

Virtus Health Pty Limited

(previously IVF Holdings Pty Limited)

ACN 129 643 492

Annual report for the year ended 30 June 2010

Virtus Health Pty Limited

Annual Financial Report – 30 June 2010

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Directors

Marcus Darville
Chair

Simon Pither

Sue Channon

John McBain

Caroline Mulcahy (resigned 4 January 2010)

Manuela Toledo

Michael Chapman (Alternate Director with effect from 27 October 2010)

Frank Quinn

David Molloy (appointed 1 October 2009)

John Moller (appointed 1 October 2009)

Keith Harrison (appointed 1 October 2009, Alternate Director with effect from 27 October 2010)

John Esler (appointed 1 October 2009)

Andrew Othen (appointed 24 February 2010)

Secretary

Glenn Powers

Principal registered office in Australia

Level 3, 176 Pacific Highway
Greenwich, NSW 2065

Auditor

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney, NSW 1171

Solicitors

Minter Ellison
Aurora Place
88 Phillip Street,
Sydney, NSW 2000

Bankers

Australia and New Zealand Banking Group Limited
Level 15, 20 Martin Place
Sydney, NSW 2000

BOS International (Australia) Limited
Level 27, 45 Clarence Street
Sydney, NSW 2000

Westpac Banking Corporation
Level 3, 275 Kent Street
Sydney, NSW 2000

National Australia Bank Limited
Level 17, NAB House, 255 George Street
Sydney NSW 2000

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Virtus Health Pty Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

Directors

The following persons were directors of Virtus Health Pty Limited during the whole of the financial year and up to the date of this report:

Marcus Darville
Sue Channon
Michael Chapman
Frank Quinn
Simon Pither
Manuela Toledo
John McBain

John Moller, John Esler, David Molloy and Keith Harrison were appointed as directors on 1 October 2009 and continue in office at the date of this report. Caroline Mulcahy resigned on 4 January 2010. Andrew Othen was appointed as a director on 24 February 2010 and continues in office at the date of this report.

Principal activities

During the year the principal continuing activities of the Group were the provision of fertility services, medical day procedure services and medical diagnostic services. There were no significant changes in the nature of these activities during the period.

Dividends – Virtus Health Pty Limited

No dividends have been paid or declared since the end of the previous financial year. The directors do not recommend the declaration of a dividend.

Review of operations

The Group continued to engage in its principal activities, the results of which are disclosed in the attached financial statements.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

Acquisition of the Queensland Fertility Group

On 1 October 2009 Virtus Health Pty Limited, through its wholly owned subsidiary IVF Finance Pty Limited, has acquired all of the issued shares in Queensland Fertility Group, for share consideration of \$18.9 million, cash consideration of \$54.2 million and directly attributable costs of \$0.9 million including vendor costs. Additionally, a cash earn-out of \$7.5 million is expected to be paid in April 2011 based on the achievement of a Queensland Fertility Group EBITDA target for the year ending 30 September 2010. Shares in Virtus Health Pty Ltd will be issued to the vendors and shareholders who participated in a subscription for new shares on 1 October 2009 at zero issue price subject to the relative performance of Queensland Fertility Group and Virtus Health for the year ending 30 September 2010. The number of shares issued in December 2010 was 3,878,583. This equity issue to vendors has been valued at \$0.6 million at date of acquisition, and included as part of the consideration for the business. The equity issue to the shareholders has been valued at \$0.5 million and reflected as a dilution of the shareholdings within the contributed equity reserve at date of acquisition. As at 30 June 2010, the value of the equity issue was estimated at an additional \$5.4 million and expensed in the Statement of Comprehensive Income as contingent consideration expense for the vendors and an additional \$4.0 million share issue expense for the shareholders. Any variation in the contingent consideration and share issue expense estimated in the year ending 30 June 2010, will be adjusted in the Statement of Comprehensive Income for the year ending 30 June 2011.

On 30 September 2009, the Group re-financed debt of \$95.2 million to \$126.2 million to fund the cash component of the acquisition.

Matters subsequent to the end of the financial year

Acquisition of City West Day Surgery Pty Limited

On 1 December 2010, IVF Australia Pty Limited, a subsidiary of Virtus Health Pty Limited acquired a 50% equity interest in City West Day Surgery Pty Limited, a provider of surgical services in Sydney, for cash consideration of \$1.40 million. Further consideration not exceeding \$92,000 may be payable, under a milestone provision covering the 7 months ending 30 June 2011. The acquisition was funded by a drawdown from the Group capital expenditure facility.

Acquisition of a New South Wales IVF Group

The Group's subsidiary IVF Australia Pty Limited, has agreed to buy the entire share capital and units of a New South Wales based IVF Group for a consideration of \$10.45 million to be paid in cash and the issue of ordinary shares in Virtus Health Pty Limited. The cash element of the acquisition will be funded by a drawdown from a new Group capital expenditure facility. The expected completion date of the acquisition is 28 February 2011.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or

- (b) the results of those operations in future financial years, or
(c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Shares under option

Unissued ordinary shares of Virtus Health Pty Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Option price	Number under option
10 April 2008*	16 February 2015	\$1.64	60,976
10 April 2008*	1 January 2016	\$3.15	193,496
10 April 2008*	14 February 2017	\$3.15	216,075
10 April 2008*	1 January 2018	\$3.26	238,100
10 April 2008	10 April 2018	\$2.98	11,000
10 April 2008	10 April 2018	\$2.53	1,550,000
10 April 2008	10 April 2018	\$0.01	403,536
12 November 2008	12 November 2018	\$4.12	312,527
20 November 2008	20 November 2018	\$0.00	272,470
25 February 2009	25 February 2019	\$4.12	41,000
01 July 2009	01 July 2019	\$3.11	450,000
01 October 2009	01 October 2019	\$3.11	241,491
01 July 2010	01 July 2020	\$4.71	327,389
01 September 2010	01 September 2020	\$4.71	106,157
			<u>4,424,217</u>

*These options were issued to replace options previously held in IVF Australia Pty Limited following the acquisition of IVF Sub-Holdings Pty Limited by Virtus Health Pty Limited.

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Insurance of officers

During the financial year, Virtus Health Pty Limited paid a premium of \$20,704 to insure the directors and secretaries of the company and its Australian based controlled entities, and the managing directors of each of the divisions of the Group.

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

Proceedings on behalf of the company

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

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The company may decide to employ the auditor (PricewaterhouseCoopers) on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	Consolidated		Parent	
	2010	2009	2010	2009
	\$	\$	\$	\$
Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports	<u>235,000</u>	<u>239,302</u>	<u>66,000</u>	<u>100,000</u>
Total remuneration for audit services	<u>235,000</u>	<u>239,302</u>	<u>66,000</u>	<u>100,000</u>
Non-audit services				
<i>Taxation services</i>				
PricewaterhouseCoopers Australian firm				
Tax compliance services	117,000	104,400	-	-
Tax advice on mergers and acquisitions	-	43,500	-	-
Other tax services	<u>8,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total remuneration for taxation services	<u>125,000</u>	<u>147,900</u>	<u>-</u>	<u>-</u>
<i>Other services</i>				
PricewaterhouseCoopers Australian firm				
Accounting services	<u>215,340</u>	<u>83,000</u>	<u>-</u>	<u>18,000</u>
Total remuneration for non-audit services	<u>340,340</u>	<u>230,900</u>	<u>-</u>	<u>18,000</u>

In the 2009 financial year fees of \$204,000 were paid by Virtus Health Pty Limited to PricewaterhouseCoopers on behalf of the vendors of Melbourne IVF Pty Limited for due diligence services.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

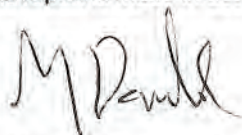
Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers was appointed auditors on 18 March 2010. PricewaterhouseCoopers will continue in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.



Marcus Darville

Director

Sydney 23 February 2011

PricewaterhouseCoopers
ABN 52 780 433 757

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201 Sussex Street
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Auditor's Independence Declaration

As lead auditor for the audit of Virtus Health Pty Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Virtus Health Pty Limited and the entities it controlled during the period.



MW Chiang

Partner
PricewaterhouseCoopers

Sydney
23 February 2011

Virtus Health Pty Limited ACN 129 643 492
Annual Financial Report – 30 June 2010

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This financial report covers both the separate financial statements of Virtus Health Pty Limited as an individual entity and the consolidated financial statements for the consolidated entity consisting of Virtus Health Pty Limited and its subsidiaries. The financial report is presented in Australian currency.

Virtus Health Pty Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Virtus Health Pty Limited
Level 3
176 Pacific Highway
Greenwich NSW 2065

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations in the directors' report on pages 3-5, which is not part of this financial report.

The financial report was authorised for issue by the directors on 23 February 2011. The directors have the power to amend and reissue the financial report.

Virtus Health Pty Limited
Statements of Comprehensive Income
For the year ended 30 June 2010

	Notes	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue from continuing operations	4	116,969	68,328	9	2
Other income	5	314	337	391	400
Cost of services		(33,374)	(18,332)	-	-
Occupancy expenses		(5,911)	(4,387)	(10)	-
Employee benefits expense		(34,669)	(19,241)	(657)	(406)
Advertising & marketing		(1,035)	(705)	(5)	(45)
Practice equipment expenses		(624)	(297)	-	-
Depreciation and amortisation expenses	6	(6,376)	(3,249)	(4)	-
Finance costs	6	(18,019)	(13,834)	(50)	-
Professional and consulting fees		(1,856)	(1,492)	(424)	(479)
Contingent equity consideration expense		(5,367)	-	(5,367)	-
Additional share issue expense		(3,963)	-	(3,963)	-
Other expenses		(4,557)	(2,956)	(66)	(326)
Share of net profits of joint venture accounted for using the equity method	34	703	366	-	-
Profit/(loss) before income tax		2,235	4,538	(10,146)	(854)
Income tax (expense)/benefit	7	(3,879)	(1,766)	244	3,526
Profit/(loss) for the year		(1,644)	2,772	(9,902)	2,672
Profit/(loss) is attributable to:					
Equity holders of Virtus Health Pty Limited		(1,644)	2,772	(9,902)	2,672
Other comprehensive income		-	-	-	-
Total comprehensive income/ (loss) for the year, net of tax attributable to the parent		(1,644)	2,772	(9,902)	2,672

