Virtus Health Pty Limited

ACN 129 643 492

Annual report for the year ended 30 June 2011

Virtus Health Pty Limited ACN 129 643 492
Annual Financial Report – 30 June 2011

Contents

Directors	Marcus Darville *Chair*
	Simon Pither
	Susan Channon
	John McBain
	Andrew Othen
	John Esler
	Frank Quinn
	John Moller
Secretary	Glenn Powers
Alternate Directors	Michael Chapman
	Keith Harrison
	Manuela Taledo
Principal registered office in Australia	Level 3, 176 Pacific Highway Greenwich, NSW 2065
Auditor	PricewaterhouseCoopers Darling Park Tower 2
	201 Sussex Street Sydney, NSW 2000
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 2011.

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
Susan Channon
Frank Quinn
Simon Pither
John McBain
John Moller
John Esler
Andrew Othen

Michael Chapman, Manuela Toledo and Keith Harrison were reappointed as alternate directors and continue 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 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. The acquisition was funded by a drawdown from the Group's capital expenditure facility.

Acquisition of Hunter IVF Group

On 1 March 2011, the Group's subsidiary IVF Australia Pty Limited, acquired the entire share capital and units of Hunter IVF Group for a consideration of $10.45 million paid in cash and the issue of ordinary shares in Virtus Health Pty Limited. The cash element of the acquisition was funded by a drawdown from the Group capital expenditure facility.

Matters subsequent to the end of the financial year
Acquisition of Queensland Fertility Group Gold Coast Pty Limited

On 29 July 2011, Queensland Fertility Group, a subsidiary of Virtus Health Pty Limited, acquired the entire share capital and units of Queensland Fertility Group Gold Coast Pty Limited for a consideration of $3,500,000 paid in cash and the issue of ordinary shares in Virtus Health Pty Limited. The cash element of the acquisition was funded by a drawdown from the Group capital expenditure facility.

Except for the new acquisition discussed above, no other matter or circumstance has arisen since 30 June 2011 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 exercise price	Number under option
10 April 2008*	16 February 2015	$1.64	60,976
10 April 2008*	1 January 2016	$3.15	183,496
10 April 2008*	14 February 2017	$3.15	216,075
10 April 2008*	1 January 2018	$3.26	228,100
10 April 2008	10 April 2018	$2.98	9,000
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	200,000
01 September 2010	01 September 2020	$4.71	233,546
			4,402,217

*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 $25,000 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 themselves 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 on assignments additional to their statutory audit duties where the auditor's expertise and experience with the group are important.

Details of the amounts paid or payable to the auditor (PwC) for audit and 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 non-audit services provided by the auditor of the group and its related practices.

	2011 $	2010 $
Taxation services		
PwC Australian firm:		
Tax compliance services	**45,000**	117,000
Other tax services	**34,700**	8,000
Total remuneration for taxation services	**79,700**	125,000
Other services		
PwC Australian firm		
Total remuneration for accounting services	**50,917**	215,340
Total remuneration for non-audit services	**130,617**	340,340

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

PwC continues in office in accordance with section 325 of the *Corporations Act 2001*.

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

Marcus Darville
Director
Sydney
12 October 2011

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Virtus Health Pty Limited for the year ended 30 June 2011, 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.

Eddie Wilkie

Eddie Wilkie
Partner
PricewaterhouseCoopers

Sydney
12 October 2011

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These financial statements are the consolidated financial statements of the consolidated entity consisting of Virtus Health Pty Limited and its subsidiaries. The financial statements are presented in the 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 to 5, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 12 October 2011. The directors have the power to amend and reissue the financial statements.

	Notes	2011 $'000	2010 $'000
Revenue from continuing operations	4	**127,197**	116,969
Other income	5	**817**	314
Cost of services		**(34,101)**	(33,374)
Occupancy expenses		**(7,213)**	(5,911)
Employee benefits expense		**(39,756)**	(34,669)
Advertising & marketing		**(1,803)**	(1,035)
Practice equipment expenses		**(817)**	(624)
Depreciation and amortisation expense	6	**(8,277)**	(6,376)
Finance costs	6	**(12,611)**	(15,478)
Professional and consulting fees		**(2,680)**	(1,856)
Contingent equity consideration expense		**-**	(5,367)
Additional share issue expense		**-**	(3,963)
Other expenses		**(2,200)**	(7,098)
Share of net profit of associates accounted for using the equity method		**1,066**	703
Profit before income tax		**19,622**	2,235
Income tax expense	7	**(4,285)**	(3,879)
Profit (loss) for the year		**15,337**	(1,644)
Other comprehensive income		**-**	-
Total comprehensive income (loss) is attributable to:			
Equity holders of Virtus Health Pty Limited		**15,337**	(1,644)

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

Virtus Health Pty Limited
Consolidated balance sheet
As at 30 June 2011

	Notes	2011 $'000	2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**6,963**	8,781
Trade and other receivables	9	**8,191**	4,786
Inventories	10	**120**	124
Other financial instruments	11	**-**	113
Total current assets		**15,274**	13,804
Non-current assets			
Investments accounted for using the equity method	12	**3,822**	2,425
Other financial assets	13	**208**	123
Derivative financial instruments	14	**138**	195
Property, plant and equipment	15	**20,159**	17,756
Deferred tax assets	16	**1,426**	884
Intangible assets	17	**309,816**	302,075
Total non-current assets		**335,569**	323,458
Total assets		**350,843**	337,262
LIABILITIES			
Current liabilities			
Trade and other payables	18	**13,299**	18,074
Deferred revenue		**3,338**	6,337
Borrowings	19	**18,383**	9,636
Current tax liabilities		**6,922**	1,912
Provisions	20	**1,090**	896
Other financial liabilities	21	**-**	10,414
Total current liabilities		**43,032**	47,269
Non-current liabilities			
Borrowings	22	**99,204**	109,665
Derivative financial liabilities	14	**2,387**	3,314
Provisions	24	**2,911**	2,447
Total non-current liabilities		**104,502**	115,426
Total liabilities		**147,534**	162,695
Net assets		**203,309**	174,567
EQUITY			
Contributed equity	25	**183,309**	170,360
Reserves	26(a)	**2,743**	2,287
Retained earnings	26(b)	**17,257**	1,920
Total equity		**203,309**	174,567

