivalents at end of period	19b	**7,306**	**8,881**

1. Corporate information

Vision Eye Institute Limited (the Company) is a company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

The consolidated financial statements of the Company as at, and for the year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the Group).

The Group is a for-profit-entity; the nature of the operations and principal activities of the Group are described in the Directors' Report.

The consolidated financial report of the Company for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Directors on 28 August 2012.

2. Summary of significant accounting policies

(a) Statement of compliance and basis of preparation

The consolidated financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The consolidated financial report has been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration which have been measured at fair value, and goodwill which has been recorded at cost less impairment charges.

The consolidated financial report is presented in Australian dollars which is the Company's functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, and in accordance with that Class Order, amounts in the financial report are rounded to the nearest thousand dollars unless otherwise indicated.

The consolidated financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) New accounting standards and interpretations

Changes in Accounting Policy and Disclosures
The accounting policies adopted have been applied consistently by all Group entities and are consistent with those of the previous financial year except as detailed below.

(i) New standards effective 1 July 2011

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2011.

- AASB 101 *Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project:* This amendment relates only to disclosures and had no impact on the financial position or performance of the Group.

2. Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

- AASB 124 (revised December 2009) *Related Party Disclosures*: This amendment relates to the definition of a related party and the disclosure of transactions between its subsidiaries and its associates, and introduces a partial exemption from the disclosure requirements for government related entities. The Company and its subsidiaries are not government-related entities. The application of the revised definition in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous standard.

- AASB 7 *Financial Instruments: Disclosure:* The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. This amendment relates only to disclosures and had no impact on the financial position or performance of the Group.

- AASB 1054 '*Australian Additional Disclosures' and AASB 2011-1 'Amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project':* AASB 1054 sets out the Australian-specific disclosures for entities that have adopted Australian Accounting Standards (in addition to IFRS). AASB 2011-1 makes amendments to a range of Australian Accounting Standards and Interpretations for the purpose of closer harmonisation between Australian and New Zealand Standards. These amendments relate only to disclosures and had no impact on the financial position or performance of the Group.

- AASB 2010-4 '*Amendments to Australian Accounting Standards'*: The standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. This amendment relates only to disclosures and had no impact on the financial position or performance of the Group.

(ii) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2012 are outlined in the table below.

Standard / Interpretation	**Application date for the Group**	**Expected impact on Group Financial Report**
AASB 9 'Financial Instruments'	1 July 2015	The Group has not yet determined the extent of the impact of the requirements under the new standard
AASB 10 'Consolidated Financial Statements'	1 July 2013	The amendment is not expected to have a significant impact on the Group's financial report
AASB 13 'Fair Value Measurement'	1 July 2013	The Group has not yet determined the extent of the impact of the requirements under the new standard.
AASB 119 'Employee Benefits'	1 July 2013	The amendment is not expected to have a significant impact on the Group's financial report
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets '	1 July 2012	The amendment is not expected to have a significant impact on the Group's financial report

2. Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

Standard / Interpretation	Application date for the Group	Expected impact on Group Financial Report
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements '	1 July 2013	The Group has not yet determined the extent of the impact of the requirements under the new standard
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards	1 July 2013	The amendment is not expected to have a significant impact on the Group's financial report.
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income	1 July 2012	The Group has not yet determined the extent of the impact of the requirements under the new standard

(c) Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business, and assumes that the Group will be able to meet the mandatory repayments.

The Group incurred a net profit after tax of $8,943,000 for the year ended 30 June 2012. Net cash inflows from operating activities for the period were $26,641,000. As at 30 June 2012 the Group had $7,306,000 of cash and cash equivalents, net assets of $56,449,000 and a deficiency of current assets to current liabilities of $83,966,000. The deficiency arises because the Group's bank debt has been classified as current at 30 June 2012 as the term of the existing facility ends on 30 September 2012.

Subsequent to year end, an Amendment and Restatement Deed was executed amending the existing debt facility with the lending syndicate. The key terms are outlined in Note 27.

The continued viability of the Group and its ability to continue as a going concern and meet its debts as they fall due is dependent upon the Group's ability to:

• Continue to generate satisfactory levels of operating cash flows; and

• Continue to comply with the terms and conditions of the amended debt facility as described in Note 27.

2. Summary of significant accounting policies (continued)

(c) Going concern (continued)

Without the ongoing support of the lending syndicate (which has been secured as at the date of this report), there would be significant uncertainty as to the ability of the Group to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the consolidated financial report.

Taking all of the above factors into consideration, the Directors have satisfied themselves that the continued application of the going concern basis is appropriate. Accordingly the consolidated financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(d) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of Vision Eye Institute Limited and its subsidiaries as at and for the period ended 30 June each year.

Subsidiaries are entities controlled by the Group.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Vision Eye Institute Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the profit or loss of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the Statement of Comprehensive Income and are presented within equity in the consolidated Statement of Financial Position, separately from the equity of the owners of the parent.

2. Summary of significant accounting policies (continued)

(d) Basis of consolidation (continued)

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss, or retained earnings/accumulated losses as appropriate

Prior to 1 July 2009
Several differences in accounting treatment were required for non-controlling interests (formerly known as minority interests) however the Group has held 100% of all its subsidiaries since either incorporation or acquisition date and has therefore not had to account for minority interests.

(e) Business combinations

A business combination undertaken by the Group represents the purchase of a private individual ophthalmic business. Consideration comprises an issue of equity instruments subject to escrow and a cash component. An acquisition can also incorporate an 'earn out' component which is contingent on the achievement of a pre agreed forecast personal exertion EBIT by the individual doctor.

The Group has provisionally accounted for the previous years’ acquisitions. There were no separately identifiable assets or liabilities recognised on the acquisitions. Cash consideration paid on acquisition date reflected goodwill acquired. The contingent consideration represents additional cash payments to be made to the doctors as well as shares to be issued based on the achievement of personal exertion EBIT targets, as defined in the asset purchase agreements.

Other than the contingent consideration arrangements, there were no further adjustments made during the current year to the accounting for separately identifiable assets and liabilities recognised on acquisition.

The Group forecasts each individual doctor’s EBIT and probability weighted each to determine a fair value for the contingent consideration arrangement. The fair value of this contingent consideration has been included in the determination of the consideration to be transferred. Future changes in estimates of this amount are recorded directly in the statement of comprehensive income in the period in which they occur.

Each of the acquired doctors has entered a service agreement with the Group. All future remuneration is personal services based. Given the contingent payments are linked to the provision of future services to the Group by the relevant doctors, these payments are accounted for as remuneration or remuneration equivalent expense and not as part of goodwill recognised on acquisition date.