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

Virtus Health Pty Limited
Balance Sheets
As at 30 June 2010

		CONSOLIDATED		PARENT	
	Notes	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	8,781	8,988	101	-
Trade and other receivables	9	4,786	2,738	468	258
Inventories	10	124	136	-	-
Current tax receivables		-	1,365	-	-
Other financial assets	11	113	-	-	-
TOTAL CURRENT ASSETS		13,804	13,227	569	258
NON CURRENT ASSETS					
Investments accounted for using the equity method	12	2,425	2,425	-	-
Other financial assets	13	123	538	171,205	136,446
Derivative financial instruments	14	195	349	-	-
Property, plant and equipment	15	17,756	12,978	-	-
Deferred tax assets	16	884	101	74	76
Intangible assets	17	302,075	225,034	27	-
TOTAL NON CURRENT ASSETS		323,458	241,425	171,306	136,522
TOTAL ASSETS		337,262	254,652	171,875	136,780
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	18	18,074	7,381	5,364	1,137
Deferred revenue		6,337	5,270	-	-
Borrowings	19	9,636	6,930	-	27
Current tax liabilities		1,912	-	1,912	217
Provisions	20	896	327	-	-
Other financial liabilities	21	10,414	-	10,414	-
TOTAL CURRENT LIABILITIES		47,269	19,908	17,690	1,381
NON CURRENT LIABILITIES					
Borrowings	22	109,665	87,632	-	-
Derivative financial instruments	14	3,314	2,763	-	-
Provisions	24	2,447	1,384	-	-
TOTAL NON CURRENT LIABILITIES		115,426	91,779	-	-
TOTAL LIABILITIES		162,695	111,687	17,690	1,381
NET ASSETS		174,567	142,965	154,185	135,399
EQUITY					
Equity attributable to equity holder of parent					
Contributed equity	25	170,360	137,776	170,360	137,776
Reserves	26	2,287	1,625	(9,283)	(5,387)
Retained earnings	26	1,920	3,564	(6,892)	3,010
TOTAL EQUITY		174,567	142,965	154,185	135,399

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

Virtus Health Pty Limited
Statements of Changes in Equity
For the year ended 30 June 2010

Consolidated	Notes	Attributable to the equity holders of the parent				Total \$'000
		Contributed Equity \$'000	Tax Consolidation Reserve \$'000	Share Based Payment Reserve \$'000	Retained Earnings \$'000	
As at 1 July 2009		137,776	-	1,625	3,564	142,965
Profit for the period		-	-	-	(1,644)	(1,644)
Other comprehensive income		-	-	-	-	-
Total comprehensive income		137,776	-	1,625	1,920	141,321
Transactions with owners in their capacity as owners:						
Equity issued for acquisition consideration	25, 32	18,910	-	-	-	18,910
Subscription for new shares	25	13,005	-	-	-	13,005
Issued to employees	25	669	-	(169)	-	500
Employee share options – value of employee services	36	-	-	831	-	831
Balance at 30 June 2010		170,360	-	2,287	1,920	174,567

Consolidated		Attributable to the equity holders of the parent				Total \$'000
		Contributed Equity \$'000	Tax Consolidation Reserve \$'000	Share Based Payment Reserve \$'000	Retained Earnings \$'000	
As at 1 July 2008		50,712	-	361	792	51,865
Profit for the period		-	-	-	2,772	2,772
Other comprehensive income		-	-	-	-	-
Total comprehensive income		50,712	-	361	3,564	54,637
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs		-	-	-	-	-
Equity issued for acquisition consideration	25, 32	40,029	-	-	-	40,029
Subscription for new shares	25	47,035	-	-	-	47,035
Employee share options – value of employee services	36	-	-	1,264	-	1,264
Balance at 30 June 2009		137,776	-	1,625	3,564	142,965

Parent		Attributable to the equity holders of the parent				Total \$'000
		Contributed Equity \$'000	Tax Consolidation Reserve \$'000	Share Based Payment Reserve \$'000	Retained Earnings \$'000	
As at 1 July 2009		137,776	(6,865)	1,478	3,010	135,399
Profit for the period		-	-	-	(9,902)	(9,902)
Other comprehensive income		-	-	-	-	-
Total comprehensive income		137,776	(6,865)	1,478	(6,892)	125,497
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs		-	-	-	-	-
Equity issued for acquisition consideration	25, 32	18,910	-	-	-	18,910
Subscription for new shares	25	13,005	-	-	-	13,005
Issued to employees	25	669	-	600	-	1,269
Employee share options – value of employee services	36	-	-	61	-	61
Current tax liabilities assumed from subsidiaries	26	-	(4,671)	-	-	(4,671)
Unused tax losses transferred from subsidiaries	26	-	114	-	-	114
Balance at 30 June 2010		170,360	(11,422)	2,139	(6,892)	154,185

Parent		Attributable to the equity holders of the parent				Total \$'000
		Contributed Equity \$'000	Tax Consolidation Reserve \$'000	Share Based Payment Reserve \$'000	Retained Earnings \$'000	
As at 1 July 2008		50,712	(521)	213	338	50,742
Profit for the period		-	-	-	2,672	2,672
Other comprehensive income		-	-	-	-	-
Total comprehensive income		50,712	(521)	213	3,010	53,414
Transactions with owners in their capacity as owners:						
Equity issued for acquisition consideration	25, 32	40,029	-	-	-	40,029
Subscription for new shares	25	47,035	-	-	-	47,035
Employee share options – value of employee services	36	-	-	1,265	-	1,265
Current tax liabilities assumed from subsidiaries	26	-	(6,458)	-	-	(6,458)
Unused tax losses transferred from subsidiaries	26	-	114	-	-	114
Balance at 30 June 2009		137,776	(6,865)	1,478	3,010	135,399

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

Virtus Health Pty Limited
Statements of Cash Flows
For the year ended 30 June 2010

	Notes	CONSOLIDATED		PARENT	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash Flows from Operating Activities					
Receipts from customers (inclusive of GST)		115,140	75,295	234	414
Payments to suppliers and employees (inclusive of GST)		(74,559)	(48,485)	517	(1,146)
Other revenue		314	337	-	47
Finance costs paid		(13,313)	(8,333)	(50)	-
Income tax paid		(2,372)	(4,696)	(2,372)	-
Net cash inflow/(outflow) from operating activities	37	25,210	14,118	(1,672)	(685)
Cash Flows from Investing Activities					
Payment for purchase of controlled entity, net of cash acquired		(50,558)	(84,477)	-	-
Purchase of property, plant, equipment and intangibles	15, 17, 37	(8,022)	(3,039)	(31)	-
Loans to related parties		-	-	(11,643)	(46,352)
Joint venture distribution received		763	525	-	-
Interest received	4	310	222	9	2
Earn out of QFG		-	-	-	-
Net cash inflow/(outflow) from investing activities		(57,507)	(86,769)	(11,665)	(46,350)
Cash Flows from Financing Activities					
Proceeds from issue of shares and other equity securities	25	13,465	47,035	13,465	47,035
Repayment of borrowings		(12,544)	(58,652)	(27)	-
Proceeds from borrowings		34,702	95,245	-	-
Payments for finance facility		(2,718)	(3,381)	-	-
Payments for finance lease facility		(815)	(1,705)	-	-
Net cash inflow/(outflow) from financing activities		32,090	78,542	13,438	47,035
Net decrease in cash and cash equivalents		(207)	5,891	101	-
Cash and cash equivalents at the beginning of the financial year		8,988	3,097	-	-
Cash and cash equivalents at end of year		8,781	8,988	101	-

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

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Virtus Health Pty Limited as an individual entity and the consolidated entity consisting of Virtus Health Pty Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

(i) Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Virtus Health Pty Limited complies with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(iii) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

(iv) Going concern

At 30 June 2010 the consolidated entity had a current net asset deficiency of \$33.47 million (2009: \$6.68 million) arising primarily from its deferred revenue receipts of \$6.34 million (2009: \$5.27 million), and short term borrowings of \$9.64 million (2009: \$6.93 million). These deficiencies are a normal feature of the consolidated entity's activities and the deferred revenue is normally recognised within six weeks of receipt. Additionally, there is a current non-recurring commitment to pay the vendors of Queensland Fertility Group Pty Ltd \$7.5 million as settlement of the earn-out described in the Directors' Report and a share issue in Virtus Health Pty Limited to the vendors and the shareholders who participated in the subscription for new shares valued at \$10.4 million.

Having reviewed and considered the expected cash flow and the working capital, capital expenditure and loan facilities available to the consolidated entity which were renegotiated and increased in October 2009 (see note 22), the directors and management have formed the view that the consolidated entity will continue as a going concern for a period of at least 12 months from the date of this report and consequently will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report for the Consolidated Entity and Parent Entity has therefore been prepared on a going concern basis.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Virtus Health Pty Limited ("company" or "parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Virtus Health Pty Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Virtus Health Pty Limited. Such investments include both investments in shares issued by the subsidiary and in some circumstances other parent entity interests that in substance form part of the parent entity's interest in the subsidiary. These include investments in the form of interest-free loans which have no fixed repayment terms and which have been provided to subsidiaries as an additional source of long term capital. Trade amounts receivable from subsidiaries in the normal course of business and other amounts advanced on commercial terms and conditions are included in receivables.

(ii) Joint ventures

The interest in a joint venture is accounted for in the consolidated financial statements using the equity method and is carried at cost by the parent entity. Under the equity method, the share of the profits or losses of the joint venture is recognised in the income statement, and the share of movements in reserves is recognised in reserves in the balance sheet. Details relating to the joint ventures are set out in note 34.

Profits or losses on transactions establishing the joint ventures and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(c) Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. The Company recognises revenue when the amount of revenue can be reliably measured and it is probable that the future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Rendering of services

Revenue from the rendering of services is recognised upon the delivery of the service to a patient or customer. Revenue is recognised on completion of a medical procedure, on supply of drugs, or on completion of an analytical test. If payments received from patients exceed the revenue recognised the difference is disclosed as deferred revenue.

(ii) Lease income

Lease income from property sub-leases is recognised as income on a straight-line basis over the lease term.

(iii) Interest income

Interest income is recognised on a time apportioned basis using the effective interest method.

(iv) Deferred revenue

Fees for fertility treatment cycles paid in advance are recognised as deferred revenue until the service has been provided whereupon the fees are recognised as revenue.

(d) Sponsorship

Sponsorship grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(f) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 30). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 30). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(g) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly as a cost of investment.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(o)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within 'other expenses'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(k) Inventories

Inventory comprises medical supplies used in the fertility procedures performed in the Group's fertility clinics. Inventories are valued at the lower of cost and net realisable value.

(l) Investments and other financial assets

(i) Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, reevaluates this designation at each reporting date.

(ii) Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade date; the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement of gains and losses from investment securities.

(iii) Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired.

If any such evidence exists for available for sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available for sale are not reversed through the income statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Derivatives and hedging activities

Derivatives are measured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges), or
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The change in fair value of various derivative financial instruments used for hedging purposes is disclosed in note 14.

The Group has decided not to adopt hedge accounting. Changes in the fair value of any fair value financial instrument are recognised immediately in the income statement and are included in finance costs.

(n) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced asset is derecognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost amounts, net of their residual values, over their estimated useful lives, as follows:

- Leasehold Improvements	Over the life of the lease
- Medical Equipment	2 to 8 years
- Office Equipment	2 to 5 years
- Furniture, fittings	2 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

(o) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of those cash generating units represents the Group's investment in each primary reporting segment.

(ii) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from 1 to 2.5 years.

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

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within agreed credit terms.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses. Any unamortised transaction costs relating to the extinguished obligation are taken to the income statement upon extinguishment of the obligation.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions

Provisions for legal claims and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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 due to the passage of time is recognised as interest expense.

(s) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(iii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iv) Share based payments

Share based compensation benefits are provided to employees via the Group's share option plans. Information relating to these schemes is set out in note 36.

