Healthbridge Enterprises Pty Ltd

ABN 27 132 880 392

Financial statements for the year ended

30 June 2011

Healthbridge Enterprises Pty Ltd

Contents

Directors' report

For the year ended 30 June 2011

The directors present their report together with the consolidated financial report of Healthbridge Enterprises Pty Ltd ('Group'), being the Company (Healthbridge Enterprises Pty Ltd) its subsidiaries, and the Group's interest in associated entities for the financial year ended 30 June 2011, and the auditor's report thereon.

1 Directors

The directors of the Company at any time during or since the end of the financial year are:

Director	Appointed	Resigned
Robert Cooke	9 October 2008	1 July 2011
Neil Broekhuizen	22 October 2008	
Michael Hill	9 October 2008	1 July 2011
Richard Henshaw	4 November 2008	
John Hickey	9 October 2008	10 May 2011
Tom Woolley	8 October 2008	
Kleanthes Yannakou	1 July 2011	2 December 2011
Christopher Aughton	19 July 2011	

2 Principal activities

The principal activities of the Group during the course of the financial year was the provision of medical services in the area of human reproduction and human pathology.

3 Operating and financial review

Overview of the Group

The loss after tax for the equity holders of the Company for the year ended 30 June 2011 was $13,418,189 (2010: $23,080,038 loss).

4 Significant changes in the state of affairs

On 31 January 2011, the Group sold its interest in Healthbridge Diagnostics Holdings Pty Ltd ('HDH') to a third party for proceeds totalling $37 million, representing $36.5 million repayment of intercompany loans and $0.93 million for sale of shares. Of these proceeds $2.45 million was passed to the minority shareholder, HDH Employee Trust ('HDE').

During the year the company completed the conversion of a property acquired in 2010 into a new private hospital and accommodation for the substantial part of the Monash IVF Pty Ltd subsidiaries business and commenced the trading of the private hospital.

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

5 Environmental regulation

The Group's operations are not subject to any significant environmnental regulations under a law of the Commonwealth or State or Territory.

6 Dividends

No dividends were paid or declared during the period. No recommendation for payment of dividends have been made.

Directors' report

For the year ended 30 June 2011

7 Events subsequent to reporting date

On 16 September 2011 the Group divested assets in it's equity accounted investment, Repromed Christchurch Ltd. This transaction will result in an immaterial gain to the Group.

In December 2010, a subsidiary company breached a financial covenant with its senior lender. The breach was acknowledged by the lender but no action was taken by the lender whilst the subsidiary negotiated new covenants and other loan terms with the lender. An amendment to the funding arrangement was negotiated prior to 30 June 2011. The documentation for the revised arrangment was executed after the financial year end resulting in the loan being classified as current at year end in the financial statements of both subsidiary and in these consolidated accounts.

As at the date of signing these accounts the Repromed Finance Pty Ltd and its related entities remains compliant with its revised covenants.

On 22 September 2011 notice was received from the Australian Taxation Office ('ATO') advising that a comprehensive risk review will be undertaken into the parent and the Repromed subsidiary respective tax consolidated groups, tax affairs for the 2009 and 2010 income tax periods. At this stage the Directors are unable to determine what impact the review will have, if any. The ATO review is ongoing at the date of this report.

The ATO has undertaken a tax audit of the subsidiary Monash IVF Holdings Pty Ltd ("Monash IVFH") and Monash IVFH's tax consolidated group over the last 2 years. The ATO are in the process of finalising their audit and requested support for the deduction of redemption premiums on certain financing instruments on an accruals basis. The ATO are considering an alternative view that these premiums should be deducted when paid. In late April 2012, Monash IVFH supplied the ATO with strong legal opinion including senior counsel advice supporting the basis for treatment adopted by Monash IVFH. The ATO has not yet responded to the submissions. If the ATO maintain their position Monash IVF could appeal the decision. Whilst the Directors believe the appropriate treatment has been adopted if the ATO position was upheld an estimated tax payment of $5.6 million would be required to be made. The company have the cash resources to make such a payment and would remain compliant with bank covenants.

The Directors of Monash IVF Holdings Pty Ltd approved a $2,814,036 dividend to shareholders on 18 October 2011.

The Board is assessing the sale of land and buildings it owns along with the Group's interest in the private hospital business. The private hospital was developed with designs and services in place to expand the hospital beyond its current configuration of 3 operating theatres and 30 overnight beds. Subsequent to the year end a Development Application was approved to add an additional two storeys to the building and concepts for additional operating theatres and ward accommodation obtained. Proceeding with this expansion would dramatically improve the financial performance of the hospital business. Accounting standards preclude recognition of the improved financial performance when assessing the carrying value of the existing assets. Accordingly an impairment of the value of the existing assets related to the existing business has been made.

Directors' report

For the year ended 30 June 2011

7 Events subsequent to reporting date (continued)

Other than disclosed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial periods.