2. Summary of significant accounting policies (continued)

(e) Business combinations (continued)

Acquisitions entered prior to 1 July 2009

Acquisitions undertaken in prior periods involve the payment of consideration in the form of equity and cash that is contingent on the achievement of personal exertion EBIT. Under the previous AASB 3 *Business Combinations* the contingent considerations were not recognised until it became a present obligation of the Group, and was then accounted for as an adjustment against goodwill. There were no prior period contingent acquisition payments made during the current year.

Subsequent to 1 July 2009

Business combinations entered into from 1 July 2009 are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration on acquisition will be recognised at fair value at the acquisition date. Any changes to the fair value will be recognised in accordance with AASB139 either in the profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Group does not have an overdraft facility.

(g) Trade and other receivables

Trade receivables generally have terms of 30-60 days and are recognised initially at fair value on the date services are provided and subsequently measured at amortised cost less an allowance for any impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an individual clinic and day surgery level.

An allowance for impairment loss is made when there is objective evidence that the debt will not be collectible, including default of payment or where the debtor is experiencing financial difficulties. Individual debts that are known to be uncollectible are written off.

2. Summary of significant accounting policies (continued)

(h) Inventories

Inventory comprises medical supplies used in the ophthalmic procedures performed in the Group's clinic, day surgery and refractive surgery facilities.

Inventories are valued at the lower of cost and net realisable value.

The cost of purchase comprises the purchase price plus other costs directly attributable to the acquisition of the medical supplies. The fee generated by ophthalmic surgical procedures exceeds the cost of medical supplies used in the provision of those procedures.

(i) Derivative financial instruments and hedging

The Group uses derivative financial instruments (interest rate swaps) to hedge its risk associated with interest rate fluctuations. The interest rate swaps are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Held-for-trading derivative assets and liabilities are classified as either current assets or liabilities.

Derivative assets and liabilities not held-for-trading are classified as non-current when the remaining maturity is more than 12 months, or current when the remaining maturity is less than 12 months.

The fair value of interest rate swaps are determined by reference to market values for similar instruments. Any gains or losses arising from changes in the fair value of the interest rate swaps are taken directly to profit or loss for the year except for those that qualify as cash flow hedges. Hedges that meet the strict criteria for hedge accounting are accounted for as cash flow hedges.

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to the interest rate risk associated with a forecast transaction (payment of interest on borrowings) and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction (finance costs) when the forecast transaction occurs.
The Group tests each of the designated cash flow hedges for effectiveness on a six monthly basis. At each balance date, the Group measures ineffectiveness using the ratio offset method. For interest rate cash flow hedges, any ineffective portion is taken to other expenses in the profit or loss.

If the forecast transaction is no longer expected to occur, amounts recognised in equity are reclassified to the profit or loss.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in equity remain in equity until the forecast transaction occurs.

2. Summary of significant accounting policies (continued)

(j) Operating segments – Refer Note 5

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available (Management will also consider other factors in determining operating segments such as the existence of regional Directors and state operations managers and the level of segment information presented to the Board of Directors).

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the services,
- nature of the processes involved and methods used to provide the services,
- type or class of customer for the services, and
- nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 *Operating Segments* are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”.

(k) Plant and equipment

Plant and equipment is carried at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the useful life of individual items of plant and equipment. Depreciation rates for plant and equipment are over 2 to 10 years.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

The assets’ residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each financial year end.

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

2. Summary of significant accounting policies (continued)

(l) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(m) Impairment of non-financial assets other than goodwill

Non-financial assets other than goodwill are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Assets are written down to their recoverable amount when the carrying amount of the asset is greater than the higher of the assets' fair value less costs to sell and value in use. Where a group of assets working together supports the generation of net cash inflows relevant to the determination of recoverable amount, the net cash inflows are estimated for the relevant group of assets (cash generating unit) and the recoverable amount test is applied to the carrying amount of that group of assets.
Non-financial assets other than goodwill that have been previously impaired are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(n) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If this consideration transferred is lower than the fair value of the net identifiable assets of the acquiree the differences are recognised in profit and loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset at its current carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGU), or groups of CGU's, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with AASB 8 *Operating Segments*.

2. Summary of significant accounting policies (continued)

(n) Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash generating unit (group of cash generating units), to which the goodwill relates. CGUs have been determined based on groups of clinics which share resources. The Group performs its impairment testing as at 30 June each year using discounted cash flows under the value-in-use methodology. Refer Note 12 for further information.

When the recoverable amount of a CGU or group of CGU's is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a CGU and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(o) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Financial guarantees
The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach.

(p) Interest bearing loans and borrowing costs

All loans and borrowings are initially recognised at the fair value for the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

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

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Company does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

Finance costs comprise interest expense on borrowings including borrowing costs.

2. Summary of significant accounting policies (continued)

(q) Contributed equity

Ordinary shares, voting and non-voting are classified as equity. Contributed equity is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of shares are recognised directly in equity as a reduction of the share proceeds received, net of any tax effects.

(r) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Rendering of services
Revenue from the provision of ophthalmic procedures is recognised at the time of completion and billing to the patient or health fund.

Interest income
Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate which allocates interest income over the relevant period using an effective interest rate which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends
Dividend income is recognised in the profit or loss of the parent entity only and is recognised on the date that the right to receive payment is established.

(s) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Wages, salaries and annual leave
Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured using remuneration rates which are expected to be paid when the liability is settled.

Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave
The liability for long service leave is recognised and measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. In determining the present value of expected future cash outflows, the market yield as at the reporting date on national government bonds which have terms to maturity approximating the terms of the related liability are used.

2. Summary of significant accounting policies (continued)

(s) Employee benefits (continued)

Provisions
Provisions are recognised when the Group has a present obligation (legal, equitable or constructive) to make a future outflow of economic benefits as a result of past transactions or other past events, it is probable that a future outflow of economic benefits to settle the obligation will be required and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of the provision to be reimbursed under an insurance contract, the reimbursement is not offset against the provision, but rather recognised as a separate asset when the reimbursement is virtually certain of recovery. The expense relating to any such provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(t) Share based payment transactions

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

The cost of equity settled transactions with employees is measured by reference to the fair value of the equity instruments at the date they are granted. The cost is recognised as an expense in the Statement of Comprehensive Income together with a corresponding increase in equity over the vesting period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The fair value is determined by an external valuer using a Binomial model.

At each subsequent reporting date until vesting, the cumulative charge to the Statement of Comprehensive Income is the product of:

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

The charge to the Statement of Comprehensive Income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition or non-vesting condition is considered to vest irrespective of whether or not that market condition or non-vesting condition is fulfilled, provided that all other conditions are satisfied.

2. Summary of significant accounting policies (continued)

(t) Share based payment transactions (continued)

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

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(u) Income tax and other taxes

Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2. Summary of significant accounting policies (continued)

(u) Income tax and other taxes (continued)

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Vision Eye Institute Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Vision Eye Institute Limited and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Vision Eye Institute Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

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

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the ATO, in which case the GST is recognised as either part of the cost of acquisition of the asset or as part of the expense items applicable ; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

2. Summary of significant accounting policies (continued)

(v) Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, gains on hedging instruments that are recognised in the profit or loss, and reclassification of amounts previously recognised in other comprehensive income.