The fair value of options granted under the plans is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(iv) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(t) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(u) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(v) Goods and Services Tax (GST)

Revenues (where applicable), expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(w) Tax consolidation legislation

Virtus Health Pty Limited and its wholly-owned subsidiaries have formed a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Virtus Health Pty Limited.

The head entity Virtus Health Pty Limited and the wholly-owned subsidiaries in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone tax payer in its own right. In addition to its own current and deferred tax amounts, Virtus Health Pty 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.

The group intends to enter a tax funding arrangement in the future. Under tax funding arrangements assets or liabilities arising with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. In the absence of a tax funding arrangement assets and liabilities arising are recognised as a contribution by (or distribution to) equity participants between the company and the head entity.

Any difference between the amounts assumed and amounts receivable or payable with the tax consolidated entities are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities, and are reflected in the Tax Consolidation Reserve in equity.

(x) Rounding of amounts

The company is of a kind referred to in Class order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting period. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) **Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (effective 1 July 2009)**

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed. This is different to the Group's current policy which is set out in note 1(g) above.

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses, see note 1(b)(i). The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. Under the Group's current accounting policy, the retained interest in the carrying amount of the former subsidiary's assets and liabilities becomes the cost of investment. If the investment is accounted for as an available-for-sale financial asset, it is subsequently revalued to fair value; however, any revaluation gain or loss is recognised in the available-for-sale investments revaluation reserve. The Group will apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 July 2010.

The Group has unrecognised acquired deferred tax assets in relation to a number of subsidiaries amounting to \$100,000, for which the measurement period of the acquisition has expired. Should these tax assets become recognisable after the revised standards are applied, there will no longer be any adjustment to goodwill, as is the case under the current rules. This means that the recognition of the deferred tax assets will increase the Group's net profit after tax.

(ii) **AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective 1 July 2009)**

The amendments to AASB 5 *Discontinued Operations* and AASB 1 *First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards* are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The Group will apply the amendments prospectively to all partial disposals of subsidiaries from 1 July 2010.

(iii) **AASB 2008-8 Amendment to Australian Accounting Standards - Eligible Hedged Items (effective 1 July 2009)**

AASB 2008-8 amends AASB 139 *Financial Instruments: Recognition and Measurement* and must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Group will apply the amended standard from 1 July 2010. It is not expected to have a material impact on the Group's financial statements.

(iv) **AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual periods beginning on or after 1 July 2009)**

The AASB has made amendments to AASB 2 *Share-based payment*, AASB 138 *Intangible Assets* and AASB Interpretations 9 *Reassessment of Embedded Derivatives* and 16 *Hedges of a Net Investment in a Foreign Operation* as a result to the IASB's annual improvements project. The Group will apply the amendments from 1 July 2010. The Group does not expect that any adjustments will be necessary as a result of applying the revised rules. **AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project** (effective for annual periods beginning on or after 1 January 2010) In May 2009, the AASB issued a number of improvements to existing Australian Accounting Standards. The Group will apply the revised standards from 1 July 2010. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

(v) **AASB 2009-8 Amendments to Australian Accounting Standards - Group Cash-Settled Share-based Payment Transactions [AASB 2] (effective for annual periods commencing on or after 1 January 2010)**

The amendments made by the AASB to confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as equity- or a cash-settled transaction. However, as the amendments only affect the accounting in the individual entities there will be no impact on the financial statements of the Group.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(vi) AASB 2009-10 Amendments to Australian Accounting Standards - Classification of Rights Issues [AASB 132] (effective for annual reporting periods beginning on or after 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting policies*. The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's or the parent entity's financial statements.

(vii) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective for annual reporting periods beginning on or after 1 January 2013)

AASB 9 addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 and the group is yet to assess its full impact. However, initial indications are that the impact on the Group will be negligible as the Group does not hold significant value of Financial Assets. The group has not yet decided when to adopt AASB 9.

(viii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2010. It is not expected to have any effect on the Group's or the parent entity's related party disclosures.

(ix) AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. The group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the group or the parent entity's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the group has not entered into any debt for equity swaps since that date.

(x) AASB 2009-14 Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement (effective 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The group does not have any defined benefit schemes. The amendment will not be expected to have any impact on the group's financial statements.

(xi) Improvements to IFRSs (effective for annual periods beginning on or after 1 July 2010/1 January 2011)

In May 2010, the IASB made a number of amendments to the International Financial Reporting Standards as part of its ongoing improvements project. The AASB is expected to make equivalent amendments to the Australian accounting standards shortly. The group will apply the amendments from 1 July 2010. The group does not expect that any adjustments will be necessary as the result of applying the revised rules.

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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 cash generating units, based on value-in-use calculations, to which the goodwill is allocated. The assumptions made in these calculations and the potential impact of changes to these assumptions, are discussed in Note 17.

Share based payment transactions

The Group measures the cost of equity settled transactions with employees by reference to the fair value of equity instruments at the date they were granted. The fair value is determined by an external valuer using a binominal pricing model, taking into account the terms and conditions upon which the options were granted, as discussed in Note 36.

Provisional accounting of business combinations

The Group provisionally accounts for certain business combinations where it is in the process of ascertaining the fair value of identifiable assets, liability and contingent liabilities acquired. In doing so, the Group has relied on the best estimate of the identifiable assets, liabilities and contingent liabilities, as disclosed in Note 32, until the quantification and treatment of items under review is complete.

The Group has measured the value of the shares in Virtus Health Pty Ltd that will be issued to the vendors and shareholders who participated in a subscription for new shares on 1 October 2009. The value has been determined by estimating the EBITDA of the Queensland Fertility Group for the year ending 30 September 2010. Any variation in the contingent consideration and share issue expense estimated in the year ending 30 June 2010, will be adjusted in the Statement of Comprehensive Income for the year ending 30 June 2011 as disclosed in Note 35.

As the equity issue has been capped to 14% shareholding, the potential liability can not exceed an additional \$1,092,937 in expenses to be incurred in the year ending 30 June 2011.

NOTE 3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, ie not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk and aging analysis for credit risk.

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to:

- o Meet all its financial commitments as and when they fall due; and
- o Maintain the capacity to fund acquisitions and technological upgrades.

The Group and the parent entity hold the following financial instruments:

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Financial assets				
Cash and cash equivalents	8,781	8,988	101	-
Trade and other receivables	4,786	2,738	468	258
Other financial assets	236	538	-	-
Derivative financial instruments	195	349	-	-
Investments	2,425	2,425	-	-
Loans to subsidiaries	-	-	171,205	136,446
	<u>16,423</u>	<u>15,038</u>	<u>171,774</u>	<u>136,704</u>
Financial liabilities				
Trade and other payables	18,074	7,381	5,364	1,137
Deferred revenue	6,337	5,270	-	-
Borrowings/Interest bearing liabilities	119,301	94,562	-	27
Derivative financial instruments	3,314	2,763	-	-
Other financial liability	10,414	-	10,414	-
	<u>157,440</u>	<u>109,976</u>	<u>15,778</u>	<u>1,164</u>

The Group's policies for managing financial risks are outlined below:

(a) Market risk

(i) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value. Group policy is to maintain approximately 75% of its borrowings at fixed rate using interest rate swaps and caps to achieve this when necessary.

As at the reporting date, the Group had the following variable rate borrowings and interest rate swap and cap contracts outstanding:

	30 June 2010		30 June 2009	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank overdrafts and bank loans	9.80%	119,974	6.54%	95,245
Interest rate cap	7.86%	(10,395)	7.86%	(11,880)
Interest rate swaps (notional principal amount)	6.19%	(86,757)	6.24%	(60,035)
Net exposure to cash flow interest rate risk		<u>22,822</u>		<u>23,330</u>

An analysis by maturities is provided in (c) below.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps and interest rate caps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The interest rate caps limit the maximum interest rate on a nominated amount of the facility.

Group sensitivity

At 30 June 2010, if interest rates had changed by +/-100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been \$19,000 lower/higher (2009 - change of 100bps: \$195,000 lower/higher), mainly as a result of higher/lower interest expense on bank loans.

Parent entity sensitivity

The parent entity has no exposure to interest rate risk.

NOTE 3. FINANCIAL RISK MANAGEMENT (continued)

Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk.

30 June 2010	Carrying Amount \$'000	Interest Rate Risk			
		- 100 bps Profit / (loss) \$'000	Other Equity \$'000	+ 100 bps Profit / (loss) \$'000	Other Equity \$'000
Financial assets					
Cash and cash equivalents	8,781	(61)	-	61	-
Trade and other receivables	4,786	-	-	-	-
Other financial assets	236	(2)	-	2	-
Derivative financial instruments	195	-	-	-	-
Investments	2,425	-	-	-	-
Financial liabilities					
Trade and other payables	18,074	-	-	-	-
Deferred revenue	6,337	-	-	-	-
Borrowings	117,725	824	-	(824)	-
Lease liabilities	1,576	11	-	(11)	-
Other financial liabilities	10,414	(73)	-	73	-
Derivative financial instruments	3,314	(680)	-	680	-
Total increase/ (decrease)		19	-	(19)	-

30 June 2009	Carrying Amount \$'000	Interest Rate Risk			
		- 100 bps Profit / (loss) \$'000	Other Equity \$'000	+ 100 bps Profit / (loss) \$'000	Other Equity \$'000
Financial assets					
Cash and cash equivalents	8,988	(63)	-	63	-
Trade and other receivables	2,738	-	-	-	-
Other financial assets	538	(4)	-	4	-
Derivative financial instruments	349	-	-	-	-
Investments	2,425	-	-	-	-
Financial liabilities					
Trade and other payables	7,381	-	-	-	-
Deferred revenue	5,270	-	-	-	-
Borrowings	95,245	667	-	(667)	-
Lease liabilities	2,182	15	-	(15)	-
Derivative financial instruments	2,763	(420)	-	420	-
Total increase/ (decrease)		195	-	(195)	-

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. The Group does not have any material exposure to any individual customer or counterparty, other than Medicare (Government body) and private health funds. There are no significant concentrations of credit risk within the Group.

Receivable balances and ageing analysis are monitored on an ongoing basis. In order to minimise the Group's exposure to bad debts, rigorously enforced processes are in place to send reminder notices, demands for repayments and ultimately to refer to debt collection agencies.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

The Group and the parent entity had access to the following undrawn borrowing facilities at the reporting date:

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Floating rate				
Expiring within one year (bank overdraft and bill facility)	-	-	-	-
Expiring beyond one year (bank loans)	13,459	10,000	-	-
	13,459	10,000	-	-

NOTE 3. FINANCIAL RISK MANAGEMENT (continued)

The Group has total facilities of \$15 million in the form of a capital expenditure facility of \$10 million and a working capital facility of \$5 million. As at the date of this report the drawdown on the capital expenditure facility is \$4,996,500. Drawdowns of \$1,861,164 in the form of financial guarantees have been made against the working capital facility. Subject to the continued compliance with debt covenants, the bank facilities may be drawn at any time and have an average maturity of 4 years (2009: 5 years).

