Virtus Health Pty Limited

ABN 80 129 643 492

Interim report
for the half-year ended 31 December 2012

Virtus Health Pty Limited ABN 80 129 643 492
Interim report – 31 December 2012

Contents

	Page
Directors' Report	3 - 4
Interim financial report	
Consolidated statement of comprehensive income	5
Consolidated balance sheet	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8
Notes to the consolidated financial statements	9 - 15
Directors' declaration	16
Independent auditor's review report to the members	17

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 half-year ended 31 December 2012.

Directors

The following persons were directors of Virtus Health Pty Limited during the whole of the financial period and up to the date of this report (unless otherwise stated):

Marcus Darville
Susan Channon
Frank Quinn
John McBain
Simon Pither
John Moller
John Esler
Andrew Othen
Michael Chapman (alternate director)
Manuela Toledo (alternate director)
Keith Harrison (alternate director).

Principal activities

The principal activities of the Group during the course of the period were the provision of fertility services, medical day procedure services and medical diagnostic testing. There was no significant change in the nature of these activities during the period.

Dividends - Virtus Health Pty Limited

Dividends paid to members during the during the half year ended 31 December 2012 were as follows:

	HY2013 $'000	HY2012 $'000
Interim ordinary dividend for the half year ended 31 December 2012 of 82 cents	**45,834**	-

Review of operations

A summary of the consolidated revenue and results are set out below:

	HY2013 $'000	HY2012 $'000
Revenue	**94,017**	80,629
Profit before income tax expense	**15,140**	14,340
Income tax expense	**(4,061)**	(3,932)
Profit attributable to members of Virtus Health Pty Limited	**11,079**	10,408

Significant changes in the state of affairs

Significant changes in the state of affairs of the group during the half year were as follows:

(a) Acquisition of Maroubra Day Surgery

On 7 August 2012, IVF Australia, a subsidiary of Virtus Health Pty Limited, acquired the remaining 50% share capital and units of Maroubra Day Surgery Pty Limited and Maroubra Day Surgery Trust respectively for a cash consideration of $8,103,000, funded by a drawdown from the Group capital expenditure facility and existing cash.

(b) Refinancing of the borrowing facility

On 16 August 2012, IVF Finance Pty Limited, a subsidiary of Virtus Health Pty Limited successfully renegotiated the external borrowing facility for a total of $220,000,000, with an expiry date of 17 August 2013. The funds were used to pay an ordinary dividend of $45,833,685 (82 cents per ordinary share) on 17 August 2012 and a capital return of $54,222,000 (99 cents per ordinary share) was paid on the 7 September 2012.

Matters subsequent to the end of the financial half year

No matter or circumstance has arisen since 31 December 2012 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

In the opinion of the directors, disclosure of information regarding the likely developments in the operations of the Group and the expected results of those operations in financial years after the financial half year would prejudice the interest of the Group. Accordingly, this information has not been included in this report.

Environmental regulation

The Group operates under normal Australian state and federal environmental legislation. The directors are not aware of any material breaches during the financial period and up to the date of this report.

Insurance of officers

Insurance is in place to insure the directors and officers of the company. The persons covered by this policy include directors, secretaries, officers and employees or any natural person who by virtue of applicable legislation or law is deemed to be a director or officer of the company. Liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against officers in their capacity as officers of the company.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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.

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

MDarville

Marcus Darville
Director

Sydney
25 March 2013

	Notes	HY2013 $'000	HY2012 $'000
Revenue from continuing operations	2	**94,017**	80,629
Other income	3	**5,603**	513
Doctor, consumables and associated costs		**(29,540)**	(21,224)
Occupancy expenses		**(5,262)**	(4,057)
Employee benefits expense		**(27,733)**	(22,942)
Advertising & marketing		**(1,292)**	(1,284)
Practice equipment expenses		**(624)**	(488)
Depreciation and amortisation expense		**(4,342)**	(4,227)
Finance costs	4	**(10,464)**	(7,887)
Professional and consulting fees		**(978)**	(1,632)
Other expenses		**(4,537)**	(3,779)
Share of net profit of associates accounted for using the equity method		**292**	718
Profit before income tax		**15,140**	14,340
Income tax expense	5	**(4,061)**	(3,932)
Profit for the half year		**11,079**	10,408
Other comprehensive income		**-**	-
Total comprehensive income is attributable to:			
equity holders of Virtus Health Pty Limited		**11,079**	10,408
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:		**Cents**	Cents
Basic earnings per share	11	**20.0**	19.4
Diluted earnings per share	11	**18.4**	18.2