Finance costs comprise interest expense and borrowing costs on borrowings. Refer Note 2(p).

(w) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares.

3. Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its estimates and underlying assumptions in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its estimates and underlying assumptions on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policy for which significant estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions can be found in the relevant note to the financial statements.

Significant accounting estimates and assumptions

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill is allocated. A $nil impairment loss (2011: $27,681,000) was recognised in the current year in respect of goodwill. The assumptions used in the estimation of recoverable amount and the carrying amount of goodwill are discussed in Note 12.

4. Financial risk management objective and policies

(a) Financial risk management objective and policies

Interest, liquidity and credit risk arise in the normal course of the Group's business. The Group's principal financial instruments comprise bank loans, cash and short term deposits and derivatives (interest rate swaps). Other financial instruments include trade receivables and trade payables.

The Group uses different methods to measure and manage different types of risks to which it is exposed, as further outlined below. The Group's management of financial risk is aimed at supporting the delivery of the Group's financial targets while protecting future financial security.

(b) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates to its floating debt obligations. To manage the exposure to variable rate debt, the Group entered into interest rate swaps in which the Group agreed to exchange at specific intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. At 30 June 2012 the notional principal amount applicable is $42.5 million.

At balance date the Group had the following financial instruments exposed to Australian variable interest rate risk that are not designated in cash flow hedges.

	Consolidated	
	2012 $'000	**2011 $'000**
Financial assets		
Cash and cash equivalents	7,306	8,881
Financial liabilities		
Interest bearing liabilities (50% not hedged in the current year) (2011: 50%)	(42,500)	(50,000)
Net exposure	**(35,194)**	**(41,119)**

Interest rate swaps with a fair value of $152,031 (2011: $nil) are exposed to fair value movements if interest rates change. Refer Note 16 for further details.

The following table summarises the sensitivity of the fair value of financial instruments held at balance date to movements in interest rates. At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax profit/(loss) and other comprehensive income would have been affected as follows:

	Consolidated post tax(loss)/profit Higher/(Lower)		**Other comprehensive (loss)/income Higher/(Lower)**	
Judgements of reasonably possible movements:	**2012 $'000**	**2011 $'000**	**2012 $'000**	**2011 $'000**
+1% (100 basis points)	(246)	288	-	-
-0.5% (50 basis points)	123	(144)	-	-

4. Financial risk management objective and policies (continued)

(b) Interest rate risk (continued)

The movements in profit/(loss) are due to higher/lower interest costs from variable rate debt and cash balances. The movement in other comprehensive income is due to an increase/decrease in the fair value of derivative instruments designated as cash flow hedges.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on a review of the Group's last two year's historical movements and economic forecaster's expectations.
- A price sensitivity of derivatives has been based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.
- The effect on other comprehensive income is the effect on the cash flow hedge reserve.

(c) Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with financial liabilities as and when they fall due.

The liquidity position for the Group is managed to ensure financial commitments are met in a timely manner. Forecast cash flows are used to calculate the forecast liquidity position and to maintain suitable liquidity levels.

The following liquidity risk disclosures reflect all contractually fixed repayments and interest resulting from recognised financial liabilities and financial guarantees as of 30 June 2012. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of outflows of non-derivative financial instruments. Trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as plant and equipment and investments in working capital (e.g. trade receivables).

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

Refer to Note 2(c) for further commentary.

4. Financial risk management objective and policies (continued)

(c) Liquidity risk (continued)

	2012				
	Total $'000	**< 1 month $'000**	**1-2 months $'000**	**2-12 months $'000**	**1-2 years $'000**
Consolidated					
Trade payables	1,980	1,980	-	-	-
Other payables	6,588	4,028	-	2,560	-
Contingent consideration liability	-	-	-	-	-
Lease liability	894	17	17	172	688
Interest bearing liabilities [(1) (2)]	84,763	84,763	-	-	-
Total payables	**94,225**	**90,788**	**17**	**2,732**	**688**

(1) Refer to note 2(p) for discussion of classification of interest bearing liabilities as current.
(2) Refer to Note 27 for key amendments to the debt facility.

	2011				
	Total $'000	**< 1 month $'000**	**1-2 months $'000**	**2-12 months $'000**	**1-2 years $'000**
Consolidated					
Trade payables	2,256	2,256	-	-	-
Other payables	6,346	4,284	-	2,062	-
Contingent consideration liability	1,009	-	1,009	-	-
Lease liability	998	17	17	172	792
Interest bearing liabilities [(1) (2)]	100,000	100,000	-	-	-
Total payables	**110,609**	**106,557**	**1,026**	**2,234**	**792**

(1) Refer to note 2(p) for discussion of classification of interest bearing liabilities as current.
(2) Refer to Note 27 for key amendments to the debt facility.

(d) Credit risk

Credit risk is the risk that a contracting party with the Group may not meet its obligations and in turn result in a potential financial loss to the Group.

The carrying amount of financial assets represents the maximum credit exposure. The major trade receivables of the Group are Medicare (government body) and private health funds and large healthcare companies, so credit risk is low for the majority of the balance. For the remaining trade debtor balances the concentration of credit risk is limited due to the consumer base being large and unrelated. The Group holds no collateral on trade receivables. Receivables balances are monitored on an ongoing basis and given the low risk profile of customers, the Group's exposure to bad debts is not significant.

In addition, the Group is exposed to credit risk in relation to financial guarantees given to banks provided by the Group. The Group's maximum exposure in this respect is the maximum amount the Group would have to pay if the guarantee is called of $1,150,000. As at 30 June 2012 no amount has been recognised in the consolidated financial position as financial liabilities (2011: $nil).

4. Financial risk management objective and policies (continued)

(e) Fair value

Due to their short term nature, the fair value of all the financial assets and liabilities held by the Group is assumed to approximate the individual carrying values of those assets and liabilities.

The Group can use various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.
Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The interest rate swaps are based on a level 2 method to determine fair value.

5. Segment reporting

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining allocation of resources.

The operating segments are identified by management based on geographical areas characterised by state (Victoria, New South Wales, Queensland). Each state derives revenue from similar ophthalmic services. 'Other' is the aggregation of the Group's corporate and other activities. Discrete financial performance information about each of these regions is reported to the executive management team on at least a monthly basis.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered to be part of the core operations of any segment:

- Fair value gains/losses on cash flow hedge
- Interest revenue and expense
- Corporate and other costs
- Income tax expense

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2.

The following table is an analysis of the Group's revenue and results by reportable operating segments. The executive management team does not regularly review assets and liabilities of the reportable segments.