Maturities of financial liabilities

The tables below analyse the Group's and the parent entity's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the reporting date

Contractual maturities of financial liabilities	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets) / liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2010							
Trade and other payables	18,074	-	-	-	-	18,074	18,074
Deferred revenue	6,337	-	-	-	-	6,337	6,337
Bank loans	4,750	5,000	14,000	111,224	-	134,974	117,725
Lease liabilities	393	238	516	528	155	1,830	1,576
Derivative financial instruments	-	-	-	3,314	-	3,314	3,314
Financial liabilities	29,554	5,238	14,516	115,066	155	164,529	147,026

Contractual maturities of financial liabilities	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets) / liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2009							
Trade and other payables	7,381	-	-	-	-	7,381	7,381
Deferred revenue	5,270	-	-	-	-	5,270	5,270
Bank loans	6,682	6,619	14,911	93,650	-	121,862	95,245
Lease liabilities	385	385	675	939	217	2,601	2,182
Derivative financial instruments	-	-	-	2,763	-	2,763	2,763
Financial liabilities	19,718	7,004	15,586	97,352	217	139,877	112,841

The parent entity's financial liabilities consist of trade and other payables of \$0.3 million at 30 June 2010 (\$0.3 million at 30 June 2009) which are due in less than 6 months.

(d) Fair value estimation

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

As of 1 July 2009, Virtus Health Pty Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables present the group's and the parent entity's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

NOTE 3. FINANCIAL RISK MANAGEMENT (continued)

Group at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivate financial instruments	-	195	-	195
Total Assets	-	195	-	195
Liabilities				
Other financial liability	-	-	10,414	10,414
Derivate financial instruments	-	3,314	-	3,314
Total Liabilities	-	3,314	10,414	3,314

Parent at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivate financial instruments	-	-	-	-
Total Assets	-	-	-	-
Liabilities				
Other financial liability	-	-	10,414	10,414
Derivate financial instruments	-	-	-	-
Total Liabilities	-	-	10,414	10,414

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

NOTE 4. REVENUE

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
From continuing operations				
Rendering of services	116,212	67,702	-	-
Rents and sub lease rentals	447	404	-	-
Interest	310	222	9	2
	116,969	68,328	9	2

NOTE 5. OTHER INCOME

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trial grants	124	265	-	-
Management fees	58	-	365	353
Expense recoveries	-	47	26	47
Other revenue	132	25	-	-
	314	337	391	400

NOTE 6. EXPENSES

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit before income tax includes the following specific expenses:				
Depreciation				
Leasehold improvements	1,693	1,172	-	-
Plant and equipment under finance leases	616	411	-	-
Medical equipment	799	644	-	-
Office equipment	280	162	-	-
Furniture and fittings	61	55	-	-
Total depreciation	3,449	2,444	-	-

NOTE 6. EXPENSES (continued)

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<i>Amortisation</i>				
Brand names	801	548	-	-
IT Development and software	2,126	257	4	-
Total amortisation	2,927	805	4	-
<i>Finance costs</i>				
Interest expense	11,244	7,581	-	-
Bank facility fees written off due to refinancing	2,696	2,485	-	-
Revaluation of interest rate swap (net)	705	2,414	-	-
Amortisation of bank facility fees	671	602	-	-
Finance charges payable under finance leases	162	146	-	-
Bank charges	1,345	606	50	-
Acquisition costs	1,196	-	-	-
Total finance costs	18,019	13,834	50	-
Total rental expense relating to operating leases	4,563	3,034	-	-
Share based payment expense	831	1,264	63	40
Inventory expense	3,155	1,158	-	-
Superannuation contributions	2,244	1,274	28	15
Research & development expense	1,710	782	-	-

NOTE 7. INCOME TAX EXPENSE

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
(a) Income tax expense				
Current tax	4,662	2,863	(246)	(3,483)
Deferred tax	(783)	(1,097)	2	(43)
	3,879	1,766	(244)	(3,526)
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 16)	(1,598)	(1,004)	2	(43)
(Decrease) increase in deferred tax liabilities (note 22)	815	(93)	-	-
	(783)	(1,097)	2	(43)
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	2,235	4,538	(10,146)	(854)
Tax at the Australian tax rate of 30% (2009 - 30%)	671	1,361	(3,044)	(256)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Adjustment for current tax of prior year	41	-	-	-
Amortisation of intangibles	240	165	-	-
Entertainment	13	13	5	1
Share-based payments	249	379	19	11
Research and development	(128)	-	-	-
Sundry items	(6)	(152)	(23)	-
Contingent consideration equity issue	2,799	-	2,799	-
	3,208	405	2,800	12
Losses transferred from group companies	-	-	-	(3,282)
Income tax expense/(benefit)	3,879	1,766	(244)	(3,526)

NOTE 8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash at bank and in hand	8,781	8,988	101	-
	<u>8,781</u>	<u>8,988</u>	<u>101</u>	<u>-</u>
(a) Reconciliation to cash at the end of the year				
Balance as above	8,781	8,988	101	-
Bank overdraft	-	-	-	-
Balance as per statement of cash flows	<u>8,781</u>	<u>8,988</u>	<u>101</u>	<u>-</u>

(b) Risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in note 3. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

NOTE 9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade receivables	3,569	2,169	-	-
Provision for impairment of receivables (note (a))	(339)	(61)	-	-
	<u>3,230</u>	<u>2,108</u>	<u>-</u>	<u>-</u>
Other receivable	947	407	34	-
Prepayments	609	223	20	24
Amounts due from related companies	-	-	414	234
	<u>4,786</u>	<u>2,738</u>	<u>468</u>	<u>258</u>

(a) Impaired trade receivables

As at 30 June 2010 current trade receivables of the Group with a nominal value of \$624,000 (2009 - \$122,000) were impaired. The amount of the provision was \$339,000 (2009 - \$61,000). There were no impaired trade receivables for the parent in 2009 or 2010.

The ageing of these receivables is as follows:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
1 to 3 months	6	-
3 to 6 months	371	38
Over 6 months	247	84
	<u>624</u>	<u>122</u>

Movements in the provision for impairment of receivables are as follows:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
At 1 July	61	230
Acquisition of subsidiary	86	40
Provision for impairment recognised during the year	619	50
Receivables written off during the year as uncollectible	(427)	(259)
	<u>339</u>	<u>61</u>

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Receivables that are past due but not impaired are as follows:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
1 to 3 months	753	45
	<u>753</u>	<u>45</u>

NOTE 10. CURRENT ASSETS - INVENTORIES

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Finished goods - at cost	124	136	-	-
	<u>124</u>	<u>136</u>	<u>-</u>	<u>-</u>

NOTE 11. CURRENT ASSETS - OTHER FINANCIAL ASSETS

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Security deposits	113	-	-	-
	113	-	-	-

NOTE 12. NON CURRENT ASSETS - INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Interest in joint ventures (note 34)	2,425	2,425	-	-
	2,425	2,425	-	-

NOTE 13. NON CURRENT ASSETS - OTHER FINANCIAL ASSETS

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Capital contribution for employee share option plans	-	-	2,090	1,322
Loans to subsidiaries	-	-	169,115	135,124
Security deposits	123	538	-	-
	123	538	171,205	136,446

These financial assets are carried at cost. Other investments in subsidiaries include parent entity interests in subsidiaries as described in Note 1(b).

NOTE 14. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Non-current assets				
Interest rate swaps - cash flow hedges ((a)(i))	195	349	-	-
Total non-current derivative financial instrument assets	195	349	-	-
Non-current liabilities				
Interest rate swap and cap contracts - cash flow hedges ((a)(i))	(3,314)	(2,763)	-	-
Total non-current derivative financial instrument liabilities	(3,314)	(2,763)	-	-

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies (refer to note 3).

(i) Interest rate swap and cap contracts - cash flow hedges

Bank loans of the Group at the 30 June 2010 attract interest at BBSY plus a margin of 3.25% - 5.25% (2009: 2.25% - 3.75%) depending on the leverage ratio of the group and bear an average variable interest rate of 9.80% (2009: 6.54%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates and an interest rate cap which limits the maximum interest rate payable on a loan to a pre-determined interest rate.

Interest rate swaps and the interest rate cap currently in place cover at least 75% (2009: 75%) of the loan principal outstanding and are timed to expire as each loan repayment falls due. The fixed interest rates range between 4.74% and 7.86% (2009: 4.74% - 7.86%) and the variable rates are set at the 90 day bank bill swap rate updated quarterly which at balance date was 4.50% (2009: 3.19%).

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments is recognised in the income statement. In the year ended 30 June 2010 a net loss of \$704,965 was recognised in Finance costs (2009: net loss of \$2,414,000).

(b) Risk exposures

Information about the Group's and the parent entity's exposure to credit and interest rate risk is provided in note 3. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of derivative financial assets mentioned above.

NOTE 15. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Medical Equipment \$'000	Office Equipment \$'000	Furniture and Fittings \$'000	Total \$'000
Year ended 30 June 2009						
Opening net book amount	6,753	-	1,517	516	182	8,968
Acquisition of subsidiary	3,116	1,990	189	42	9	5,346
Additions	112	-	878	115	3	1,108
Disposals	-	-	-	-	-	-
Depreciation charge	(1,172)	(411)	(644)	(162)	(55)	(2,444)
Closing net book amount	8,809	1,579	1,940	511	139	12,978
At 30 June 2009						
Cost or fair value	10,186	1,990	2,717	706	205	15,804
Accumulated depreciation	(1,377)	(411)	(777)	(195)	(66)	(2,826)
Net book amount	8,809	1,579	1,940	511	139	12,978
	Leasehold Improvements \$'000	Plant and Equipment \$'000	Medical Equipment \$'000	Office Equipment \$'000	Furniture and Fittings \$'000	Total \$'000
Year ended 30 June 2010						
Opening net book amount	8,809	1,579	1,940	511	139	12,978
Acquisition of subsidiary	1,449	-	1,013	273	44	2,779
Additions	3,994	-	1,130	293	31	5,448
Disposals	-	-	-	-	-	-
Depreciation charge	(1,693)	(616)	(799)	(280)	(61)	(3,449)
Closing net book amount	12,559	963	3,284	797	153	17,756
At 30 June 2010						
Cost or fair value	15,629	1,990	4,860	1,272	280	24,031
Accumulated depreciation	(3,070)	(1,027)	(1,576)	(475)	(127)	(6,275)
Net book amount	12,559	963	3,284	797	153	17,756

NOTE 16. NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
The balance comprises temporary differences attributable to:				
Employee benefits	1,197	646	-	-
Other	102	18	-	-
Doubtful debts	492	165	-	-
Make good provision	226	500	74	76
Accruals	994	724	-	-
Financial derivative	757	117	-	-
Other	-	-	-	-
Total deferred tax assets	3,768	2,170	74	76
Set-off of deferred tax liabilities pursuant to set-off provisions (note 22)	(2,884)	(2,069)	-	-
Net deferred tax assets	884	101	74	76
Deferred tax assets to be recovered within 12 months	1,013	860	74	76
Deferred tax assets to be recovered after more than 12 months	2,755	1,310	-	-
	3,768	2,170	74	76

Movements - Consolidated	Employee Benefits \$'000	Other \$'000	Total \$'000
At 1 July 2008	288	593	881
(Charged)/credited to the income statement	94	910	1,004
Acquisition of subsidiary	264	21	285
At 30 June 2009	646	1,524	2,170
(Charged)/credited to the income statement	226	803	1,029
Acquisition of subsidiary	325	244	569
At 30 June 2010	1,197	2,571	3,768