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

	Notes	31 Dec 2012 $'000	30 June 2012 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**20,617**	9,439
Trade and other receivables		**11,168**	9,613
Inventories		**177**	-
Total current assets		**31,962**	19,052
Non-current assets			
Investments accounted for using the equity method		**2,256**	3,913
Other financial assets		**232**	241
Property, plant and equipment		**22,373**	22,596
Deferred tax assets		**2,261**	3,329
Intangible assets		**325,863**	312,529
Total non-current assets		**352,985**	342,608
Total assets		**384,947**	361,660
LIABILITIES			
Current liabilities			
Trade and other payables		**16,038**	15,450
Deferred revenue		**2,011**	3,973
Derivative financial liabilities		**471**	-
Borrowings		**217,945**	14,240
Provisions		**2,147**	1,561
Current tax liabilities		**51**	5,320
Total current liabilities		**238,663**	40,544
Non-current liabilities			
Borrowings		**221**	89,267
Derivative financial liabilities		**-**	3,217
Provisions		**3,426**	3,641
Total non-current liabilities		**3,647**	96,125
Total liabilities		**242,310**	136,669
Net assets		**142,637**	224,991
EQUITY			
Contributed equity	9	**132,629**	184,815
Reserves		**7,845**	3,259
Retained earnings		**2,163**	36,917
Total equity		**142,637**	224,991

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

		Attributable to owners of the parent			
	Notes	Contributed equity $'000	Share Based Payments Reserve $'000	Retained earnings $'000	Total equity $'000
Balance at 30 June 2011		183,309	2,743	17,257	203,309
Profit for the half year		-	-	10,408	10,408
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	10,408	10,408
Transactions with owners in their capacity as owners:					
Equity issued for acquisition consideration		1,000	-	-	1,000
Share options		-	273	-	273
		1,000	273	-	1,273
Balance at 31 December 2011		184,309	3,016	27,665	214,990
Balance at 30 June 2012		184,815	3,259	36,917	224,991
Profit for the half year		-	-	11,079	11,079
Other comprehensive income		-	-	-	-
Total comprehensive income		-	-	11,079	11,079
Transactions with owners in their capacity as owners:					
Equity issued for acquisition consideration		-	-	-	-
Share options		-	4,586	-	4,586
Contributions of equity		2,036	-	-	2,036
Capital return		(54,222)			(54,222)
Dividends provided for or paid	10	-	-	(45,833)	(45,833)
		(52,186)	4,586	(45,833)	(93,433)
Balance at 31 December 2012		132,629	7,845	2,163	142,637

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 half-year ended 31 December 2012

	Notes	HY2013 $'000	HY2012 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**90,632**	79,597
Payments to suppliers and employees (inclusive of goods and services tax)		**(66,110)**	(53,280)
Other revenue		**93**	513
Finance costs paid		**(7,318)**	(6,237)
Income taxes paid		**(8,264)**	(6,953)
Net cash inflow from operating activities		**9,033**	13,640
Cash flows from investing activities			
Payment for acquisition of subsidiary and businesses, net of cash acquired		**(7,290)**	(3,471)
Payments for property, plant, equipment and intangibles		**(2,537)**	(3,537)
Payments for acquisition of associates		**-**	(91)
Proceeds on sale of property, plant & equipment		**-**	-
Interest received		**222**	261
Net cash outflow from investing activities		**(9,605)**	(6,838)
Cash flows from financing activities			
Payment of dividends		**(44,911)**	-
Capital return to shareholders		**(54,222)**	-
Proceeds from borrowings		**216,000**	3,500
Repayment of borrowings		**(101,877)**	(10,992)
Payment on termination of hedges		**(3,082)**	-
Payment for finance lease facility		**(158)**	(329)
Net cash outflow from financing activities		**11,750**	(7,821)
Net increase / (decrease) in cash and cash equivalents		**11,178**	(1,019)
Cash and cash equivalents at the beginning of the financial year		**9,439**	6,963
Cash and cash equivalents at end of year		**20,617**	5,944

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

1 Basis of preparation of half year report

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The financial statements are for the half year reporting period ended 31 December 2012 for the consolidated entity consisting of Virtus Health Pty Limited and its subsidiaries.