5. Segment reporting (continued)

Year ended 30 June 2012

	VIC $000	NSW $000	QLD $000	Total $000
Revenue				
Revenues from external customers	30,509	33,174	41,705	105,388
Segment revenue	**30,509**	**33,174**	**41,705**	**105,388**
Corporate and other				5,832
Total consolidated revenue				**111,220**
Result				
Segment result	10,394	8,468	9,826	28,688
Corporate overhead				(6,903)
Results from operating activities				**21,785**
Net finance costs				(8,601)
Profit/(loss) before tax				**13,184**
Income tax expense				(4,241)
Net profit after tax per the Statement of Comprehensive Income				**8,943**

Year ended 30 June 2011

	VIC $000	NSW $000	QLD $000	Total $000
Revenue				
Revenues from external customers	28,444	32,595	41,346	102,385
Segment revenue	**28,444**	**32,595**	**41,346**	**102,385**
Corporate and other				4,892
Total consolidated revenue				**107,277**
Result				
Segment result	11,389	9,538	7,476	28,403
Corporate overhead				(10,911)
Impairment of goodwill				(27,681)
Results from operating activities				(10,189)
Net finance costs				(11,324)
Profit/(loss) before tax				**(21,513)**
Income tax expense				(2,449)
Net loss after tax per the Statement of Comprehensive Income				**(23,962)**

6. Expenses

	Consolidated	
	2012	**2011**
	$'000	**$'000**
(a) Cost of services		
Employee benefits expense		
Wages and salaries	(27,539)	(29,222)
Workers compensation	(170)	(164)
Superannuation contributions	(1,808)	(1,678)
Share based payments expense	(620)	(1,022)
Employee expenses included in cost of services	(30,137)	(32,086)
Medical supplies expense included in cost of services	(13,330)	(12,022)
Contract Doctor payments	(19,003)	(14,862)
Other expenses included in cost of services	(3,715)	(2,759)
	(66,185)	(61,727)
(b) Other expenses		
Other clinic management expenses	(2,357)	(2,440)
Administration related expenses	(2,198)	(2,142)
Consultancy expenses	(804)	(3,100)
Business combinations - contingent consideration liability	-	(563)
Travel expenses	(403)	(352)
IT related expenses	(408)	(349)
Legal expenses	(587)	(1,581)
	(6,757)	(10,527)
(c) Net finance costs		
Finance revenue	359	393
Interest expense	(8,960)	(11,717)
	(8,601)	(11,324)

7. Income tax

(a) Income tax expense

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Major components of income tax expense are:		
Statement of Comprehensive Income		
Current income tax		
Current income tax charge	4,259	2,236
Adjustments for current income tax of previous years	(126)	17
Deferred income tax		
Relating to origination and reversal of temporary differences	108	196
Income tax expense reported in the Statement of Comprehensive Income	**4,241**	**2,449**

(b) Reconciliation of income tax expense recognised in the Statement of Comprehensive Income and tax expense calculated at the statutory rate

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Accounting (loss)/profit before tax	13,184	(21,513)
Tax at the Australian income tax rate of 30% (2011: 30%)	3,955	(6,454)
Tax effect of items not (assessable)/deductible for income tax purposes:		
Entertainment	-	10
Share based payments expense	186	307
Acquisition costs	-	3
Employee share loans in reserves	-	67
Other	226	195
Impairment of goodwill	-	8,304
Adjustment for current income tax of previous years	(126)	17
Income tax expense reported in the statement of comprehensive income	**4,241**	**2,449**

(c) Recognised current/deferred tax assets and liabilities

	Consolidated			
	2012	**2012**	**2011**	**2011**
	Current tax liability	**Deferred tax asset**	**Current tax liability**	**Deferred tax asset**
	$'000	**$'000**	**$'000**	**$'000**
Opening balance	(1,336)	2,511	969	2,396
Charged to income	-	93	-	(62)
Current year tax provision	(4,352)	-	(2,616)	-
Tax instalment payments (net)	3,553	-	328	-
(Under)/over provision previous year	358	(338)	(17)	177
Closing balance	**(1,777)**	**2,266**	**(1,336)**	**2,511**

7. Income tax (continued)

(d) Recognised deferred tax assets

	Consolidated			
	Statement of financial position		Statement of comprehensive income	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Accruals	716	705	11	380
Provision for employee leave entitlements	1,354	1,134	220	(501)
Contingent cash consideration for Doctor acquisition earn outs	-	303	(303)	169
Other	196	369	(173)	66
Gross deferred income tax assets	**2,266**	**2,511**	**-**	**-**
Deferred tax income / (expense)	**-**	**-**	**(245)**	**114**

(e) Tax losses

The Group has capital tax losses for which no deferred tax asset is recognised in the Statement of Comprehensive Income of $282,880 (2011: $282,880) which are available indefinitely for offset against future capital gains subject to continuing to meet relevant statutory tests.

(f) Tax consolidation

Vision Eye Institute Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. Vision Eye Institute Limited is the head entity of the tax consolidated group.

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*. The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Nature of tax funding arrangements and tax sharing arrangements

The head entity Vision Eye Institute Limited, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

7. Income tax (continued)

(f) Tax consolidation (continued)

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payments obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

At 30 June 2012, there is no recognised deferred tax liability (2011: $nil) for taxes that would be payable on the earnings remitted from the Group's subsidiaries to the Parent as the Group has no liability for additional taxation should such amounts be remitted.

8. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations.

Profit attributable to ordinary shareholders

	2012 $'000	2011 $'000
Net profit/(loss) attributable to ordinary equity holders of the parent	8,943	(23,962)

Weighted average number of shares

	2012 Thousands	2011 Thousands
Weighted average number of ordinary shares for basic earnings per share	87,261	85,171
Effect of dilution:		
Management Options	-	-
Options and Tenure rights granted	-	-
Practice Enhancement Fund	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	87,261	85,171

Earnings per share

	2012 Cents	2011 Cents
Basic earnings per share	10.2	(28.1)
Diluted earnings per share	10.2	(28.1)

Potential shares arising under options, tenure rights and the PEF have been excluded from the calculation of diluted earnings per share in the current year and prior, because they are anti-dilutive.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

9. Dividends paid and proposed

a) Dividends paid and proposed

No dividends were declared or paid during the year (2011: $nil).