NOTE 16. NON-CURRENT ASSETS - DEFERRED TAX ASSETS (continued)

Movements - Parent Entity	Other \$'000	Total \$'000
At 30 June 2008	33	33
Credited to the income statement	43	43
At 30 June 2009	76	76
Credited to the income statement	(2)	(2)
At 30 June 2010	74	74

NOTE 17. NON-CURRENT ASSETS - INTANGIBLE ASSETS

Consolidated	Brand Names \$'000	Goodwill \$'000	Software \$'000	Total \$'000
Year ended 30 June 2009				
Opening net book amount	2,642	90,458	327	93,427
Acquisition of subsidiary	3,577	124,904	2,000	130,481
Additions	-	-	1,931	1,931
Amortisation charge	(548)	-	(257)	(805)
Closing net book amount	5,671	215,362	4,001	225,034
At 30 June 2009				
Cost	6,219	215,362	4,294	225,875
Accumulated amortisation and impairment	(548)	-	(293)	(841)
Net book amount	5,671	215,362	4,001	225,034
Year ended 30 June 2010				
Opening net book amount	5,671	215,362	4,001	225,034
Acquisition of subsidiary	2,387	74,083	210	76,680
Additions	-	-	3,288	3,288
Disposal	-	-	-	-
Amortisation charge	(801)	-	(2,126)	(2,927)
Closing net book amount	7,257	289,445	5,373	302,075
At 30 June 2010				
Cost	8,606	289,445	7,792	305,843
Accumulated amortisation and impairment	(1,349)	-	(2,419)	(3,768)
Net book amount	7,257	289,445	5,373	302,075
Parent				
Year ended 30 June 2010				
Opening net book amount	-	-	-	-
Acquisition of subsidiary	-	-	-	-
Additions	-	-	31	31
Amortisation charge	-	-	(4)	(4)
Closing net book amount	-	-	27	27
At 30 June 2010				
Cost	-	-	31	31
Accumulated amortisation and impairment	-	-	(4)	(4)
Net book amount	-	-	27	27

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the business segment. A segment level review of the goodwill allocation is presented below.

2010	New South Wales \$'000	Victoria \$'000	Queensland \$'000	Total \$'000
Goodwill	90,458	124,904	74,083	289,445
As at 30 June 2010	90,458	124,904	74,083	289,445
2009	New South Wales \$'000	Victoria \$'000	Queensland \$'000	Total \$'000
Goodwill	90,458	124,904	-	215,362
As at 30 June 2009	90,458	124,904	-	215,362

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are valued using growth rates consistent with the five year budgeted cash flows. The growth rates do not exceed the long-term average growth rates for the business.

(b) Key assumptions used for value-in-use calculations

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to the business segment.

CGU	Long Term Growth Rate		Pre Tax Discount Rates	
	2010	2009	2010	2009
	%	%	%	%
New South Wales	3%	3%	16.0%	15.8%
Victoria	3%	3%	14.9%	15.7%
Queensland	3%	N/A	15.8%	N/A

NOTE 17. NON-CURRENT ASSETS - INTANGIBLE ASSETS (continued)

These assumptions have been used for the analysis of each CGU within the business segment. The equity rates of return and therefore discount rates reflect specific risks relating to the relevant segments. In performing the value-in-use calculations for each CGU, the Group has applied post tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

(c) Impact of possible changes in key assumptions

In considering the robustness of the valuation of goodwill the long term growth rate was reduced to 2.5% and the recoverable amounts of the CGU's recalculated. In both CGU's the recoverable amount of the goodwill exceeded the carrying value by material amounts. Management does not consider an adverse change in any of the other key assumptions to be reasonably possible.

NOTE 18. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Trade payables	3,208	3,249	38	-
Other payables - (a) below	7,614	4,132	286	280
Contingent purchase price obligation	7,252	-	-	-
Amounts owed to related entities	-	-	5,040	857
	<u>18,074</u>	<u>7,381</u>	<u>5,364</u>	<u>1,137</u>

(a) Amounts expected to be settled after the next 12 months

Other payables include accruals for annual leave of \$2,297,405 (2009: \$1,409,000). The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Annual leave obligation expected to be settled after 12 months	-	57	-	-

NOTE 19. CURRENT LIABILITIES - BORROWINGS

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	-	-	-	27
Bank loans	9,090	6,324	-	-
Lease liabilities (note 30)	546	606	-	-
Total current borrowings	<u>9,636</u>	<u>6,930</u>	<u>-</u>	<u>27</u>

(a) Security and fair value disclosures

Information about the terms and conditions of major borrowings, details of the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in notes 3 and 21.

(b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 3.

NOTE 20. CURRENT LIABILITIES - PROVISIONS

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Employee benefits - long service leave - (a) below	896	327	-	-

(a) Amounts not expected to be settled within the next 12 months

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

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Long service leave obligation expected to be settled after 12 months	641	234	-	-

NOTE 21. CURRENT LIABILITIES - OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
	<u>10,414</u>	<u>-</u>	<u>10,414</u>	<u>-</u>

Settlement of this financial liability will be made by the issue of shares in Virtus Health Pty Ltd to the vendors and shareholders who participated in a subscription for new shares on 1 October 2009 subject to the relative performance of Queensland Fertility Group and Virtus Health for the year ending 30 September 2010, the exact number of shares issued in December 2010 was 3,878,583. This equity issue to vendors and shareholders has been valued at \$1,084,029 at date of acquisition and a further \$9,329,816 at 30 June 2010. The equity issue has been capped under the Share Sale Deed with the Vendors, and the potential liability will not exceed an additional \$1,092,937 in contingent consideration expenses to be incurred in the year ending 30 June 2011.

NOTE 22. NON - CURRENT LIABILITIES - BORROWINGS

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
(a) Secured				
Bank loans	108,635	86,056	-	-
Lease liabilities (note 30)	1,030	1,576	-	-
Total non-current borrowings	109,665	87,632	-	-

(b) Secured liabilities and assets pledged as security

The total secured liabilities (current and non current) are as follows:

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Bank overdrafts and bank loans	117,725	95,245	-	-
Lease liabilities	1,576	2,182	-	-
Total secured liabilities	119,301	97,427	-	-

The bank loans and overdraft of the parent entity and subsidiaries are secured by guarantees issued by Virtus Health Pty Limited and IVF Finance Pty Limited (subsequently all group companies have become guarantors (via accession deeds) and fixed and floating charges exist over the Group's assets.)

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. The carrying amounts of assets pledged as security are:

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current				
<i>Floating charge</i>				
Cash and cash equivalents	8,781	8,988	101	-
Receivables	4,786	2,738	468	258
Inventories	124	136	-	-
Current tax receivable	-	1,365	-	-
<i>Fixed and floating charge</i>				
Other financial assets	113	-	-	-
Total assets pledged as security	13,804	13,227	569	258
Non-current				
<i>Finance lease</i>				
Plant and equipment	963	1,579	-	-
<i>Fixed and floating charge</i>				
Investments	2,425	2,425	-	-
Other financial assets	123	538	171,205	136,446
Derivative financial instruments	195	349	-	-
Plant and equipment	16,793	11,399	-	-
Deferred tax assets	884	101	74	76
Intangible assets	302,075	225,034	27	-
Total non-current assets pledged as security	323,458	241,425	171,306	136,522
Total assets pledged as security	337,262	254,652	171,875	136,780

The assets of Maroubra Day Surgery Pty Limited and Obstetrics & Gynaecological Imaging Pty Limited are excluded from the assets pledged as security, however the shares representing the 50% interest are included in the charges over the Group.

(c) Risk exposures

Information about the Group's and parent entity's exposure to interest rate changes is provided in note 3.

NOTE 23. NON - CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
The balance comprises temporary differences attributable to:				
Property plant and equipment	648	284	-	-
Other	2,177	1,701	-	-
Intangible assets	59	84	-	-
Other	2,884	2,069	-	-
Total deferred tax liabilities	(2,884)	(2,069)	-	-
Set-off of deferred tax assets pursuant to set-off provisions (note 16)	-	-	-	-
Net deferred tax liabilities	-	-	-	-
Deferred tax liabilities to be settled within 12 months	-	187	-	-
Deferred tax liabilities to be settled after more than 12 months	(2,884)	1,882	-	-

NOTE 23. NON - CURRENT LIABILITIES - DEFERRED TAX LIABILITIES (continued)

Movements - Consolidated	Property, Plant and Equipment \$'000	Intangible Assets \$'000	Other \$'000	Total \$'000
At 1 July 2008	170	792	117	1,079
Charged/(credited) to the income statement	114	(164)	(33)	(83)
Acquisition of subsidiary	-	1,073	-	1,073
At 30 June 2009	284	1,701	84	2,069
Charged/(credited) to the income statement	364	(240)	(25)	99
Acquisition of a subsidiary	-	716	-	716
At 30 June 2010	648	2,177	59	2,884

NOTE 24. NON - CURRENT LIABILITIES - PROVISIONS

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Make good provision	1,650	999	-	-
Employee benefits - long service leave	797	385	-	-
	2,447	1,384	-	-

(a) Make good provision

The group has an obligation under property lease agreements to perform certain make good activities on the premises at the end of the respective leases which expire between 2010 and 2018. A provision has been recognised for the present value of the estimated expenditure required to remove certain leasehold improvements. The provision will be utilised at the end of the leases if they are not renewed. The estimated future cash outflow required to settle the obligation is discounted at 5.5% (2009: 5.5%) per annum. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

**Make Good Provision
\$'000**

Consolidated - 2010

Non-current

Carrying amount at start of year	999
Acquisition of subsidiary	285
Additions	287
Charged/(credited) to the income statement - unwinding of discount	79
Carrying amount at end of year	1,650

NOTE 25. CONTRIBUTED EQUITY

	CONSOLIDATED AND PARENT ENTITY		CONSOLIDATED AND PARENT ENTITY	
	2010 Shares	2009 Shares	2010 \$'000	2009 \$'000
(a) Share capital				
Ordinary shares	48,613,257	38,124,238	170,360	137,776
Fully paid				
(b) Movement in ordinary share capital:				
Date	Details	Number of Shares	Issue Price	\$'000
1 July 2008	Opening balance	17,017,385		50,712
13 November 2008	Subscription for new shares	11,402,630	\$4.12	47,035
13 November 2008	Shares issued - acquisition consideration	9,704,223	\$4.12	40,029
30 June 2009	Balance	38,124,238		137,776
1 October 2009	Shares issued - acquisition consideration	6,088,804	\$3.11	18,910
1 October 2009	Shares issued to employees	160,994	\$3.11	500
1 October 2009	Subscription for new shares	4,184,950	\$3.11	13,005
30 June 2010	Exercise 2008 options	54,271	\$3.11	169
30 June 2010	Balance	48,613,257		170,360

(c) Ordinary shares

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary share have no par value and the company does not have a limited amount of authorised capital.

(d) Options

Information relating to the Group's share option plans including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in Note 36.

(e) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in accordance with the group's financial facility agreements.