The consolidated interim financial report for the half-year reporting period ended 31 December 2012 has been prepared in accordance with Accounting Standard AASB134 *Interim Financial Reporting.*

This consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

i) Going Concern

At 31 December 2012 the consolidated entity had a current net asset deficiency of $207 million (2011: $23.6m) arising primarily from its deferred revenue receipts of $2.01 million (2011: $3.0m) and short term borrowings of $217.94 million (2011: $ 14.3m). The borrowing facility has been classified as current in the financial statements as it is repayable on 17 August 2013. The directors are not aware of any reason that would prevent the successful re-negotiation of the facility. The group generated an operating EBITDA of $32.45m for the half year ended 31 December 2012 (2011:$28.19m)(see note 8). The group generated operating cash flows of $9.0m for the half year ended 31 December 2012 (2011: $13.6m) and has $20.6m in bank and cash balances at 31 December 2012 (2011:$9.4m).

Having reviewed and considered the expected cash flows, working capital, capital expenditure and expected ability to re-finance its loan facilities, 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.

2 Revenue

	HY2013 $'000	HY2012 $'000
From continuing operations		
Rendering of services	**93,009**	79,822
Rents and sub-lease rentals	**786**	546
Interest	**222**	261
	94,017	80,629

3 Other income

	HY2013 $'000	HY2012 $'000
Trial grants	**8**	127
Revaluation increment on investment	**5,503**	-
Other income	**92**	386
	5,603	513

4 Expenses

	HY2013 $'000	HY2012 $'000
Profit before income tax includes the following specific expenses:		
Total finance costs	**10,464**	7,887
Share based payment expense – employee benefits expense	**338**	273
Share based payment expense – doctor, consumables and associated costs	**5,382**	-

5 Income tax expense

	HY2013 $'000	HY2012 $'000
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**15,140**	14,340
Tax at the Australian tax rate of 30% (2012 – 30%)	**4,542**	4,302
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	**1,716**	82
Entertainment	**-**	9
Gain on revaluation of investment	**(1,651)**	-
Research and development	**(225)**	11
Adjustments for current tax of prior years	**(321)**	(472)
Income tax expense	**4,061**	3,932

6 Contingent liabilities

(a) Contingent liabilities

The Group had contingent liabilities at 31 December 2012 in respect of:

(i) Claims
Group companies are currently involved in litigation which may result in future liabilities 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.

7 Business Combinations

1 - Acquisition of Maroubra Day Surgery

(a) Summary of acquisition

On 7 August 2012 Virtus Health Pty Limited, through its wholly owned subsidiary IVF Australia Pty Limited, acquired the remaining 50% of the issued share capital and units from Maroubra Day Surgery Pty Limited.

Details of net assets acquired and goodwill are as follows:

	$'000
Purchase consideration:	
Cash paid	8,103
Revaluation increment on original investment	5,503
Original investment	2,600
Total purchase consideration	16,206
Fair value of net identifiable assets acquired (refer to (c) below)	1,936
Goodwill	14,270

The goodwill is attributable to the workforce and the profitability of the acquired business.

(b) Cash outflow

	$'000
Outflow of cash to acquire business, net of cash acquired:	
Cash consideration	8,103
Less: Balances acquired	
Cash	(813)
Outflow of cash – investing activities	7,290

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Fair value $'000
Cash	813
Trade and other receivables	1,089
Plant, equipment and software	532
Inventory	252
Trade and other payables	(437)
Other provisions	(137)
Provision for employee benefits	(176)
Net assets	1,936

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

2 - Acquisition of Gold Coast IVF

(a) Summary of acquisition

On 29 July 2011 Virtus Health Pty Limited, through its wholly owned subsidiary Queensland Fertility Group Pty Limited, acquired 100% of the issued share capital Fertility Gold Coast Pty Limited.

Details of net assets acquired and goodwill are as follows:

	$'000
Purchase consideration:	
Cash paid	3,557
Fair value of equity instruments issued	1,000
Contingent consideration	506
Total purchase consideration	5,063
Fair value of net identifiable assets acquired (refer to (c) below)	111
Goodwill	4,952

The goodwill is attributable to the workforce and the profitability of the acquired business.

(b) Cash outflow

	$'000
Outflow of cash to acquire business, net of cash acquired:	
Cash consideration	3,557
Less: Balances acquired	
Cash	86
Outflow of cash – investing activities	3,471

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Fair value $'000
Cash	86
Trade receivables	100
Plant, equipment and software	170
Deferred tax assets	19
Trade and other payables	(104)
Deferred revenue	(57)
Other provisions	(54)
Provision for employee benefits	(49)
Net assets	111

8 Segment reporting

(a) Description of segments

AASB 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Group currently has three operating segments being New South Wales, Queensland and Victoria. The Group has determined that a disclosure of one aggregated segment, healthcare services, is most appropriate due to the similar economic characteristics faced by of the operating segments and the similar nature of the products and services being delivered to a similar customer base.