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

	Notes	Contributed equity $'000	Share Based Payments Reserve $'000	Retained earnings $'000	Total equity $'000
		Attributable to owners of the parent			
Balance at 1 July 2009		**137,776**	**1,625**	**3,564**	**142,965**
Loss for the period		-	-	(1,644)	(1,644)
Other comprehensive income		-	-	-	-
Total comprehensive income (loss)		-	-	**(1,644)**	**(1,644)**
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	25,26	669	(169)	-	500
Employee share options - value of employee services	37	-	831	-	831
		32,584	**662**	-	**33,246**
Balance at 30 June 2010		**170,360**	**2,287**	**1,920**	**174,567**
Profit for the period		-	-	15,337	15,337
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	**15,337**	**15,337**
Transactions with owners in their capacity as owners:					
Equity issued net of transaction costs and tax	25,32	12,458	-	-	12,458
Subscription for new shares	25	459	-	-	459
Issued to employees	25,26	32	(169)	-	(137)
Employee share options - value of employee services	37	-	625	-	625
		12,949	456	-	13,405
Balance at 30 June 2011		**183,309**	**2,743**	**17,257**	**203,309**

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

Virtus Health Pty Limited
Consolidated statement of cash flows
For the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**119,509**	115,140
Payments to suppliers and employees (inclusive of goods and services tax)		**(84,204)**	(74,559)
Other revenue		**242**	314
Finance costs paid		**(12,611)**	(13,313)
Income taxes paid/(refund)		**(167)**	(2,372)
Net cash inflow from operating activities	36	**22,769**	25,210
Cash flows from investing activities			
Payment for acquisition of subsidiary, net of cash acquired		**(14,406)**	(50,558)
Payments for property, plant, equipment and intangibles		**(8,165)**	(8,022)
Payments for acquisition of associates		**(1,397)**	-
Associate distributions received		**900**	763
Proceeds on sale of property, plant & equipment		**510**	-
Interest received		**466**	310
Net cash outflow from investing activities		**(22,092)**	(57,507)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**201**	13,465
Payment for shares bought back		**(169)**	-
Proceeds from borrowings		**18,807**	34,702
Repayment of borrowings		**(20,606)**	(15,262)
Payment for finance lease facility		**(728)**	(815)
Net cash inflow (outflow) from financing activities		**(2,495)**	32,090
Net increase (decrease) in cash and cash equivalents		**(1,818)**	(207)
Cash and cash equivalents at the beginning of the financial year		**8,781**	8,988
Cash and cash equivalents at end of year	8	**6,963**	8,781

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

Notes to the consolidated financial statement

1 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have 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
The consolidated financial statements of the Virtus Health Pty Limited group also comply 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 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 3.

(iv) Going Concern
At 30 June 2011 the consolidated entity had a current net asset deficiency of $27.76 million (2010: $33.47 million) arising primarily from its deferred revenue receipts of $3.34 million (2010: $6.34 million) and short term borrowings of $18.38 million (2010: $9.64 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.

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 February 2011 (see note 20 and 33), 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 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 2011 and the results of all subsidiaries for the year then ended. Virtus Health Pty Limited and its subsidiaries together are referred to in these financial statements as the group or the consolidated entity.

Subsidiaries are all 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.

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.

1 Summary of significant accounting policies (continued)

(ii) Associates
The interest in an associate 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 associate is recognised in the statement of comprehensive income, and the share of movements in reserves is recognised in reserves in the balance sheet. Details relating to the associates are set out in note 34.

Profits or losses on transactions establishing the associates and transactions with the associates are eliminated to the extent of the Group's ownership interest until such time as they are realised by the associates 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 at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(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 statement of comprehensive income 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also 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 or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period 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.

1 Summary of significant accounting policies (continued)

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 is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(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 profit or loss 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 is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of 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 profit or loss on a straight-line basis over the period of the lease.

(g) Business combinations

The purchase price method of accounting is used to account for all business combinations, except for 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. Costs directly attributable to the acquisition are expensed. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price are expensed 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 as a deduction, net of tax, from the proceeds.

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 statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

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 the end of each reporting period.

(i) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, 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

1 Summary of significant accounting policies (continued)

bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in 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. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

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 30 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 profit or loss 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 profit or loss.

(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

Classification
The group classifies its financials assets 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, re-evaluates this designation at the end of each reporting period.

Recognition and derecognition
Purchases and sales of financial assets are recognised on trade-date - the date on which the group commits to purchase or sell the asset. 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 other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

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 statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statement of comprehensive income.

1 Summary of significant accounting policies (continued)

(m) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. 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)
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

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 statement of comprehensive income and are included in finance costs.

(n) Property, plant and equipment

Property, plant and equipment is 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 statement of comprehensive income 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 or useful life if shorter
- 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 the end of each reporting period.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(o) Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised but it 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.

1 Summary of significant accounting policies (continued)

(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 statement of comprehensive income 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 statement of comprehensive income 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.

(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 end of each reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(s) Employee benefits

(i) Short-term obligations
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of each reporting period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Other long-term employee benefit obligations
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 end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments
Share-based compensation benefits are provided to employees via the Virtus Health Pty Limited Share Option Plan and other closed share option schemes. Information relating to these schemes is set out in note 37.

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 statement of comprehensive income with a corresponding adjustment to equity.

1 Summary of significant accounting policies (continued)

(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 to providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period 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, 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.

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 within 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 controlled entities 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 stand-alone taxpayer 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 wholly owned entities fully compensate Virtus Health Pty Limited for any current tax payable assumed and are compensated by Virtus Health Pty Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Virtus Health Pty Limited under the tax consolidation legislation. These amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The tax amounts receivable/payable are due upon request from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising with tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group. Any difference between the amounts assumed and amounts receivable or payable are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

1 Summary of significant accounting policies (continued)

(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 statements. Amounts in the financial statements 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 2011 reporting periods. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments,* AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013)
AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and is likely to affect the group's accounting for its financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The group will adopt AASB 9 in financial year ending 30 June 2014.

(ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 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 clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(iii) AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement* (effective from 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 make any such prepayments and has no such scheme. The amendment is therefore not expected to have any impact on the group's financial statements. The group intends to apply the amendment from 1 July 2011.