NOTE 25. CONTRIBUTED EQUITY (continued)

In order to maintain or adjust the capital structure, the Group may issue new shares, sell assets to reduce debt or remit excess cash to its debt providers. The capital structure and gearing ratios are as follows:

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Total borrowings (note 19 and 22)	119,301	101,943	-	1,163
Less: cash and cash equivalents (note 8)	(8,781)	(8,988)	(101)	-
Net debt	110,520	92,955	(101)	1,163
Total equity	174,567	142,965	154,185	135,399
Total capital	285,087	235,920	154,084	136,562
Gearing ratio	39%	39%	0%	1%

The gearing ratio remained unchanged during the financial year ending 30 June 2010.

NOTE 26. RESERVES AND RETAINED PROFITS / (LOSSES)

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
(a) Reserves				
Tax consolidation reserve	-	-	(11,422)	(6,865)
Share-based payments reserve	2,287	1,625	2,139	1,478
Total reserves	2,287	1,625	(9,283)	(5,387)
Movements:				
<i>Tax consolidation reserve</i>				
Balance at 1 July /incorporation	-	-	(6,865)	(521)
Unused tax losses transferred from subsidiaries	-	-	114	114
Current tax liabilities assumed from subsidiaries	-	-	(4,671)	(6,458)
Balance at 30 June	-	-	(11,422)	(6,865)
<i>Share-based payments reserve</i>				
Balance at 1 July /incorporation	1,625	361	1,478	213
Option reserve acquired	-	-	-	-
Option expense	831	1,264	61	40
Issue of shares upon exercise of options	(169)	-	(169)	-
Options issued to employees of subsidiary companies	-	-	769	1,225
Balance at 30 June	2,287	1,625	2,139	1,478

(b) Retained profits/(losses)
Movements in retained profits/(losses) were as follows:

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July	3,564	792	3,010	338
Net profit/(loss) for the year/period	(1,644)	2,772	(9,902)	2,672
Balance at 30 June	1,920	3,564	(6,892)	3,010

(c) Nature and purpose of reserves

Tax consolidation reserve
In addition to its own current and deferred tax amounts, Virtus Health Pty 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. Any difference between the amounts assumed and amounts receivable or payable with the tax consolidated entities are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities, and are reflected in the Tax Consolidation Reserve in equity.

Share-based payments reserve
The share-based payments reserve is used to recognise the fair value of options issued to employees and third parties but not exercised and the parent entity shows the fair value of options issued to employees of subsidiary companies.

NOTE 27. KEY MANAGEMENT PERSONNEL DISCLOSURES

- (a) Directors**
The following persons were directors of Virtus Health Pty Limited during the financial year:
- (i) *Chairman - non-executive*
Marcus Darville
- (ii) *Executive directors*
Sue Channon, Managing Director, IVF Australia Pty Limited
Caroline Mulcahy, Chief Executive Officer, Melbourne IVF Pty Limited (resigned 4 January 2010)
Andrew Othen, Managing Director, Melbourne IVF Pty Limited (appointed 24 February 2010)
John Moller, Managing Director, Queensland Fertility Group Pty Limited (appointed 1 October 2009)

NOTE 27. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(iii) Non-executive directors

Simon Pither
John McBain
Manuela Toledo
Michael Chapman
Frank Quinn
John Esler (appointed 1 October 2009)
Keith Harrison (appointed 1 October 2009)

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position
Glenn Powers	Chief Financial Officer, Virtus Health Pty Limited
Peter Illingworth	Medical Director, IVF Australia Pty Limited
Lyndon Hale	Medical Director, Melbourne IVF Pty Limited
David Molloy (appointed 1 October 2009)	Medical Director, Queensland Fertility Group Pty Limited

All of the above persons were also key management persons during the year ended 30 June 2009, except for Andrew Othen who commenced with the Group on 27 January 2010, and John Moller, John Esler, David Molloy and Keith Harrison, who commenced engagement with the Group on 1 October 2009. Sue Channon was appointed to the position of Chief Executive Officer, Virtus Health Pty Limited on 01 September 2010.

(c) Key management personnel compensation

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Short term employee benefits*	1,636,352	972,073	261,378	-
Post-employment benefits	112,526	57,087	23,838	-
Long term benefits	115,943	14,076	789	-
Share based payments	318,485	308,509	62,785	39,563
	2,183,306	1,351,745	348,790	39,563

*Short-term employee benefits includes fees paid to contractors in respect of services provided in their capacity as Medical Director.

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in Note 35.

(ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Virtus Health Pty Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2010	Balance at start of the year	Granted as compensation	Exercised	Lapsed	Balance at end of the year	Vested and exercisable	Unvested
Name							
Directors of Virtus Health Pty Limited							
Sue Channon	95,976	-	-	-	95,976	79,308	16,668
Caroline Mulcahy	173,859	-	(54,271)	(119,588)	-	-	-
Michael Chapman	87,500	-	-	-	87,500	37,500	50,000
Frank Quinn	307,500	50,000	-	-	357,500	70,832	286,668
John Moller	-	241,491	-	-	241,491	-	241,491
Other key management personnel of the Group							
Peter Illingworth	357,150	100,000	-	-	457,150	43,570	413,580
Glenn Powers	312,527	-	-	-	312,527	-	312,527
2009							
Name	Balance at start of the year	Granted as compensation	Exercised		Balance at end of the year	Vested and exercisable	Unvested
Directors of Virtus Health Pty Limited							
Sue Channon	95,976	-	-	-	95,976	67,642	28,334
Caroline Mulcahy	-	173,859	-	-	173,859	-	173,859
Michael Chapman	87,500	-	-	-	87,500	28,332	59,168
Frank Quinn	307,500	-	-	-	307,500	44,164	263,336
Other key management personnel of the Group							
Peter Illingworth	357,150	-	-	-	357,150	21,164	335,986
Glenn Powers	-	312,527	-	-	312,527	-	312,527

Sue Channon received a grant of 106,157 share options at an exercise price of \$4.71 per option on 1 September 2010. Andrew Othen received a grant of 127,389 options at an exercise price of \$4.71 per option on 1 July 2010.

(iii) Share holdings

The numbers of ordinary shares in the company held during the financial year by each director of Virtus Health Pty Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

NOTE 27. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

2010	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Virtus Health Pty Limited				
Sue Channon	456,422	-	53,222	509,644
Michael Chapman	789,622	-	92,076	881,698
Frank Quinn	972,715	-	113,426	1,086,141
John McBain	1,387,795	-	178,889	1,566,684
Manuela Toledo	874,977	-	(137,683)	737,294
John Moller	-	-	160,994	160,994
John Esler	-	-	373,116	373,116
Keith Harrison	-	-	304,435	304,435
Other key management personnel of the Group				
Peter Illingworth	248,286	-	28,952	277,238
Lyndon Hale	1,040,846	-	134,167	1,175,013
David Molloy	-	-	488,799	488,799
2009				
	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Virtus Health Pty Limited				
Sue Channon	456,422	-	-	456,422
Michael Chapman	789,622	-	-	789,622
Frank Quinn	972,715	-	-	972,715
John McBain	-	-	1,387,795	1,387,795
Manuela Toledo	-	-	874,977	874,977
Other key management personnel of the Group				
Peter Illingworth	248,286	-	-	248,286
Lyndon Hale	-	-	1,040,846	1,040,846

(e) Other trading transactions with key management personnel

A director, Mr John McBain, is a director and shareholder of Metabolica Pty Limited. Melbourne IVF Pty Limited entered into a contract with Metabolica Pty Limited to rent property at 23 Clarendon Street, East Melbourne commencing 1 December 2007. The contract is based on normal commercial terms and conditions. The contract ceased on 21 April 2010 when Melbourne IVF Pty Limited acquired the lease of the property.

A director, Mr Michael Chapman, is a director and shareholder of Bridgemyth Pty Limited. IVF Australia Pty Limited entered into a contract with Bridgemyth Pty Limited to rent property at St George Private Hospital, Kogarah commencing 1 July 2005. The contract expired on 30 June 2009. IVF Australia Pty Limited continued to use the property and make rental payments to Bridgemyth Pty Limited from 1 July 2009 to 30 June 2010. The new contract was renegotiated and signed on 15 September 2010, which commences from 1 July 2010. The contract is based on normal commercial terms and conditions.

A director, Mr John Esler, is a director and shareholder of Dendeen Pty Limited. Queensland Fertility Group Pty Limited entered into a contract with Dendeen Pty Limited to rent property at 9 Scott Street, Toowoomba commencing 1 August 2007. The contract is based on normal commercial terms and conditions.

A director, Mr Keith Harrison is a director and shareholder of Keith Harrison Pty Limited. Queensland Fertility Group Pty Limited entered into a contract with Keith Harrison Pty Limited to rent property at 225 Wickham Terrace, Brisbane commencing 1 September 2008. The contract is based on normal commercial terms and conditions.

Aggregate amounts of each of the above types of other transactions with key management personnel of Virtus Health Pty Limited:

	2010 \$	2009 \$
Amounts recognised as income		
Rental income for use of Virtus Health Pty Limited facilities	138,819	120,577
	138,819	120,577
Amounts recognised as expense		
Fees for provision of medical services and procedures	6,216,807	3,227,269
Rental expense in respect of property at St George Private Hospital, Kogarah	126,915	112,987
Rental expense in respect of property at 23 Clarendon Street, East Melbourne	119,867	108,497
Rental expense in respect of property at 9 Scott Street, Toowoomba	43,363	-
Rental expense in respect of property at 225 Wickham Terrace, Brisbane	12,960	-
	6,519,912	3,448,753

There were no amounts payable to key management personnel of the Group at balance sheet date (2009; \$nil).

(f) Capital transactions with key management personnel

Three directors, Mr John Moller, Mr John Esler and Mr Keith Harrison were directors and shareholders of Queensland Fertility Group Pty Limited which was acquired by Virtus Health Pty Limited on 1 October 2009. Mr John Moller, Mr John Esler, Mr David Molloy and Mr Keith Harrison and related parties received cash settlements and ordinary shares in Virtus Health Pty Limited on the same terms and conditions that applied to other shareholders of Queensland Fertility Group Pty Limited.

Marcus Darville, a Director of the Company, has a beneficial interest in Quadrant, a company which holds 53.56% of the issued ordinary shares of Virtus Health Pty Limited at 30 June 2010.

A director, Mr John McBain, is a director and shareholder of Metabolica Pty Limited. On 21 April 2010, Metabolica Pty Limited transferred its original lease, and various sub-leases to Melbourne IVF Pty Limited for a cash consideration of \$484,710 plus GST.

NOTE 30. COMMITMENTS (continued)

(ii) Finance leases

Commitments in relation to finance leases are payable as follows:

	CONSOLIDATED		PARENT	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Within one year	631	770	-	-
Later than one year but not later than five years	1,044	1,614	-	-
Later than five years	155	217	-	-
Minimum lease payments	1,830	2,601	-	-
Future finance charges	(254)	(419)	-	-
Recognised as a liability	1,576	2,182	-	-
Representing lease liabilities:				
Current (note 19)	546	606	-	-
Non-current (note 22)	1,030	1,576	-	-
	1,576	2,182	-	-

NOTE 31. RELATED PARTY TRANSACTIONS

(a) Parent entities

The parent entity within the Group is Virtus Health Pty Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 33.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 27.