(b) Segment information

Half year ended 31 December 2012	**Healthcare Services $'000**
Segment Revenue	
Sales to external customers	**93,009**
Intersegment Sales	**367**
Total Segment Revenue	**93,376**

Segment result	**Healthcare Services $'000**
Operating earnings before interest, tax, depreciation and amortisation (EBITDA)	**32,450**

Half year ended 31 December 2011	Healthcare Services $'000
Segment Revenue	
Sales to external customers	79,822
Intersegment Sales	1,027
Total Segment Revenue	80,849
Segment result	
Operating EBITDA	28,192

(c) Other segment information

(i) Segment revenue
Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties reported to the Executive Committee is measured in a manner consistent with that in the consolidated statement of comprehensive income.

Revenue from external customers is derived from the provision of healthcare services. A breakdown of revenue and result is provided in the tables above.

Segment revenue reconciles to total revenue from continuing operations

	HY2013 $'000	HY2012 $'000
Total segment revenue	**93,376**	80,849
Intersegment Sales	**(367)**	(1027)
Interest revenue	**222**	261
Other revenue	**786**	546
Total revenue from continuing operations (note 2)	**94,017**	80,629

(ii) Operating EBITDA

	HY2013 $'000	HY2012 $'000
Operating EBITDA	**32,450**	28,192
Share based payment expenses	**(5,720)**	(273)
Depreciation and amortisation expenses	**(4,342)**	(4,227)
Interest revenue	**222**	261
Interest expense	**(7,355)**	(6,310)
Amortisation of bank facility fee	**(2,774)**	(441)
Revaluation of interest rate swap	**(335)**	(1,136)
Revaluation increment on investment	**5,503**	-
Other	**(2,509)**	(1,726)
Profit before income tax from continuing operations	**15,140**	14,340

9 Contributed equity

	31 Dec 2012 Shares	30 June 2012 Shares	31 Dec 2012 $'000	30 June 2012 $'000
(a) Share capital				
Ordinary shares				
Fully paid	**55,894,740**	53,644,738	**132,629**	184,815
	55,894,740	53,644,738	**132,629**	184,815

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$'000
31 December 2011	**Balance**	**53,537,253**		**184,309**
23 May 2012	Shares issued – acquisition consideration	107,485	$4.71	506
30 June 2012	**Balance**	**53,644,738**		**184,815**
17 August 2012	Subscription for new shares	**2,250,000**	$0.91*	**2,036**
7 September 2012	Capital return	-	$0.99	(54,222)
31 December 2012	**Balance**	**55,894,740**		**132,629**

*Shares were issued at $4.71 per share and are partly paid.

10 Dividends

(a) Ordinary shares	HY2013 $'000	HY2012 $'000
Interim dividend provided for the half year ended 31 December 2012 of 82 cents (2012- no dividend)	**45,834**	-

11 Earnings per share

	HY2013 Cents	HY2012 Cents
(a) Basic earnings per share:		
From continuing operations attributable to the ordinary equity holders of the company	**20.0**	19.4
(b) Diluted earnings per share:		
From continuing operations attributable to the ordinary equity holders of the company	**18.4**	18.2

(c) Reconciliation of earnings used in calculating earnings per share:

	HY2013 $'000	HY2012 $'000
Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	**11,079**	10,408
Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	**11,346**	10,558

(d) Weighted average number of shared used in denominator

	HY2013	HY2012
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**55,320,011**	53,506,098
Adjustments for calculation of diluted earnings per share		
Options	**6,381,235**	4,408,372
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**61,701,246**	57,914,470

In the directors' opinion:

(a) the financial statements and notes set out on pages 5 to 15:
  (i) comply with Accounting Standards and other mandatory professional reporting requirements; and
  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-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.

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

Marcus Darville
Director

Sydney
25 March 2013

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Virtus Health Pty Limited (the company), which comprises the balance sheet as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Virtus Health Pty Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report does not give a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting*. As the auditor of Virtus Health Pty Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Virtus Health Pty Limited does not:

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

(a) give a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

(b) comply with Accounting Standard AASB 134 *Interim Financial Reporting*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Eddie Wilkie

Eddie Wilkie
Partner

Sydney
28 March 2013