(iv) AASB 2010-6 *Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)
Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the group's disclosures. The group intends to apply the amendment from 1 July 2011.

(v) AASB 2010-8 *Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets* (effective from 1 January 2012)
In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The group will apply the amendment from 1 July 2012. It is currently evaluating the impact of the amendment.

1 Summary of significant accounting policies (continued)

(z) Parent entity financial information

The financial information for the parent entity, Virtus Health Pty Limited, disclosed in note 38 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

(ii) Tax consolidation legislation
Virtus Health Pty Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Virtus Health Pty Limited, and the controlled entities 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 stand-alone taxpayer 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 wholly owned entities fully compensate Virtus Health Pty Limited for any current tax payable assumed and are compensated by Virtus Health Pty Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Virtus Health Pty Limited under the tax consolidation legislation. These amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The tax amounts receivable/payable are due upon request from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising with tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(iii) Financial guarantees
Where the parent entity have provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(iv) Share-based payments
The grant by the company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2 Financial risk management

The group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price 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 foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, aging analysis for credit risk.

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

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

The group holds the following financial instruments:

	2011 $'000	2010 $'000
Financial assets		
Cash and cash equivalents	6,963	8,781
Trade and other receivables	7,230	4,177
Other financial assets	208	236
Derivative financial instruments	138	195
Investments	3,822	2,425
Total financial assets	18,361	15,814
Financial liabilities		
Trade and other payable	13,299	18,074
Deferred revenue	3,338	6,337
Borrowings/Interest bearing liabilities	117,587	119,301
Derivative financial instruments	2,387	3,314
Other financial instruments	-	10,414
Total financial liabilities	136,611	157,440

(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 to achieve this when necessary.

As at the end of each reporting period, the group had the following variable rate borrowings and interest rate swap contracts outstanding:

	30 June 2011		30 June 2010	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Bank overdrafts and bank loans	8.14 %	116,574	9.80 %	117,725
Interest rate cap	7.86 %	(31,098)	7.86 %	(10,395)
Interest rate swaps (notional principal amount)	6.31 %	(62,153)	6.19 %	(86,757)
Net exposure to cash flow interest rate risk		23,323		20,573

The group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. 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 (mainly 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 2011, 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 $81,600 higher/lower (2010 – change of 100 bps: $19,000 higher/lower), mainly as a result of lower/higher interest expense on bank loans.

(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 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 repayment and ultimately to refer to debt collection agencies.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and 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 had access to the following undrawn borrowing facilities at the end of each reporting period:

	2011 **$'000**	2010 $'000
Floating rate		
- Expiring beyond one year (bank loans)	**8,444**	13,459
	8,444	13,459

The Group has total facilities of $25 million in the form of a capital expenditure facility of $20 million and a working capital facility of $5 million. As at 30 June 2011, the drawdown on the capital expenditure facilities is $14,531,514. Drawdowns of $2,023,946 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 3 years (2010: 4 years)

Maturities of financial liabilities
The tables below analyse the Group'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.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at the end of each reporting period.

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
At 30 June 2011	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade and other payables	**13,299**	**-**	**-**	**-**	**-**	**13,299**	**13,299**
Deferred revenue	**3,338**	**-**	**-**	**-**	**-**	**3,338**	**3,338**
Bank loans	**11,541**	**11,256**	**21,657**	**104,411**	**-**	**148,865**	**116,574**
Lease liabilities	**319**	**197**	**285**	**350**	**4**	**1,156**	**1,013**
Derivative financial instruments	**-**	**-**	**-**	**2,387**	**-**	**2,387**	**2,387**
Financial liabilities	**28,497**	**11,453**	**21,942**	**107,148**	**4**	**169,045**	**136,611**
At 30 June 2010							
Trade and other payables	18,074	-	-	-	-	18,074	18,074
Deferred revenue	6,337	-	-	-	-	6,337	6,337
Bank loans	10,517	10,535	24,236	124,006	-	169,295	117,725
Lease liabilities	393	238	516	528	155	1,830	1,576
Derivative financial instruments	-	-	-	3,314	-	3,314	3,314
Financial liabilities	35,321	10,773	24,752	127,848	155	198,850	147,026

(d) Fair value estimation

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 2010, Virtus Health Pty Limited 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 assets and liabilities measured and recognised at fair value at 30 June 2011 and 30 June 2010.

At 30 June 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Derivatives financial instruments	-	138	-	138
Total assets	-	138	-	138
Liabilities				
Derivatives financial liabilities	-	2,387	-	2,387
Total liabilities	-	2,387	-	2,387

At 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Derivatives financial instruments	-	195	-	195
Total assets	-	195	-	195
Liabilities				
Other financial liability	-	-	10,414	10,414
Derivatives financial liabilities	-	3,314	-	3,314
Total liabilities	-	3,314	10,414	13,728

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. 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 are 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.

3 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.

(i) Impairment of goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 17 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) 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 37.

(iii) 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, liabilities and contingent liabilities acquired. In doing so, the group 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.

4 Revenue

	2011 $'000	2010 $'000
From continuing operations		
Rendering of services	**126,145**	116,212
Rents and sub-lease rentals	**586**	447
Interest	**466**	310
	127,197	116,969

5 Other income

	2011 $'000	2010 $'000
Trial grants	**125**	124
Management fees	**-**	58
Other revenue	**692**	132
	817	314

6 Expenses

	2011 $'000	2010 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	**2,319**	1,693
Plant and equipment under finance leases	**617**	616
Medical equipment	**1,103**	799
Office equipment	**393**	280
Furniture and fittings	**63**	61
Total depreciation	**4,495**	3,449
Amortisation		
Brands names	**878**	801
IT Development and software	**2,904**	2,126
Total amortisation	**3,782**	2,927
Finance expenses		
Interest expenses	**12,621**	11,244
Bank facilities fees written off due to refinancing	**-**	2,696
Revaluation of interest rate swaps (net)	**(870)**	705
Amortisation of bank facility fees	**694**	671
Finance charge payable under finance leases	**166**	162
Total Finance costs	**12,611**	15,478
Total rental expense relating to operating leases	**5,555**	4,563
Share based payment expense	**625**	831
Inventory expense	**1,796**	3,155
Superannuation contributions	**2,594**	2,244
Research and development	**3,118**	1,710