No dividends are proposed to be paid in respect of the year ended 30 June 2012 (2011: $nil).

b) Franking credits

	Consolidated	
	2012 $'000	**2011 $'000**
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2011: 30%)	27,336	23,783
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	565	1,200
	27,901	24,983
The amount of franking credits available for future reporting periods:		
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	-	-
	27,901	**24,983**

10. Trade and other receivables (current)

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Trade receivables	5,394	6,252
Allowance for impairment loss	(363)	(394)
	5,031	**5,858**
Other receivables:		
Sundry receivables	905	1,772
Prepayments	667	502
GST receivable	41	-
	1,613	**2,274**
Loan receivables	697	980
Allowance for impairment loss	-	(190)
	697	**790**
Total trade and other receivables	**7,341**	**8,922**
Movements in the allowance for impairment losses were as follows:		
As at 1 July	584	587
Charge for the year	-	262
Transfer to other accruals	(190)	-
Amounts written off	(31)	(265)
As at 30 June	**363**	**584**

Trade receivables are non-interest bearing and are expected to settle within 30-60 days. An allowance for impairment loss is made when there is objective evidence that an individual debt will not be recoverable, including default of payment or where the debtor is experiencing financial difficulties.

At 30 June 2012 the average Days Sales Outstanding was 22 days (2011: 22 days). The ageing analysis of trade receivables is as follows:

			Past due not impaired		Considered impaired
	Total	**0 - 30 days**	**30-60 days**	**+ 60 days**	**+ 60 days**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
2012	5,394	3,505	1,368	158	363
2011	6,252	3,548	1,754	556	394

11. Plant and equipment

	Consolidated	
	2012 $'000	2011 $'000
Carrying amounts of:		
Plant & Equipment	13,580	15,334
Equipment under finance lease	1,104	1,417
	14,684	**16,751**

Year ended 30 June 2012	Plant & Equip	Equip under finance lease	Total
At cost	39,445	1,466	**40,911**
Accumulated depreciation and impairment	(25,865)	(362)	**(26,227)**
Net carrying amount	**13,580**	**1,104**	**14,684**

Reconciliation of carrying amounts at beginning and end of the period

Year ended 30 June 2012	Plant & Equip	Equip under finance lease	Total
At 1 July net of accumulated depreciation and impairment	15,334	1,417	**16,751**
Disposals net of accumulated depreciation	(1,147)	-	**(1,147)**
Additions	4,408	-	**4,408**
Depreciation expense	(5,015)	(313)	**(5,328)**
Total written down amount	**13,580**	**1,104**	**14,684**

Year ended 30 June 2011	Plant & Equip	Equip under finance lease	Total
At cost	47,498	1,466	**48,964**
Accumulated depreciation and impairment	(32,164)	(49)	**(32,213)**
Net carrying amount	**15,334**	**1,417**	**16,751**

Reconciliation of carrying amounts at beginning and end of the period

Year ended 30 June 2011	Plant & Equip	Equip under finance lease	Total
At 1 July net of accumulated depreciation and impairment	18,328	-	**18,328**
Disposals	(218)	-	**(218)**
Additions	3,135	1,466	**4,601**
Depreciation expense	(5,911)	(49)	**(5,960)**
Total written down amount	**15,334**	**1,417**	**16,751**

The debt facility established by the Group in August 2009 (refer Note 14) is secured by all assets of the Group, including plant and equipment.

12. Goodwill

	Consolidated	
	2012	**2011**
	$'000	**$'000**
At 30 June		
Cost (gross carrying amount)	218,170	218,170
Accumulated impairment	(93,695)	(93,695)
Net carrying amount	124,475	124,475
(a) Reconciliation of movement in goodwill		
At 1 July net of accumulated impairment	124,475	152,156
Accumulated impairment	-	(27,681)
At 30 June net of accumulated impairment	**124,475**	**124,475**

(b) Description of the Group's goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment (refer to section (d) of this note).

(c) Impairment losses recognised

No impairment loss was recognised for the current financial year (2011: $27,681,000).

The recoverable amount is based on the value in use of the cash generating units.

(d) Impairment tests for goodwill

(i) Description of the cash generating units

Goodwill acquired through business combinations has been allocated to and are tested at the level of their respective cash generating units, each of which is both an operating segment and a reportable segment (refer to Note 5), for impairment testing as follows:

- Queensland
- New South Wales
- Victoria

(ii) Carrying amount of goodwill allocated to each of the cash generating units

Goodwill acquired through business combinations has been allocated to individual cash generating units for impairment testing as follows:

Cash generating unit	**2012** **$'000**	**2011** **$'000**
Victoria	46,999	46,999
New South Wales	52,116	52,116
Queensland	25,360	25,360
	124,475	**124,475**

12. Goodwill (continued)

(iii) Key assumptions used in value in use calculations

The recoverable amount of the cash generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board covering a one year period and cash flows approved by senior management for a further four years.

The pre-tax discount rate applied to cash flow projections is 13.4% (2011: 16.1%). Adjustments for specific regional risk factors have been factored into the underlying cash flows of each CGU such that the same discount rate has been applied to each CGU.

Cash flows are extrapolated for four years post the 2013 year using cash flow projections based on financial forecasts approved by senior management. For the purposes of this model, revenue for each CGU is expected to grow at rates reflecting the expected growth based on a discount to the average growth expected in the private ophthalmic industry. EBITDA margin are expected to be at consistent levels. The terminal growth rate used for discounting cash flows post 2017 was 2.5% (2011: 2.5%).

(iv) Sensitivity to changes in assumptions

With regard to the assessment of the value in use of the Group's cash generating units, the Company believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGUs to fall below their recoverable amount.

13. Trade and other payables

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Current:		
Trade payables	1,980	2,256
Other payables	6,588	6,254
Contingent consideration liability	-	1,009
GST payable	-	92
Lease liability	206	206
	8,774	**9,817**
Non-current:		
Lease liability	688	792
	688	**792**

14. Interest bearing liabilities (current)

	Consolidated	
	2012	2011
	$'000	$'000
Borrowings		
ANZ	42,500	50,000
Westpac	42,500	50,000
Establishment fees	(237)	-
	84,763	**100,000**

On 28 September 2011 a Deed of Amendment to the existing bilateral debt facility with Westpac and ANZ was executed. Key amendments included an extension of the facility to 30 September 2012, a reduction in the facility limit from $110,000,000 to $95,000,000 and an amortisation schedule of quarterly repayments of $2,500,000.

A requirement of the agreement is that 50% of the original debt facility is to be covered by interest rate swaps.

Subsequent to balance date the term of the debt facility was extended until 30 September 2014. Refer to Note 27 for details.

15. Provisions (current)

	Consolidated	
	2012	2011
	$'000	$'000
Employee benefits - Annual leave	2,464	2,005
Employee benefits - Long service leave	1,727	1,486
	4,191	**3,491**

16. Derivative financial instruments (current)

	Consolidated	
	2012	2011
	$'000	$'000
Interest rate swap contract - cash flow hedges	-	-
Movement in interest rate swap contract - cash flow hedge reserve		
Opening balance	-	(253)
Recognition of cash flow hedge	-	253
Tax effect of items charged to other comprehensive income	-	-
Closing balance	**-**	**-**

The interest rate swap for the financial year ended 30 June 2012 (notional principal $47,500,000) was closed out on 30 June 2012, and a new interest rate swap was entered effective 1 July 2012 on a notional principal of $40,000,000. This contract ends on 30 September 2012. The fair value of this interest rate swap of $152,000 is recorded in Other Payables in note 13. Hedge accounting has not been applied.