(d) Transactions with related parties

The following transactions occurred with related parties:

	CONSOLIDATED		PARENT	
	2010 \$	2009 \$	2010 \$	2009 \$
Sales of services				
Sale of services to IVF Australia Pty Limited	-	-	150,000	176,665
Sale of services to Melbourne IVF Pty Limited	-	-	150,000	176,665
Sale of services to Queensland Fertility Group Pty Limited	-	-	75,000	-
	-	-	375,000	353,330
Purchases of services				
Purchases of services from IVF Australia Pty Limited	-	-	415,636	699,114
Tax consolidation legislation				
Current tax payables assumed from wholly-owned tax consolidation entities	-	-	4,671,000	6,458,219
Tax losses assumed from wholly-owned tax consolidated entities	-	-	114,479	113,633
Share of profits of joint venture				
Maroubra Day Surgery Pty Limited	731,196	365,787	-	-
Obstetrics & Gynaecological Imaging Pty Limited	(28,471)	-	-	-
Other transactions				
Fees paid to related party for services to the Board of the ultimate Australian parent entity	62,500	45,833	62,500	45,833

In addition to the transactions above, options over the Company's shares have been awarded to employees of subsidiary companies. In accordance with IFRIC 11, when the issue of options is in connection with an acquisition the Company has treated the awards as a capital contribution to the subsidiaries, resulting in an increase in the cost of investment of \$2,089,964 (2009: \$1,224,445).

(e) Outstanding balances arising from sales/purchases of goods and services and distributions from joint ventures

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	CONSOLIDATED		PARENT	
	2010 \$	2009 \$	2010 \$	2009 \$
Current receivables (sales of goods and services)				
Subsidiaries	102,968	-	413,135	233,780
Current payables (purchases of goods)				
Subsidiaries	-	-	2,473,485	857,649
Distributions received in advance				
Subsidiaries	(262,976)	(209,505)	-	-

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

NOTE 31. RELATED PARTY TRANSACTIONS (continued)

(f) Loans to/from related parties

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
<i>Loans to subsidiaries</i>				
Beginning of the year	-	-	135,123,299	50,840,006
Loans advanced	-	-	33,991,443	84,283,293
End of year/period	-	-	169,114,742	135,123,299

Virtus Health Pty Limited is responsible for group strategy and raising equity capital. IVF Finance Pty Limited is responsible for debt finance and making acquisitions on behalf of the group. IVF Australia Pty Limited, The Heptarchy Trust, Queensland Fertility Group Pty Limited and North Shore Specialist Day Surgery Pty Limited employ the medical and other staff including certain directors. The proceeds of any issue of shares by Virtus Health Pty Limited are passed to IVF Finance Pty Limited as an interest free loan. IVF Finance Pty Limited uses the funds for acquisitions. No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

(g) Guarantees

The parent entity is a party to a number of bank facility cross guarantees as set out in note 22 b).

(h) Terms and conditions

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the subsidiaries and the loans are interest free. Outstanding balances are unsecured and are repayable in cash.

NOTE 32. BUSINESS COMBINATION

(a) Summary of acquisitions

On 1 October 2009 Virtus Health Pty Limited, through its wholly owned subsidiary IVF Finance Pty Limited, acquired 100% of the issued share capital of Queensland Fertility Group Pty Limited.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	\$'000
<i>Purchase consideration (refer to (b) below):</i>	
Cash paid	54,180
Contingent consideration	7,451
Fair value of equity instruments issued	18,910
Working capital adjustments	1,053
Total purchase consideration	81,594
Fair value of net identifiable assets acquired (refer to (c) below)	8,286
Goodwill acquired pre acquisition	775
Goodwill on acquisition	74,083

The acquired business contributed revenues and other income of \$27,302,675 and net profit of \$5,420,369 (excluding the cost of financing the transaction) to the Group for the period from 1 October 2009 to 30 June 2010. If the acquisition had occurred on 1 July 2009, consolidated revenue and other income and consolidated net profit for the year ended 30 June 2010 would have been \$37,173,067 and \$5,817,080 respectively excluding any additional financing or brand amortisation costs. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2009, together with the consequential tax effects.

Included in the purchase consideration are 6,088,804 ordinary shares of IVF Finance Pty Limited valued at \$3.1057 per share. The share price of \$3.1057 was based on a negotiated valuation of the business between the vendors of Queensland Fertility Group Pty Limited and IVF Finance Pty Limited. In addition, the vendors and the shareholders who participated in the subscription for new shares on 1 October 2009 will be issued shares in Virtus Health Pty Limited at zero issue price subject to the relative performance of Queensland Fertility Group and Virtus Health for the year ended 30 September 2010. At date of acquisition, this equity issue to the vendors was estimated at a value of \$623,547 and included as part of the contingent consideration noted above.

On 13 November 2008 Virtus Health Pty Limited, through its wholly owned subsidiary IVF Finance Pty Limited, acquired 100% of the issued share capital of Melbourne IVF Holdings Pty Ltd.

The acquired business contributed revenues and other income of \$26,680,563 and net profit of \$5,242,921 (excluding brand amortisation of \$225,410 and the cost of financing the transaction) to the Group for the period from 13 November 2008 to 30 June 2009. If the acquisition had occurred on 1 July 2008, consolidated revenue and other income and consolidated net profit for the year ended 30 June 2009 would have been \$83,173,993 and \$3,102,455 respectively excluding any additional financing or brand amortisation costs. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2008, together with the consequential tax effects.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	\$'000
<i>Purchase consideration (refer to (b) below):</i>	
Cash paid	84,379
Direct costs relating to the acquisition	867
Total cash consideration	85,246
Fair value of equity instruments issued	40,029
Total purchase consideration	125,275
Fair value of net identifiable assets acquired (refer to (c) below)	371
Goodwill on acquisition	124,904

Included in the purchase consideration are 9,704,223 ordinary shares of Virtus Health Pty Limited valued at \$4.125 per share. The share price of \$4.125 was based on a negotiated valuation of the business between the vendors of Melbourne IVF Holdings Pty Limited and Virtus Health Pty Limited.

NOTE 32. BUSINESS COMBINATION (continued)

(b) Purchase consideration

Outflow of cash to acquire subsidiary, net of cash acquired
Cash consideration
Less: Balances acquired
Cash
Outflow of cash

CONSOLIDATED	
2010	2009
\$'000	\$'000
54,180	85,246
4,675	769
49,505	84,477

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition of Queensland Fertility Group Pty Limited on 1 October 2009 are as follows:

	Acquiree's Carrying Amount \$'000	Fair Value \$'000
Cash	4,675	4,675
Trade and other receivables	2,870	2,870
Plant and equipment	2,493	2,779
Intangible assets: software	-	210
Intangible assets: brand names	-	2,387
Intangible assets: goodwill	775	775
Deferred tax asset	-	569
Trade and other payables	(2,217)	(2,200)
Deferred revenue	(735)	(735)
Deferred tax liability	-	(716)
Other provisions	(723)	(1,245)
Provision for employee benefits	(1,083)	(1,083)
Net assets	6,055	8,286
Net identifiable assets acquired		8,286

The goodwill is attributable to the reputation of Queensland Fertility Group in Queensland. The fair value of assets and liabilities acquired are based on discounted cash flow models. No acquisition provisions were created.

The assets and liabilities arising from the acquisition of Melbourne IVF Holdings Pty Limited on 13 November 2008 are as follows:

	Acquiree's Carrying Amount \$'000	Fair Value \$'000
Cash	769	769
Trade and other receivables	1,874	1,874
Plant and equipment	5,910	5,346
Deferred tax asset	-	285
Intangible assets: brand names	-	3,577
Intangible assets: goodwill	1,928	-
Intangible assets: software	1,972	2,000
Trade and other payables	(2,294)	(2,294)
Deferred revenue	(1,234)	(1,234)
Borrowings/interest bearing liabilities	(7,540)	(7,540)
Deferred tax liability	-	(1,073)
Provision for employee benefits	(880)	(880)
Other provisions	(459)	(459)
Net assets	46	371
Minority interests		-
Net identifiable assets acquired		371

The goodwill is attributable to the reputation of Melbourne IVF Holdings Pty Limited in Victoria. The fair value of assets and liabilities acquired are based on discounted cash flow models. No acquisition provisions were created.

NOTE 33. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b).

Name of entity	Country of Incorporation	Class of Shares	Beneficial Interest	
			2010	2009
			%	%
IVF Finance Pty Limited	Australia	Ordinary	100	100
IVFA Sub-Holdings Pty Limited	Australia	Ordinary	100	100
IVF Australia Pty Limited	Australia	Ordinary	100	100
Melbourne IVF Holdings Pty Limited	Australia	Ordinary	100	100
Melbourne IVF Pty Limited	Australia	Ordinary	100	100
The Heptarchy Trust	Australia	Units	100	100
North Shore Specialist Day Surgery Pty Limited	Australia	Ordinary	100	100
Queensland Fertility Group Pty Limited	Australia	Ordinary	100	-
IVF Australia Plan Management Pty Limited	Australia	Ordinary	100	100
North Shore ART Pty Limited	Australia	Ordinary	100	100
IVF Australia Participants Pty Limited	Australia	Ordinary	100	100
IVF South Pty Limited	Australia	Ordinary	100	100
City West IVF Pty Limited	Australia	Ordinary	100	100
The QFG Day Theatres Pty Limited	Australia	Ordinary	100	-
The QFG Day Theatres Unit Trust	Australia	Units	100	-

The proportion of ownership interest is equal to the proportion of voting power held.

NOTE 34. INTEREST IN JOINT VENTURES

(a) Investments in joint venture entities

Interests are held in the following joint ventures:

Unlisted	Country of Residence	Principal Activities	Ownership Interest		Carrying Amount of Investment	
			2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Maroubra Day Surgery Pty Limited	Australia	Provision of medical services	50%	50%	2,400	2,400
Obstetrics & Gynaecological Imaging Australia Pty Limited	Australia	Provision of imaging services	50%	50%	25	25
					2,425	2,425

The Group's interests in the assets employed in the joint ventures are accounted for in the consolidated balance sheet using the equity method, in accordance with the accounting policy described in note 1(b). The Group's share of assets employed in the joint ventures is represented as follows:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Current assets	508	707
Non-current assets	992	1,169
Total assets	1,500	1,876
Current liabilities	(233)	(394)
Non-current liabilities	(80)	-
Total liabilities	(313)	(394)
Share of assets employed in joint venture	1,187	1,482
Share of joint venture revenue, expenses and results		
Revenue	3,385	2,873
Expenses	(2,682)	(2,507)
Profit/(loss) before income tax	703	366
Income tax expense	-	-
Profit after income tax	703	366

NOTE 35. EVENTS OCCURRING AFTER THE REPORTING DATE

(a) Contingent consideration

Shares in Virtus Health Pty Ltd will be issued to the vendors and shareholders who participated in a subscription for new shares on 1 October 2009 pursuant to the relative performance of Queensland Fertility Group and Virtus Health for the year ending 30 September 2010, and calculated as 3,878,548 shares at date of reporting. This equity issue to vendors has been valued at \$6.7 million as at 30 September 2010, with an additional \$0.6 million to be reflected as contingent consideration expense in the year ending 30 June 2011. The equity issue to the shareholders has been valued at \$4.8 million with a further \$0.4 million reflected as additional share issue expense in the year ending 30 June 2011.