7 Income tax expense

	2011 $'000	2010 $'000
(a) Income tax expense:		
Current tax	**4,941**	4,662
Deferred tax	**(656)**	(783)
	4,285	3,879
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 16)	**(361)**	(1,598)
(Decrease) increase in deferred tax liabilities (note 23)	**(295)**	815
	(656)	(783)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2011 $'000	2010 $'000
Profit from continuing operations before income tax expense	**19,622**	2,235
Tax at the Australian tax rate of 30% (2010 – 30%)	**5,887**	671
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Amortisation of intangibles	**-**	240
Entertainment	**22**	13
Share-based payments	**188**	249
Research and development	**(239)**	(128)
Sundry items	**-**	(6)
Contingent consideration equity issue	**-**	2,799
	5,858	3,838
Adjustments for current tax of prior years	**(1,573)**	41
Income tax expense	**4,285**	3,879

8 Current assets - Cash and cash equivalents

	2011 $'000	2010 $'000
Cash at bank and in hand	**6,963**	8,781
	6,963	8,781

(a) Reconciliation to cash at the end of the year

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

	2011 $'000	2010 $'000
Balances as above	**6,963**	8,781
Bank overdrafts (note 19)	**-**	-
Balances per consolidated statement of cash flows	**6,963**	8,781

(a) Risk exposure

The group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

9 Current assets - Trade and other receivables

	2011 $'000	2010 $'000
Trade receivables	5,715	3,569
Provision for impairment of receivables (a)	(771)	(339)
	4,944	3,230
Other receivables	2,286	947
Prepayments	961	609
	8,191	4,786

(a) Impaired trade receivables

As at 30 June 2011 current trade receivables of the group with a nominal value of $1,112,000 (30 June 2010 - $624,000) were impaired. The amount of the provision was $771,000 (30 June 2010 - $339,000).

The ageing of these receivables is as follows:

	2011 $'000	2010 $'000
1 to 3 months	40	6
3 to 6 months	897	371
Over 6 months	175	247
	1,112	624

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

	2011 $'000	2010 $'000
At 1 July	339	61
Acquisition of subsidiary	-	86
Provision for impairment recognised during the year	735	619
Receivables written off during the year as uncollectible	(303)	(427)
	771	339

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

(b) Past due but not impaired

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

	2011 $'000	2010 $'000
1 to 3 months	814	753
	814	753

10 Current assets - Inventories

	2011 $'000	2010 $'000
Finished goods – at cost	120	124
	120	124

11 Current assets – other financial assets

	2011 $'000	2010 $'000
Security deposits	-	113
	-	113

12 Non-current assets – investments accounted for using the equity method

	2011 $'000	2010 $'000
Interest in associates (note 34)	3,822	2,425
	3,822	2,425

13 Non-current assets – other financial assets

	2011 $'000	2010 $'000
Security deposits	208	123
	208	123

14 Derivative financial instruments

	2011 $'000	2010 $'000
Non-current assets		
Interest rate swap contracts - cash flow hedges ((a)(i))	138	195
Total non-current derivative financial instrument assets	138	195
Non-Current liabilities		
Interest rate swap and cap contracts – cash flow hedges ((a)(i))	(2,387)	(3,314)
Total non-current derivative financial instrument liabilities	(2,387)	(3,314)

(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 and foreign exchange rates in accordance with the group's financial risk management policies (refer to note 2).

(i) Interest rate swap contracts - cash flow hedges
Bank loans of the group currently bear an average variable interest rate of 8.14%. 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% (2010: 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% (2010: 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 4.89% (2010: 4.50%).

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 statement of comprehensive income. In the year ended 30 June 2011 a net profit of $869,668 was recognised in finance costs (2010: net loss of $704,965).

(b) Risk exposures and fair value measurements

Information about the group's exposure to credit risk, foreign exchange and interest rate risk and about the methods and assumptions used in determining fair values is provided in note 2. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of each class of derivative financial assets mentioned above.

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
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
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 2011						
Cost or fair value	**19,387**	**1,990**	**7,949**	**1,662**	**401**	**31,389**
Accumulated depreciation	**(5,391)**	**(1,644)**	**(3,074)**	**(919)**	**(202)**	**(11,230)**
Net book amount	**13,996**	**346**	**4,875**	**743**	**199**	**20,159**
Year ended 30 June 2011						
Opening net book amount	**12,559**	**963**	**3,284**	**797**	**153**	**17,756**
Acquisition of subsidiary	**-**	**-**	**282**	**44**	**31**	**357**
Additions	**4,274**	**-**	**2,427**	**315**	**89**	**7,105**
Disposals	**(518)**	**-**	**(15)**	**(20)**	**(11)**	**(564)**
Depreciation charge	**(2,319)**	**(617)**	**(1,103)**	**(393)**	**(63)**	**(4,495)**
Closing net book amount	**13,996**	**346**	**4,875**	**743**	**199**	**20,159**

16 Non-current assets - Deferred tax assets

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Employee benefits	**1,457**	1,197
Other		
Doubtful debts	**231**	102
Make good provision	**564**	492
Accruals	**418**	226
Financial derivatives	**675**	994
Other	**818**	757
Total deferred tax assets	**4,163**	3,768
Set-off of deferred tax liabilities pursuant to set-off provisions	**(2,737)**	(2,884)
Net deferred tax assets	**1,426**	884
Deferred tax assets expected to be recovered within 12 months	**648**	1,013
Deferred tax assets expected to be recovered after more than 12 months	**3,515**	2,755
	4,163	3,768

Movements	Employee benefits $'000	Other $'000	Total $'000
At 30 June 2009	646	1,524	2,170
(Charged)/credited to the statement of comprehensive income	226	803	1,029
Acquisition of subsidiary	325	244	569
At 30 June 2010	1,197	2,571	3,768
(Charged)/credited to the statement of comprehensive income	**242**	**119**	**361**
Acquisition of subsidiary	**18**	**16**	**34**
At 30 June 2011	**1,457**	**2,706**	**4,163**

17 Non-current assets - Intangible assets

	Brand Names $'000	Goodwill $'000	Software $'000	Total $'000
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
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
Disposals	-	-	-	-
Amortisation charge	(801)	-	(2,126)	(2,927)
Closing net book amount	7,257	289,445	5,373	302,075
At 30 June 2011				
Cost	**9,095**	**299,196**	**9,074**	**317,365**
Accumulated amortisation and impairment	**(2,226)**	**-**	**(5,323)**	**(7,549)**
Net book amount	**6,869**	**299,196**	**3,751**	**309,816**
Year ended 30 June 2011				
Opening net book amount	**7,257**	**289,445**	**5,373**	**302,075**
Acquisition of subsidiary	**490**	**9,751**	**-**	**10,241**
Additions	**-**	**-**	**1,282**	**1,282**
Disposals	**-**	**-**	**-**	**-**
Amortisation charge	**(878)**	**-**	**(2,904)**	**(3,782)**
Closing net book amount	**6,869**	**299,196**	**3,751**	**309,816**

(a) Impairment tests for goodwill

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

A segment-level summary of the goodwill allocation is presented below.