17. Provisions (non-current)

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Employee benefits - Long service leave	322	288

18. Contributed equity

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Ordinary shares, issued and fully paid	62,652	62,652
Ordinary non-voting shares, issued and fully paid	30,905	30,905
	93,557	**93,557**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Movement in Ordinary Voting Shares

	Consolidated	
	Thousands	**$'000**
At 1 July 2010	**72,672**	**60,701**
Shares issued to Associate Doctors as part of a share incentive scheme	211	65
Executive tenure rights conversion	136	-
Conversion of ordinary non-voting shares to ordinary shares	577	1,886
Conversion of ordinary non-voting shares to ordinary shares upon lapse of the voluntary escrow arrangements	601	-
At 30 June 2011	**74,197**	**62,652**
Executive tenure rights conversion	**136**	**-**
Conversion of ordinary non-voting shares to ordinary shares upon lapse of the voluntary escrow arrangements	**3,046**	**-**
At 30 June 2012	**77,379**	**62,652**

When managing capital, the Group's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and be in a position to take advantage of acquisition opportunities as they arise. The Group also aims to maintain a capital structure that ensures the lowest cost of capital is available to the entity.

During 2012 the Group paid dividends of $nil (2011: $nil). The Company will not pay a final dividend for the year ended 30 June 2012. On 28 September 2011 a Deed of Amendment to the existing debt facility with Westpac and ANZ was executed and a requirement of the Deed is that no dividends can be paid for the remaining term of the facility ending 30 September 2012.

18. Contributed equity (continued)

The Group's acquisition strategy involves issuing shares as part of the consideration paid to the doctor vendors of the practices acquired. The Group will continue with this policy as having Doctors Partners holding equity in the company is an important element of the Group's strategy.

The Group monitors capital through the Gearing Ratio (Financial indebtedness/total capital employed), the Earnings Gearing Ratio (Financial indebtedness/adjusted EBITDA) and the Interest Cover Ratio (adjusted EBITDA/interest expense less interest revenue). Detailed below are the actual ratios at balance date.

Ratio	**2012**	**2011**
Gearing Ratio	62.5%	59.1%
Earnings Gearing Ratio	3.0	3.6
Interest Cover Ratio	3.5	2.9

Ordinary non-voting shares

As at the date of this report, the Group, through its voluntary escrow arrangements, currently has a relevant interest in 12.2% of its total issued share capital. 2,473,534 non-voting ordinary shares were issued during the year as part consideration for doctor related acquisitions. These shares will convert into ordinary voting shares when the escrow period lapses.

Movement in Ordinary Non-voting Shares

	Consolidated	
	Thousands	**$'000**
At 1 July 2010	**12,454**	**32,791**
Issued as part consideration for acquisitions:		
Conversion of ordinary non-voting shares to ordinary shares	(577)	(1,886)
Cancellation of shares issued to employees in relation to the company's employee incentive plan rules	(120)	-
Conversion of ordinary non-voting shares to ordinary shares upon lapse of the voluntary escrow arrangements	(601)	-
At 30 June 2011	**11,156**	**30,905**
Issued as part consideration for acquisitions:		
Date issued 3 August 2011	1,095	-
Date issued 17 August 2011	1,378	-
Cancellation of shares issued to Doctor Partners and employees under the PEF	(560)	-
Conversion of ordinary non-voting shares to ordinary shares upon lapse of the voluntary escrow arrangements	(3,046)	-
At 30 June 2012	**10,023**	**30,905**

19. Cash flow statement reconciliation

(a) Reconciliation of net profit after tax to net cash flows from operations

	Consolidated	
	2012	2011
	$'000	$'000
Net profit/(loss) for the year	8,943	(23,962)
Adjustments for:		
Depreciation of non-current assets	5,328	5,960
(Gain)/loss on disposal of plant and equipment	53	(193)
Share based payments	620	1,022
Business combinations - contingent consideration liability	-	564
Net finance costs	8,601	10,157
Impairment of goodwill	-	27,681
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	827	(271)
(Increase)/decrease in other receivables	1,467	(20)
(Increase)/decrease in inventory	178	28
Increase/(decrease) in trade and other creditors	(796)	443
Increase/(decrease) provision for employee entitlements	734	(1,847)
Increase/(decrease) tax liability/deferred tax asset	686	481
Net cash flow from (used in) operating activities	**26,641**	**21,210**

(b) Reconciliation of cash

	Consolidated	
	2012	2011
	$'000	$'000
Cash balance comprises:		
Cash at bank and on hand	7,306	8,881
Closing cash balance	**7,306**	**8,881**

20. Business combinations

There were no acquisitions made during the year ended 30 June 2012, nor the comparative year ended 30 June 2011.

21. Expenditure commitments

	Consolidated	
	2012	**2011**
	$'000	**$'000**
Lease expenditure commitments		
Operating leases (non-cancellable)		
Within one year	6,099	5,901
After one year but not more than five years	10,079	12,873
After more than five years	44	37
Total minimum lease payments	**16,222**	**18,811**
Finance lease commitments		
Within one year	206	206
After one year but not more than five years	688	792
	894	**998**
Other commitments		
Plant and equipment		
Within one year	84	-
	84	**-**

22. Contingent assets and liabilities

On 21 September 2009, the Company commenced action in the Supreme Court of Queensland against Dr Kitchen and others in connection with what the Company contends was Dr Kitchen's wrongful termination of his service agreement with Icon Laser Australia (a subsidiary of the Company). The Company seeks damages (as yet in an unspecified amount) from the defendant for breach of contract, and seeks injunctions and declarations enforcing the non-compete provisions in the service agreement and the share purchase agreement.

Dr Kitchen has made a counter claim against the Company in respect of this matter.

The actions are continuing and a trial date is not yet set.

There were no other contingent assets or contingent liabilities at 30 June 2012.

23. Auditor's remuneration

	Consolidated	
	2012	**2011**
	$	**$**
Amounts received or due and receivable by Deloitte Touche Tohmatsu for:		
Audit or review of the financial report	170,000	-
Accounting advice	-	-
Assurance related procedures	-	-
	170,000	**-**
Amounts received or due and receivable by Ernst & Young (Australia) for:		
Audit or review of the financial report	-	290,000
Accounting advice	-	40,000
Assurance related procedures	-	6,000
	-	**336,000**

24. Related party disclosure

Key Management Personnel (KMP) disclosures are contained in the Remuneration Report and Note 25.

(a) Transactions with related parties in wholly-owned group

Companies within the wholly owned group purchased medical supplies from a related party within the wholly owned group on commercial terms.