The total purchase price consideration of the Queensland Fertility Group included a vendor earn out component of \$7,030,000 and a management earn out component of \$470,000 which is expected to be paid out in April 2011 based on the achievement of a Queensland Fertility Group EBITDA of approximately \$11.8 million for the year ending 30 September 2010.

(b) Acquisition of City West Day Surgery Pty Limited

On 1 December 2010, IVF Australia Pty Limited, a subsidiary of Virtus Health Pty Limited acquired a 50% equity interest in City West Day Surgery Pty Limited, a provider of surgical services in Sydney, for cash consideration of \$1.40 million. Further consideration not exceeding \$92,000 payable, under a milestone provision covering the 7 months ending 30 June 2011. The acquisition was funded by a drawdown from the Group capital expenditure facility.

(c) Acquisition of New South Wales based IVF Group

The Group's subsidiary IVF Australia Pty Limited, has agreed to buy the entire share capital and units of a New South Wales based IVF Group for a consideration of \$10.45 million to be paid in cash and the issue of ordinary shares in Virtus Health Pty Limited. The cash element of the acquisition will be funded by a drawdown from a new Group capital expenditure facility. The expected completion date of the acquisition is 28 February 2011.

NOTE 36. SHARE BASED PAYMENTS

(a) Employee Option Plan

IVF Holdings Share Option Plan

The IVF Holdings Share Option plan was adopted by the Board on 12 November 2008. The plan was established to reward, retain and motivate doctors and senior employees through recognition of their abilities, efforts and contributions. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Key features of the plan are as follows:

Options are vested in equal instalments over a two to four year period, subject to performance conditions.

Once issued, options remain exercisable for a period of ten years. Options are granted under the plan at an exercise price equal to market value at the time of grant. Options granted under the plan carry no dividend or voting rights. No option holder has any right under the options to participate in any other share issue of the company or any other entity.

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

IVF Australia Restructuring Plan

The IVF Australia Restructuring Share Option plan was adopted by the Board on 10 April 2008. The plan was established to reward, retain and motivate doctors and senior employees through recognition of their abilities, efforts and contributions. The plan is now closed for further option grants. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Key features of the plan are as follows:

Options are vested in equal instalments over a two to four year period, subject to performance conditions.

Once issued, options remain exercisable for a period of ten years. Options are granted under the plan at a various exercise prices as set out below. Options granted under the plan carry no dividend or voting rights. No option holder has any right under the options to participate in any other share issue of the company or any other entity.

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

NOTE 36. SHARE BASED PAYMENTS (continued)

Melbourne IVF Restructuring Share Option Plan

The Melbourne IVF Restructuring Share Option plan was adopted by the Board on 13 November 2008. The plan was established to reward, retain and motivate doctors and senior employees of Melbourne IVF Pty Limited through recognition of their abilities, efforts and contributions. The plan is now closed for further option grants. Under the plan, participants are granted options under time based and performance based vesting conditions. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits. Key features of the plan are as follows:

Options are vested in equal instalments over a 3 year period, subject to performance conditions.

Once issued, options remain exercisable for a period of ten years. Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights. No option holder has any right under the options to participate in any other share issue of the company or any other entity.

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

Set out below are the summaries of options granted under the various plans:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated - 2010								
IVF Holdings Plan								
12-Nov-08	12-Nov-18	\$4.12	312,527	-	-	-	312,527	-
25-Feb-09	25-Feb-19	\$4.12	44,000	-	-	-	44,000	-
1-Jul-09	1-Jul-19	\$3.11	-	450,000	-	-	450,000	-
1-Oct-09	1-Oct-19	\$3.11	-	241,491	-	-	241,491	-
IVF Australia Restructuring Plan								
10-Apr-08	16-Feb-15	\$1.64	60,976	-	-	-	60,976	60,976
10-Apr-08	1-Jan-16	\$3.15	193,496	-	-	-	193,496	193,496
10-Apr-08	14-Feb-17	\$3.15	216,075	-	-	-	216,075	154,042
10-Apr-08	1-Jan-18	\$3.26	238,100	-	-	-	238,100	69,363
10-Apr-08	10-Apr-18	\$2.98	11,000	-	-	-	11,000	3,330
10-Apr-08	10-Apr-18	\$2.53	1,550,000	-	-	-	1,550,000	-
10-Apr-08	10-Apr-18	\$0.01	403,536	-	-	-	403,536	-
Melbourne IVF Restructuring Share Option Plan								
20-Nov-08	20-Nov-18	\$0.00	502,146	-	(54,271)	(119,588)	328,287	109,428
Total			3,531,856	691,491	(54,271)	(119,588)	4,049,488	590,635
Weighted average exercise price			\$2.15	\$3.11	\$0.00	\$0.00	\$2.41	\$2.97
Consolidated - 2009								
IVF Holdings Plan								
12-Nov-08	12-Nov-18	\$4.12	-	312,527	-	-	312,527	-
25-Feb-09	25-Feb-19	\$4.12	-	44,000	-	-	44,000	-
IVF Australia Restructuring Plan								
10-Apr-08	16-Feb-15	\$1.64	60,976	-	-	-	60,976	60,976
10-Apr-08	1-Jan-16	\$3.15	193,496	-	-	-	193,496	128,977
10-Apr-08	14-Feb-17	\$3.15	216,075	-	-	-	216,075	72,025
10-Apr-08	1-Jan-18	\$3.26	238,100	-	-	-	238,100	-
10-Apr-08	10-Apr-18	\$2.98	11,000	-	-	-	11,000	-
10-Apr-08	10-Apr-18	\$2.53	1,550,000	-	-	-	1,550,000	-
10-Apr-08	10-Apr-18	\$0.01	403,536	-	-	-	403,536	-
Melbourne IVF Restructuring Share Option Plan								
20-Nov-08	20-Nov-18	\$0.00	-	560,276	-	(58,130)	502,146	-
Total			2,673,183	916,803	-	(58,130)	3,531,856	261,978
Weighted average exercise price			\$2.29	\$1.60	\$0.00	\$0.00	\$2.15	\$2.80

No options expired during the periods covered by the above tables.

The weighted average remaining contractual life of share options outstanding at the end of the period was 7.88 years (2009 - 6.37 years).

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2010 was as follows:

	IVF Holdings Share Option Plan	IVF Holdings Share Option Plan
Grant date	1 July 2009	1 October 2009
Fair value per option at grant date	\$1.13 - \$1.17	\$1.07 - \$1.09

The assessed fair value at grant date of options granted during the year ended 30 June 2009 is set out on the next page:

NOTE 36. SHARE BASED PAYMENTS (continued)

	MIVF Restructure Share Option Plan	IVF Holdings Share Option Plan	IVF Holdings Share Option Plan
Grant date	20 November 2008	12 November 2008	25 February 2009
Fair value per option at grant date	\$3.05	\$0.55 - \$0.57	\$0.52 - \$0.53

The fair value at grant date is independently determined using a Binomial Option Valuation Model.

The model inputs for options granted during the year ended 30 June 2009 are set out below.

	IVF Holdings Share Option Plan	IVF Holdings Share Option Plan
Grant date	1 July 2009	1 October 2009
Exercise price	\$3.11	\$3.11
Current share price	\$3.11	\$3.11
Volatility	27.00%	27.00%
Time to maturity	10 years	10 years
Risk free rate of interest	5.60%	5.30%
Exercise price multiple	2.00	2.00
Dividend yield	5.1% after 3 years	5.1% after 3 years

The model inputs for options granted during the year ended 30 June 2009 are set out below.

	MIVF Restructure Share Option Plan	IVF Holdings Share Option Plan	IVF Holdings Share Option Plan
Grant date	20 November 2008	12 November 2008	25 February 2009
Exercise price	\$0.00	\$4.12	\$4.12
Current share price	\$3.05	\$3.05	\$3.05
Volatility	27%	27%	27%
Time to maturity	10 years	5 years	5 years
Risk free rate of interest	4.76%	4.36%	3.67%
Exercise price multiple	2.0	2.0	2.0
Dividend yield	4.6% after 4 years	4.6% after 4 years	4.6% after 4 years

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Options issued under employee option plan	831	1,264	61	40

NOTE 37. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) for the year/period	(1,644)	2,772	(9,902)	2,672
Depreciation and amortisation	6,376	3,249	4	-
Contingent equity consideration expense	5,367	-	5,367	-
Additional share issue expense	3,963	-	3,963	-
Amortisation of bank facility fees	671	602	-	-
Bank facility fees written off	2,696	2,485	-	-
Interest on finance lease facilities	209	-	-	-
Non cash PPE transactions	(714)	-	-	-
Non - cash employee expense	1,331	1,264	63	40
Dividend and interest income	(310)	(222)	(6)	(3)
Cash receipts from joint venture partnership classed as investing activities	(763)	(525)	-	-
Net loss on revaluation of hedging instruments	705	2,414	-	-
Movement in tax consolidation reserve	-	-	(4,557)	(6,345)
Unwinding of discount on deferred consideration of acquisition of subsidiary	425	-	-	-
Movement in other financial asset	302	-	-	-
Doubtful debts expense	278	-	-	-
Other non cash items	(4)	(24)	-	(1)
(Increase)/decrease in trade and other debtors	(2,322)	1,132	(209)	(24)
Decrease/(increase) in inventories	12	(27)	-	-
(Increase)/decrease in deferred tax assets	(783)	184	2	(43)
(Increase)/decrease in other operating assets	-	(11)	-	-
(Decrease)/increase in trade and other creditors	3,439	1,758	40	157
(Decrease)/increase in deferred revenue	1,067	2,578	-	-
Increase/(decrease) in provision for deferred taxes payable	-	(1,281)	-	-
Increase/(decrease) in income taxes payable	3,277	(1,836)	1,695	112
Increase/(decrease) in provisions	1,632	(394)	-	-
Increase/(decrease) in related party creditors relating to operating activities	-	-	1,868	2,750
Net cash (outflow) inflow from operating activities	25,210	14,118	(1,672)	(685)

NOTE 38. FRANKING CREDITS

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	16,184	8,216	16,184	8,216

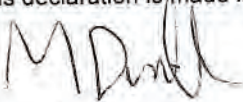
The above amounts represent the balance of the franking account as at the reporting date, adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

Directors' Declaration

In the directors' opinion:

- a) the financial statements and notes set out on pages 7 to 41 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

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



Marcus Darville
Director

Sydney
23 February 2011

Independent auditor's report to the members of Virtus Health Pty Limited

Report on the financial report

We have audited the accompanying financial report of Virtus Health Pty Limited (the company), which comprises the balance sheet as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Virtus Health Pty Limited and the Virtus Health group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

**Independent auditor's report to the members of
Virtus Health Pty Limited (continued)**

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Virtus Health Pty Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).


PricewaterhouseCoopers


MW Chiang
Partner

Sydney
23 February 2011