2011	New South Wales $'000	Victoria $'000	Queensland $'000	Total $'000
Goodwill	**100,209**	**124,904**	**74,083**	**299,196**
	100,209	**124,904**	**74,083**	**299,196**

2010	New South Wales $'000	Victoria $'000	Queensland $'000	Total $'000
Goodwill	90,458	124,904	74,083	289,445
	90,458	124,904	74,083	289,445

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 extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business.

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

CGU	Long Term Growth rate		Pre Tax Discount rate	
	2011 %	2010 %	2011 %	2010 %
New South Wales	**3%**	3%	**16.0%**	16.0%
Victoria	**3%**	3%	**14.9%**	14.9%
Queensland	**3%**	3%	**15.8%**	15.8%

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 each CGU 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.

18 Current liabilities - Trade and other payables

	2011 $'000	2010 $'000
Trade payables	**4,499**	3,208
Other payables	**8,800**	7,614
Contingent purchase price obligation	**-**	7,252
	13,299	18,074

19 Current liabilities - Borrowings

	2011 $'000	2010 $'000
Bank loans	**17,947**	9,090
Lease liabilities (note 30)	**436**	546
Total current borrowings	**18,383**	9,636

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 22.

(b) Risk exposures

Details of the group's exposure to risks arising from current and non-current borrowings are set out in note 2.

20 Current liabilities - Provisions

	2011 $'000	2010 $'000
Employee benefits – long service leave – (a) below	1,090	896

(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.

	2011 $'000	2010 $'000
Leave obligations expected to be settled after 12 months	780	641

21 Current liabilities - Other liabilities

	2011 $'000	2010 $'000
Other liabilities	-	10,414

22 Non-current liabilities - Borrowings

	2011 $'000	2010 $'000
Secured		
Bank loans	98,627	108,635
Lease liabilities (note 30)	577	1,030
Total secured non-current borrowings	99,204	109,665

Secured liabilities and assets pledged as security

	2011 $'000	2010 $'000
The total secured liabilities (current and non-current) are as follows:		
Bank loans	116,574	117,725
Lease liabilities	1,013	1,576
Total secured liabilities	117,587	119,301

The bank loans are secured by guarantees by all group companies and fixed and floating charges 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:

	2011 $'000	2010 $'000
Current		
Floating charge		
Cash and cash equivalents	6,963	8,781
Receivables	8,191	4,786
Inventory	120	124
Other financial assets	-	113
Total assets pledged as security	15,274	13,804
Non-current		
Finance lease		
Plant and equipment	346	963
Floating charge		
Investments	3,822	2,425
Other financial assets	208	123
Derivative financial instruments	138	195
Plant and equipment	19,813	16,793
Deferred tax assets	1,426	884
Intangible assets	309,816	302,075
Total non-current assets pledged as security	335,569	323,458
Total assets pledged as security	350,843	337,262

The assets of Maroubra Day Surgery Pty Limited, City West 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 exposure to interest rate changes is provided in note 2.

23 Non-current liabilities - Deferred tax liabilities

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	675	648
Other		
Intangible assets	2,062	2,177
Other	-	59
Total deferred tax liabilities	2,737	2,884
Set-off of deferred tax liabilities pursuant to set-off provisions (note 16)	(2,737)	(2,884)
Net deferred tax liabilities	-	-
Deferred tax liabilities expected to be settled within 12 months	-	-
Deferred tax liabilities expected to be settled after more than 12 months	(2,737)	(2,884)
	(2,737)	(2,884)

Movements	Property, plant and equipment $'000	Intangible Assets $'000	Other $'000	Total $'000
At 1 July 2009	284	1,701	84	2,069
Charged/(credited)	364	(240)	(25)	99
Acquisition of subsidiary	-	716	-	716
At 30 June 2010	648	2,177	59	2,884
Charged/(credited)	**27**	**(263)**	**(59)**	**(295)**
Acquisition of subsidiary	**-**	**148**	**-**	**148**
At 30 June 2011	**675**	**2,062**	**-**	**2,737**

24 Non-current liabilities - Provisions

	2011 $'000	2010 $'000
Employee benefits - long service leave	**1,031**	797
Make good provision	**1,880**	1,650
	2,911	2,447

(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 2011 and 2020. 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 5.16% (2010: 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.

(b) Movements in provisions

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

	Make good provision $'000
Carrying amount at start of year	**1,650**
Additional provision recognised	**62**
Charged/(credited) to the profit or loss	**168**
Carrying amount at end of year	**1,880**

25 Contributed equity

	2011 Shares	2010 Shares	**2011 $'000**	2010 $'000
(a) Share capital				
Ordinary shares				
Fully paid	**53,324,938**	48,613,257	**183,309**	170,360
	53,324,938	48,613,257	**183,309**	170,360

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$'000
1 July 2009	Opening 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
1 July 2010	QFG contingent consideration	**3,878,579**	**$2.41**	**9,328**
1 July 2010	Subscription for new shares	**150,558**	**$3.11**	**459**
1 October 2010	Exercise 2008 options	**35,816**	**$4.71**	**169**
1 October 2010	Share buy back	**(35,816)**	**$4.71**	**(169)**
1 March 2011	Shares issued – acquisition consideration	**664,544**	**$4.71**	**3,130**
1 March 2011	Exercise 2008 options	**18,000**	**$1.75**	**32**
30 June 2011	Balance	**53,324,938**		**183,309**

(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 shares 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 reporting period, is set out in note 37.