Companies within the wholly owned group made a distribution of profits to the ultimate parent entity, Vision Eye Institute Limited, through inter-company accounts.

	Consolidated	
	2012	**2011**
Related party	**$'000**	**$'000**
Occuli Service Pty Ltd - lease of premises at Camberwell, Victoria * (a company significantly influenced by Dr J Reich)	343	334

b) Terms and conditions

*The lease of premises was made on normal commercial terms and conditions and at market rates. The lease expires in December 2016.

25. Key management personnel (KMP)

(a) Compensation of KMP

	Consolidated	
	2012	2011
	$	$
Short-term employee benefits	3,722,941	3,313,492
Post-employment benefits	124,908	85,420
Long-term employee benefits	2,267	13,054
Termination benefits	-	56,095
Share based payment	56,996	(27,819)
Total KMP compensation	**3,907,112**	**3,440,242**

(b) Shares held in Vision Eye Institute Limited (number)

	Balance 1 July 2011	On exercise of options/ tenure rights	Net change other	Balance 30 June 2012
S Tanner	475,000	-	75,000	550,000
I Kirkwood	43,232	-	-	43,232
Z Peach	-	-	-	-
G Thompson	391,803	136,423	-	528,226
Dr M Lawless	1,381,823	-	100,000	1,481,823
Dr J Reich	1,642,981	-	-	1,642,981
Dr C Rogers	808,023	-	-	808,023
B Coverdale	10,000	-	-	10,000
Total	**4,752,862**	**136,423**	**175,000**	**5,064,285**

	Balance 1 July 2010	On exercise of options/ tenure rights	Net change other	Balance 30 June 2011
S Tanner	275,000	-	200,000	475,000
K Wilson (1)	71,442	-	(71,442)	-
I Kirkwood	43,232	-	-	43,232
C Stamp (1)	326,025	-	(326,025)	-
G Thompson	80,381	136,422	175,000	391,803
Dr M Lawless	1,381,823	-	-	1,381,823
Dr J Reich	1,464,482	-	178,499	1,642,981
Dr C Rogers	808,023	-	-	808,023
J Osborne (1)	20,000	-	(20,000)	-
B Coverdale (2)	-	-	10,000	10,000
Total	**4,470,408**	**136,422**	**146,032**	**4,742,862**

(1) Resigned during the year ended 30 June 2011. The 'Net change other' column reflects their non KMP status at 30 June 2011.

(2) Appointed KMP during the year ended 30 June 2011. Net change other column reflects status at date became KMP.

25. Key management personnel (KMP) (continued)

(c) Option and tenure rights holdings by key management personnel

	Balance 1 July 2011	Options/ tenure rights exercised	Lapsed/ forfeited	Balance 30 June 2012	Vested at 30 June 2012 Exercisable	Not exercisable
G Thompson	445,698	(136,423)	(309,275)	-	-	-
Total	**445,698**	**(136,423)**	**(309,275)**	**-**	**-**	**-**

	Balance 1 July 2010	Options/ tenure rights exercised	Lapsed/ forfeited	Balance 30 June 2011	Vested at 30 June 2011 Exercisable	Not exercisable
G Thompson	818,606	(136,422)	(236,486)	445,698	-	445,698
Total	**818,606**	**(136,422)**	**(236,486)**	**445,698**	**-**	**445,698**

26. Share based payments

The table below sets out the details of all share based payments in existence during the current year and prior year.

	Grant date	Fair value of equity instrument at grant date $	Expiry date	Value of equity instrument exercised during year $	Value of equity instrument forfeited during the year $	Granted No. ^	Vested %
Executive Director							
G Thompson							
Options	29 April 2009	0.15	29 April 2012	-	35,473	709,459	**- %**
Tenure Rights	29 April 2009	0.55	29 April 2012	35,000	-	190,909	100%
Tenure Rights	29 April 2010	0.56	29 April 2013	40,761	40,761	218,360	67%
Total				**75,761**	**76,234**		

^ Total number of equity instruments from the grant

The share based payments plans are described below. There have been no cancellations or modifications to these plans.

26. Share based payments (continued)

Employee Option Plan (EOP)

Selected senior executives are offered options over ordinary shares under the Employee Option Plan. No options were granted during the year and there are no outstanding options at 30 June 2012.

The Company agreed a long term incentive scheme for Mr Geoff Thompson when he joined the Company in April 2009 as Chief Financial Officer. The long term incentives comprised grants of tenure rights and performance options.

Each tenure right gives the eligible executive the right to acquire one share upon exercise. The issue and exercise price of each tenure right is $nil and there are no restrictions on shares acquired on exercise of tenure rights as long as the executive is an employee on the vesting date.

A grant of performance options has a value equal to approximately 35% of the base salary package of the executive and vests in three equal instalments over a period of three years as long as the executive is an employee on the vesting date and has met performance hurdles agreed prior to the grant date. The performance options vesting hurdles are measured using the Group's return on capital employed (ROCE). The options vest in three equal tranches over three years at the anniversary grant date.

Upon vesting the performance options must be exercised within three months of the vesting date. A performance option gives the eligible executive the right to acquire one share upon exercise. The exercise price of the performance options is detailed in the Remuneration Report. There is no issue price for the options and there are no restrictions on shares acquired by the eligible executive on exercise of their options.

All the performance options for each tranche vest if the Group achieves a ROCE of 15% or more for the twelve months to 30 June immediately prior to the vesting date. None of the performance options for each tranche vest if the Group achieves a ROCE of less than 12% for the twelve months to 30 June immediately prior to the vesting date. If the ROCE for the twelve months to 30 June immediately prior to the vesting date is between 12% and 15% the options will vest on a pro-rata basis.

Mr Thompson, as Chief Financial Officer from April 2009 to May 2010, received a grant of tenure rights and performance options with an effective grant date of 29 April 2009 and a grant of tenure rights with effective grant date of 29 April 2010 as detailed in the Remuneration Report.

On 29 April 2012, tranche 3 of Mr Thompson's performance options and tenure rights granted on 29 April 2009 and tranche 2 of Mr Thompson's tenure rights granted on 29 April 2010 vested. Tranche 3 of the performance options granted on 29 April 2009 were cancelled prior to the vesting date of 29 April 2012. There were no changes to the tenure rights other than the vesting and conversion of 63,637 Tranche 3 tenure rights from the 29 April 2009 grant and 72,786 Tranche 2 tenure rights from the 29 April 2010 grant to 63,637 and 72,786 ordinary shares respectively following the vesting on 29 April 2012. Tranche 3 of the 29 April 2010 grant has been forfeited as a result of Mr Thompson's resignation as CEO effective 31 August 2012.

Practice Enhancement Fund (PEF)

The Group's Practice Enhancement Fund is a notional pool of un-issued shares similar to options. A notional amount equivalent to 7.5% of the assessed fair value of individual ophthalmic practice acquisitions is set aside in the Practice Enhancement Fund at the date of each acquisition. This amount is quantified as a number of notional shares, based on the market price of the Group's shares at the time the acquisition is settled.