(e) Capital risk management

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

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:

	2011 $'000	2010 $'000
Total borrowings	**117,587**	119,301
Less: cash and cash equivalents	**(6,963)**	(8,781)
Net debt	**110,624**	110,520
Total equity	**203,309**	174,567
Total capital	**313,933**	285,087
Gearing ratio	**35%**	39%

26 Reserves and retained earnings

	2011 $'000	2010 $'000
(a) Reserves		
Share-based payments	2,743	2,287
	2,743	2,287

Movements:

	2011 $'000	2010 $'000
Share-based payments reserve		
Balance at 1 July	2,287	1,625
Option expense	625	831
Issue of shares upon exercise of options	(169)	(169)
Balance 30 June	2,743	2,287

(b) Retained earnings

Movements in retained earnings were as follows:

	2011 $'000	2010 $'000
Balance at 1 July	1,920	3,564
Net profit/(loss) for the year	15,337	(1,644)
Balance at 30 June	17,257	1,920

(c) Nature and purpose of reserves

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.

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
Susan Channon, Chief Executive Officer, Virtus Health Pty Limited
Andrew Othen, Managing Director, Melbourne IVF Pty Limited
John Moller, Managing Director, IVF Australia Pty Limited and Queensland Fertility Group Pty Limited
(iii) Non-executive directors
Simon Pither
John McBain
Manuela Toledo (Alternate Director)
Michael Chapman (Alternate Director)
Frank Quinn
John Esler
Keith Harrison (Alternate Director)

(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 and Secretary, Virtus Health Pty Limited
Peter Illingworth	Medical Director, IVF Australia Pty Limited
Lyndon Hale	Medical Director, Melbourne IVF Pty Limited
David Molloy	Medical Director, Queensland Fertility Group Pty Limited

All of the above persons were also key management persons during the year ended 30 June 2010.

(c) Key management personnel compensation

	2011 **$**	2010 $
Short-term employee benefits*	**2,197,793**	1,636,352
Post-employment benefits	**127,646**	112,526
Long-term benefits	**140,478**	115,943
Share-based payments	**220,198**	318,485
	2,686,115	2,183,306

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

(d) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration
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 37.

(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.

2011 Name	Balance at start of the year	Granted as compen-sation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Virtus Health Pty Limited							
Susan Channon	95,976	106,157	-	-	202,133	90,976	111,157
Michael Chapman	87,500	-	-	-	87,500	77,500	10,000
Frank Quinn	357,500	-	-	-	357,500	97,500	260,000
John Moller	241,491	-	-	-	241,491	80,497	160,994
Andrew Othen	-	127,389	-	-	127,389	-	127,389
Other key management personnel of the group							
Peter Illingworth	457,150	-	-	-	457,150	55,394	401,756
Glenn Powers	312,257	-	-	-	312,257	104,175	208,352

2010 Name	Balance at start of the year	Granted as compen-sation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
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	312,257	-	-	-	312,257	-	312,257

(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.

2011 Name	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	509,644	-	19,502	529,146
Michael Chapman	881,698	-	33,738	915,436
Frank Quinn	1,086,141	-	41,561	1,127,702
John McBain	1,566,684	-	65,547	1,632,231
Manuela Toledo	737,294	-	41,326	778,620
John Moller	160,994	-	58,990	219,984
John Esler	373,116	-	136,714	509,830
Keith Harrison	304,435	-	111,548	415,983
Other key management personnel of the group				
Peter Illingworth	277,238	-	10,609	287,847
Lyndon Hale	1,175,013	-	49,160	1,224,173
David Molloy	488,799	-	179,101	667,900

2010 Name	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

(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:

	2011 **$**	2010 $
Amounts recognised as revenue		
Rental income for use of Virtus Health Pty Limited facilities	**119,464**	138,819
Amounts recognised as expense		
Fees for provision of medical services and procedures	**6,346,600**	6,216,807
Rental expense in respect of property at St George Private Hospital, Kogarah	**164,840**	126,915
Rental expense in respect of property at 23 Clarendon Street, East Melbourne	-	119,867
Rental expense in respect of property at 9 Scott Street, Toowoomba	**56,851**	43,363
Rental expense in respect of property at 225 Wickham Terrace, Brisbane	**49,861**	12,960
	6,618,152	6,519,912

At balance sheet date $626,132 was payable to key management personnel of the Group (2010: $586,425).

(f) Capital transactions with key management personnel

Marcus Darville, a Director of the Company, has a beneficial interest in Quadrant, a company which beneficially owns 46.7% of the issued ordinary shares of Virtus Health Pty Limited at 30 June 2011.

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.

28 Remuneration of auditors

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

	2011 $	2010 $
PwC Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	**307,500**	265,000
Total remuneration for audit and other assurance services	**307,500**	265,000
(ii) Taxation services		
Tax compliance services	**45,000**	117,000
Other tax services	**34,700**	8,000
Total remuneration for taxation services	**79,700**	125,000
(iii) Other services		
Accounting and other services	**50,917**	215,340

It is Group policy to utilise appropriate accounting and consulting resource for other services which may include tax advice and due diligence reporting on acquisitions, and it is Group policy to seek competitive tenders for such assignments as appropriate.

29 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2011 in respect of:

(i) Claims
Group companies are currently involved in litigations which may result in future liabilities to pay legal fees up to an insurance excess of $50,000. The company has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these claims but legal advice indicates that any liability that may arise in the unlikely event that claims are successful will not be significant and will be covered by the Group's insurance policies.

(ii) Guarantees
In addition to the secured loans, the Group has additional facilities in the form of a Working Capital facility of $5 million and a Capital Expenditure facility of $20 million. As at the date of signing this report the drawdown on the capital expenditure facility is $18,031,514. Drawdowns of $2,023,946 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 3 years (2010: 4 years).

(iii) Associates
For contingent liabilities relating to associates refer to note 34.

30 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of each reporting period but not recognised as liabilities is as follows:

	2011 $'000	2010 $'000
Property, plant and equipment		
Payable:		
Within one year	**473**	179
	473	179

(b) Lease commitments: group as lessee

(i) Non-cancellable operating leases
The group leases various offices and medical centres under non-cancellable operating leases expiring within two to eight years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Excess office space is sub-let to third parties also under non-cancellable operating leases.

	2011 $'000	2010 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**5,833**	4,892
Later than one year but not later than five years	**16,043**	16,178
Later than five years	**3,877**	5,729
	25,753	26,799

	2011 $'000	2010 $'000
Sub-lease payments		
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	**122**	442

(ii) Finance leases

	2011 $'000	2010 $'000
Commitments in relation to finance leases are payable as follows:		
Within one year	**516**	631
Later than one year but not later than five years	**640**	1,044
Later than five years	**-**	155
Minimum lease payments	**1,156**	1,830
Future finance charges	**(143)**	(254)
Recognised as a liability	**1,013**	1,576
Representing lease liabilities:		
Current (note 19)	**436**	546
Non-current (note 22)	**577**	1,030
	1,013	1,576

31 Related party transactions

(a) Parent entity

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 other related parties

The following transactions occurred with related parties:

	2011 $	2010 $
Share of profits (losses) of associates		
Maroubra Day Surgery Pty Limited	**919,901**	731,196
Obstetrics & Gynaecological Imaging Pty Limited	**(43,088)**	(28,471)
City West Day Surgery Pty Limited	**188,763**	-
Other transactions		
Fees paid to related party for services to the Board of the ultimate Australian parent entity	**50,000**	62,500

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

The following balances are outstanding at the end of each reporting period in relation to transactions with related parties:

	2011 $	2010 $
Current receivables (sales of goods and services)		
Associates	**188,763**	102,968
Current payables (purchase of goods)		
Associates	**(43,088)**	-
Distributions received in advance		
Associates	**(243,075)**	(262,976)

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.

(f) Transactions within the group

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.

g) Guarantees

The group is party to bank facility cross guarantees.

(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 subsidiaries and the loans are interest free. Outstanding balances are unsecured and are repayable in cash.

32 Business combination

(a) Summary of acquisition

On 1 March 2011 Virtus Health Pty Limited, through its wholly owned subsidiary IVF Australia Pty Limited, acquired 100% of the issued share capital and units of Hunter IVF Group Pty Limited.

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

	$'000
Purchase consideration	
Cash paid	7,320
Fair value of equity instruments issued	3,130
Total purchase consideration	10,450
Fair value of net identifiable assets acquired (refer to (c) below)	699
Goodwill on acquisition	9,751

The acquired business contributed revenues and other income of $1,260,436 and net profit before tax of $565,567 (excluding the cost of financing the transaction) to the Group for the period from 1 March 2011 to 30 June 2011. If the acquisition had occurred on 1 July 2010, consolidated revenue and other income and consolidated net profit before tax for the year ended 30 June 2011 would have been $4,176,694 and $1,449,852 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 2010, together with the consequential tax effects.

Included in the purchase consideration are 664,544 ordinary shares of Virtus Health Pty Limited valued at $4.71 per share. The share price of $4.71 was based on a negotiated valuation of the business between the vendors of New South Wales IVF Group Pty Limited and Virtus Health Pty Limited.

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
Purchase consideration	
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)	7,511
Goodwill acquired pre acquisition	-
Goodwill on acquisition	74,083

The acquired business contributed revenues and other income of $27,302,675 and net profit before tax 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 before tax 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 Virtus Health Pty Limited valued at $3.11 per share. The share price of $3.11 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 Pty Limited for the period 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.

(b) Purchase consideration - cash outflow

	2011 $'000	2010 $'000
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration *	14,820	54,180
Less: Balances acquired		
Cash	414	4,675
Outflow of cash - investing activities	14,406	49,505

Direct costs relating to the acquisition of $642,977 (2010: $1,196,382) have been included in other expenses in the results and in the operating cash flows in the statement of cash flows.

* Includes $7,500,000 earn out payment relating to Queensland Fertility Group Pty Limited acquired on 1 October 2009.

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition of Hunter IVF Group Pty Limited on 1 March 2011 are as follows:

	Acquiree's Carrying Amount $'000	Fair Value $'000
Cash	414	414
Trade and other receivables	213	173
Other current assets	15	15
Plant and equipment	360	357
Other non-current assets	11	-
Intangible assets: brand names	-	490
Deferred tax asset	-	34
Trade and other payables	(14)	(193)
Deferred revenue	(104)	(106)
Deferred tax liability	-	(148)
Other provisions	(270)	(259)
Provision for employee benefits	(72)	(78)
Net assets	553	699
Net identifiable assets acquired		699

The acquisition accounting detailed above has been prepared on a provisional basis.

The goodwill is attributable to the reputation of Hunter IVF Pty Limited in New South Wales. 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 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	-
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	7,511
Net identifiable assets acquired		7,511

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.

33 Subsidiaries and transactions with non-controlling interests

(a) Significant investments in 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 2011 %	Beneficial Interest 2010 %
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	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	100
The QFG Day Theatres Unit Trust	Australia	Units	100	100
Hunter IVF Pty Limited	Australia	Ordinary	100	-
Hunter Fertility Pty Limited	Australia	Units	100	-

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

34 Interests in associates

(a) Investments in associates

Interests are held in the following associates:

Unlisted	Country of Residence	Principal Activities	Ownership Interest 2011	Ownership Interest 2010	Carrying Amount of Investment 2011 $'000	Carrying Amount of Investment 2010 $'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 medical services	50%	50%	25	25
City West Day Surgery Pty Limited	Australia	Provision of medical services	50%	-	1,397	-
					3,822	2,425

	2011 $'000	2010 $'000
Current assets	1,116	508
Non-current assets	3,479	2,230
Total assets	4,595	2,738
Current liabilities	(773)	(223)
Non-current liabilities	-	(90)
Total liabilities	(773)	(313)
Share of assets employed in associates	3,822	2,425

Share of associates' revenue, expenses and results

	2011 $'000	2010 $'000
Revenue	**5,932**	3,385
Expenses	**(4,866)**	(2,682)
Profit/(loss) before income tax	**1,066**	703
Income tax expense	**-**	-
Profit after income tax	**1,066**	703

35 Events occurring after the reporting period

(a) Acquisition of Queensland Fertility Group Gold Coast Pty Limited

On 29 July 2011, Queensland Fertility Group, a subsidiary of Virtus Health Pty Limited, acquired the entire share capital and units of Queensland Fertility Group Gold Coast Pty Limited for a consideration of $3,500,000 paid in cash and the issue of ordinary shares in Virtus Health Pty Limited. The cash element of the acquisition was funded by a drawdown from a new Group capital expenditure facility.