26. Share based payments (continued)

Issues from the Practice Enhancement Fund are made at the discretion of the Board to promote the long term success of the Group. The Practice Enhancement Fund serves two primary purposes, firstly to attract, maintain, retain and increase the equity participation of certain Doctors, Associates and Visiting Surgeons and secondly under the terms of its employee share scheme.

In prior years certain employees and doctors have been invited to subscribe for shares from the Practice Enhancement Fund.

The final 560,061 outstanding non-voting shares issued under this plan were bought back and cancelled at the Company’s Annual General Meeting on 28 October 2011. At 30 June 2012 all shares issued under this scheme have been bought back and cancelled. There were no grants of un-issued shares during the year ended 30 June 2012 (2011: nil).

Performance options and tenure rights granted FY 2012

There were no performance options or tenure rights granted during the year ended 30 June 2012 (2011: nil).

27. Significant events after balance sheet date

On 28 August 2012, an Amendment and Restatement Deed was executed amending the existing debt facility with Westpac and ANZ. Key terms include:

- A two year extension of the facility term until 30 September 2014;
- A reduction in the facility limit to $80,000,000 on 30 September 2012; and
- Principal repayment of $10,000,000 per year.

Mr G Thompson has resigned as CEO and Managing Director of the Group with effect from 31 August 2012 and the Company has announced the appointment of Mr B Coverdale as CEO and Managing Director and Ms A McGrath as CFO from 1 September 2012.

Dr Michael Wooldridge was appointed a director on 1 July 2012.

28. Parent entity information

Information relating to the parent entity, Vision Eye Institute Limited:	**2012 $'000**	**2011 $'000**
Current assets	111,365	113,566
Non-current assets	12,641	36,051
Total assets	124,006	149,617
Current liabilities	89,454	102,731
Total liabilities	89,454	102,731
Issued capital	93,557	93,557
Accumulated losses	(60,126)	(49,174)
Share based payment reserve	1,121	2,503
Total shareholders' equity	**34,552**	**46,886**
Loss of the parent entity	(8,601)	(23,962)
Total comprehensive loss of the parent entity	(8,601)	(23,962)

Refer Note 29 for details of the Deed of Cross Guarantee entered by Vision Eye Institute Limited and all of its subsidiaries. Refer Note 22 for details of contingent liabilities of the parent entity.

The parent entity has contractual lease commitments at reporting date for the acquisition of property, plant and equipment, refer to Note 21 for details.

29. Controlled entities

a) Investment in subsidiaries

The consolidated financial statements include the financial statements of Vision Eye Institute Limited and all its subsidiaries as listed in the following table. All subsidiaries are incorporated in Australia.

	Percentage of equity held by consolidated entity	
	2012	**2011**
	%	**%**
VEI Services Pty Ltd (formerly Vision Group Pty Ltd)	100%	100%
Victorian Optical Supplies Pty Ltd	100%	100%
Macquarie Eye Centre Pty Ltd	100%	100%
Sydney Eastern Eye Centre Pty Ltd	100%	100%
Vision Group Gold Coast Pty Ltd	100%	100%
Total Vision Solutions Pty Ltd	100%	100%
Vision Group North QLD Pty Ltd	100%	100%
The Eye Institute Pty Ltd	100%	100%
Swordfish Nominees Pty Ltd	100%	100%
P H Hughes Pty Ltd	100%	100%
Lee Lenton Medical Pty Ltd	100%	100%
The Laservision Centre Pty Ltd	100%	100%
Crystal Clear Nominees Pty Ltd	100%	100%
The Eye Centre Pty Ltd	100%	100%
Outlook Day Theatre Pty Ltd	100%	100%
Icon Laser (Aust) Pty Ltd	100%	100%
J A Noble Pty Ltd	100%	100%
Colin C.K. Chan Pty Ltd	100%	100%
Retina Specialists Pty Ltd	100%	100%
Dr Andre Horak Pty Ltd	100%	100%
Dr Ed Boets Pty Ltd	100%	100%
Dr L Levitz Pty Ltd	100%	100%
Mackay Eye Centre Pty Ltd (formerly Mackay Day Surgery Pty Ltd)	100%	100%
John Glastonbury Pty Ltd *	-	100%
Vision ODT No. 1 Pty Ltd *	-	100%
Vision ODT No. 2 Pty Ltd *	-	100%
Vision ODT No. 3 Pty Ltd *	-	100%
Vision ODT No. 4 Pty Ltd *	-	100%
The Eye Centre (Gold Coast) Pty Ltd *	-	100%

*Entity was deregistered on 21 August 2011.

29. Controlled entities (continued)

b) Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418, relief has been granted to all subsidiaries outlined above from the Corporations Act 2001 requirements for the preparation, audit and lodgement of their financial reports (with exception of Dr L Levitz Pty Ltd). As a condition of the Class Order, Vision Eye Institute Limited and subsidiaries (the Closed Group) entered into a Deed of Cross Guarantee. The effect of the deed is that Vision Eye Institute Limited has guaranteed to pay any deficiency in the event of winding up of a controlled entity or if they do not meet their obligations under the terms of loans, leases or other liabilities subject to guarantee. The controlled entities have also given a similar guarantee in the event that Vision Eye Institute Limited is wound up or if it does not meet its obligations under the terms of loans, leases or other liabilities subject to the guarantee.

A Closed Group statement of financial performance and financial position has not been prepared as the Closed Group is the same as the consolidated entity as presented in this financial report.

In accordance with the resolution of the Directors of Vision Eye Institute Limited, I state that:

1. In the opinion of the Directors:

(a) The financial statements and notes and additional disclosures included in the Directors' report designated as audited, of the Company and of the consolidated entity are 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 2012 and the performance for the year ended on that date.

(ii) Complying with Accounting Standards and the Corporations Regulations 2001.

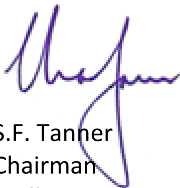
(b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a).

(c) There are reasonable grounds to believe that the Company will be able to pay its debts as when they become due and payable.

(d) At the date of this declaration there are reasonable grounds to believe that the members of the Closed Group identified in Note 29 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

On behalf of the board



S.F. Tanner
Chairman
Melbourne, 28 August 2012

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Independent Auditor's Report to the Members of Vision Eye Institute Limited

Report on the Financial Report

We have audited the accompanying financial report of Vision Eye Institute Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, 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 as set out on pages 27 to 73.

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 consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the 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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

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

Auditor's Independence Declaration

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 Vision Eye Institute 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 Vision Eye Institute 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 2012 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 consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 20 of the directors' report for the year ended 30 June 2012. 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 Vision Eye Institute Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants
Melbourne, 28 August 2012