Settlement of contingent consideration of $750,000 will be made by the issue of shares in Virtus Health Pty Limited to the vendors and shareholders Queensland Fertility Group Gold Coast subject to the performance of Queensland Fertility Group Gold Coast for the year ending 30 June 2012.

The financial effects of this transaction have not been brought to account at 30 June 2011. The operating results and assets and liabilities of the company will be consolidated from 1 August 2011.

36 Reconciliation of profit/(loss) after income tax to net cash inflow from operating activities

	2011 $'000	2010 $'000
Profit/(loss) for the year	**15,337**	(1,644)
Depreciation and amortisation	**8,277**	6,376
Net (profit)/loss on disposal of assets	**53**	-
Contingent equity consideration expense	**-**	5,367
Additional share issue expense	**-**	3,963
Amortisation of bank facility fees	**694**	671
Bank facility fees written off	**-**	2,696
Interest on finance lease facilities	**122**	209
Share based payments expense	**625**	1,331
Share of net profits of associates	**(1,066)**	(763)
Dividend and interest income	**(466)**	(310)
(Gain)/loss on revaluation of hedging instruments	**(870)**	705
Unwinding of discount on deferred consideration on acquisition of subsidiary	**166**	425
Movement in other financial asset	**-**	302
Doubtful debts expense	**144**	278
Other non-cash items	**(3)**	(4)
Change in operating assets and liabilities		
(Increase)/decrease in trade debtors	**(3,650)**	(2,322)
(Increase)/decrease in inventories	**4**	12
(Increase)/decrease in deferred tax assets	**(543)**	(783)
(Decrease)/increase in trade creditors	**2,282**	3,439
(Decrease)/increase in deferred revenue	**(2,999)**	1,067
Increase/(decrease) in provision for income taxes payable	**4,776**	3,277
(Decrease)/increase in other provisions	**(114)**	918
Net cash inflow (outflow) from operating activities	**22,769**	25,210

During the year, the company issued $12,917,000 of new equity as part of the purchase consideration for Hunter IVF Group Pty Limited and as part of the earn out payment for Queensland Fertility Group Pty Limited.

37 Share-based payments

(a) Employee Option Plan

Virtus Health Share Option Plan

The Virtus Health 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, performance 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.

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 summaries of options granted under the 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 2011								
Virtus Health Plan								
12-Nov-08	**12-Nov-18**	**$4.12**	**312,527**	**-**	**-**	**-**	**312,527**	**104,175**
25-Feb-09	**25-Feb-19**	**$4.12**	**44,000**	**-**	**-**	**-**	**44,000**	**13,666**
1-Jul-09	**1-Jul-19**	**$3.11**	**450,000**	**-**	**-**	**-**	**450,000**	**-**
1-Oct-09	**1-Oct-19**	**$3.11**	**241,491**	**-**	**-**	**-**	**241,491**	**80,497**
1-Jul-10	**1-Jul-20**	**$4.71**	**-**	**327,389**	**-**	**-**	**327,389**	**-**
1-Sep-10	**1-Sep-20**	**$4.71**	**-**	**106,157**	**-**	**-**	**106,157**	**-**
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**	**-**	**(6,000)**	**(4,000)**	**183,496**	**183,496**
10-Apr-08	**14-Feb-17**	**$3.15**	**216,075**	**-**	**-**	**-**	**216,075**	**154,042**
10-Apr-08	**1-Jan-18**	**$3.26**	**238,100**	**-**	**(10,000)**	**-**	**228,100**	**146,802**
10-Apr-08	**10-Apr-18**	**$2.98**	**11,000**	**-**	**(2,000)**	**-**	**9,000**	**6,660**
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**	**328,287**	**-**	**(35,816)**	**(20,001)**	**272,470**	**272,470**
Total			**4,049,488**	**433,546**	**(53,816)**	**(24,001)**	**4,405,217**	**1,084,817**
Weighted average exercise price			$2.41	$4.71	$1.07	$0.52	$2.66	$2.39
Consolidated 2010								
Virtus Health 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)**	**4,0490,488**	**590,635**
Weighted average exercise price			$2.15	$3.11	$0.00	$0.00	$2.41	$2.97

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 7.07 years (2010 – 7.88 years).

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2011 is set out as follows:

	Virtus Health Share Option Plan	Virtus Health Share Options Plan
Grant date	1 July 2010	1 September 2010
Fair value per option at grant date	$0.42 - $0.43	$0.40- $0.41

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

The assessed fair value at grant date of options granted during the year ended 30 June 2010 is set out below:

	Virtus Health Share Option Plan	Virtus Health Share Options 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 fair value at grant date is independently determined using a Binomial Option Valuation Model.

(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:

	2011 $'000	2010 $'000
Options issued under employee option plan	**625**	831
	625	831

38 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2011 $'000	2010 $'000
Balance sheet		
Current assets	**908**	569
Total assets	**201,500**	183,307
Current liabilities	**21,363**	17,690
Total liabilities	**21,363**	17,690
Net Assets	**180,137**	165,617
Shareholders' equity		
Contributed equity	**183,309**	170,360
Reserves		
Share-based payments	**2,595**	2,139
Retained earnings	**(5,767)**	(6,882)
	180,137	165,617
Profit or loss for the year	**1,115**	(9,902)
Total comprehensive income (loss)	**1,115**	(9,902)

(b) Guarantees entered into by the parent entity

Carrying amount included in current liabilities (refer to note 22 for the details of guarantees).

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2011 and 30 June 2010, the parent entity had no contractual commitments.

39 Franking Credits

	2011 $'000	2010 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2010: 30%)	23,065	16,184
	23,065	16,184

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.

In the directors' opinion:

(a) the financial statements and notes set out on pages 7 to 51 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 consolidated entity's financial position as at 30 June 2011 and of its 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.

MDarville

Marcus Darville
Director

Sydney
12 October 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 2011, and 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 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a)(i), 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.

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

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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 consolidated entity's financial position as at 30 June 2011 and of its 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 and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a)(i).

PricewaterhouseCoopers

PricewaterhouseCoopers

Eddie Wilkie

Eddie Wilkie
Partner

Sydney
12 October 2011