8 Likely developments

The Group expects to at a minimum maintain the present status and level of operations.

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

9 Indemnification and insurance of officers and auditors

Since the end of the previous financial year, the Group has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Group.

10 Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for financial year ended 30 June 2011.

This report is made in accordance with a resolution of the directors:

Richard Henshaw
Director

Dated at Melbourne this 24th day of May 2012.

KPMG

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To the directors of Healthbridge Enterprises Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2011 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

M. Bisatto

Maurice Bisetto
Partner

Melbourne

24 May 2012

Healthbridge Enterprises Pty Ltd

Statement of financial position

As at 30 June 2011

In AUD	*Note*	Consolidated 2011	2010
Assets			
Cash and cash equivalents	*19*	20,259,471	14,926,633
Trade and other receivables	*17*	6,078,944	6,608,871
Current tax assets	*16*	-	1,791,754
Other assets	*18*	3,144,907	5,921,623
Total current assets		29,483,322	29,248,881
Deferred tax assets	*16*	8,826,150	9,133,415
Property, plant and equipment	*13*	40,740,203	33,854,275
Intangible assets	*14*	206,105,440	211,109,507
Other assets	*18*	3,163,930	4,030,479
Total non-current assets		258,835,723	258,127,676
Total assets		288,319,045	287,376,557
Liabilities			
Trade and other payables	*23*	12,590,496	12,441,719
Loans and borrowings	*21*	53,686,256	11,813,431
Employee benefits	*22*	3,141,735	3,369,946
Current tax payable	*16*	290,929	-
Total current liabilities		69,709,416	27,625,096
Loans and borrowings	*21*	221,755,646	266,991,895
Employee benefits	*22*	566,681	969,934
Deferred tax liabilities	*16*	13,576,150	11,773,094
Total non-current liabilities		235,898,477	279,734,923
Total liabilities		305,607,893	307,360,019
Net assets/(liabilities)		(17,288,848)	(19,983,462)
Equity			
Share capital	*20*	48,812,142	40,568,354
Reserves		565,328	(415,392)
Retained earnings		(37,434,997)	(24,052,713)
Total equity attributable to equity holders of the company		11,942,473	16,100,249
Minority interest		(29,231,321)	(36,083,711)
Total equity/(deficit)		(17,288,848)	(19,983,462)

The notes on pages 10 to 49 are an integral part of these consolidated financial statements.

Healthbridge Enterprises Pty Ltd

Statement of comprehensive income

For the year ended 30 June 2011

		Consolidated	
In AUD	***Note***	**2011**	**2010**
Continuing operations			
Revenue	*8*	83,539,472	75,772,494
Raw materials and consumables used		(5,512,785)	(6,240,817)
Employee benefit expense	*9*	(28,139,950)	(24,460,595)
Employee incentive scheme payments		(180,331)	(228,375)
Depreciation and amortisation expense	*13,14*	(5,786,775)	(7,414,620)
Professional and other fees		(11,986,488)	(10,895,124)
Occupancy and property expense		(3,809,514)	(2,936,266)
IT and communications expense		(4,672,602)	(4,066,598)
Marketing, advertising and public relations expense		(1,681,796)	(1,086,415)
Corporate costs		(1,043,485)	(1,093,994)
Other expenses	*10*	(7,376,087)	(15,205,209)
Results from operating activities		13,349,659	2,144,481
Finance income		984,066	1,623,722
Finance expense		(32,101,673)	(27,441,002)
Net finance expense	*11*	(31,117,607)	(25,817,280)
Share of profit of equity accounted investees, net of income tax	*15*	-	-
Loss from continued operation before income tax		(17,767,948)	(23,672,799)
Income tax (expense)/benefit	*12*	(662,525)	988,532
Loss from continued operation for the period after tax		(18,430,473)	(22,684,267)
Discontinued operation			
Revenue from discontinued operation	*6*	10,755,233	3,491,060
Expense from discontinued operation		(23,063,381)	(16,071,269)
Related tax benefit		-	4,491,313
Gain on sale of subsidiary		23,825,997	-
Income tax		-	-
Profit from discontinued operation after tax		11,517,849	(8,088,896)
Other comprehensive income			
Net change in fair value of cash-flow hedges		1,240,444	(184,526)
Other comprehensive loss for the period, net of income tax		1,240,444	(184,526)
Total comprehensive income for the period		(5,672,180)	(30,957,689)
(Loss)/profit attributable to:			
Equity holders of the Company		(13,418,189)	(23,080,038)
Minority interest		6,505,565	(7,693,125)
Loss for the period		(6,912,624)	(30,773,163)
Total comprehensive (loss)/profit attributable to:			
Equity holders of the Company		(12,437,469)	(23,261,427)
Minority interest		6,765,289	(7,696,262)
Total comprehensive (loss)/profit for the period		(5,672,180)	(30,957,689)

The notes on pages 10 to 49 are an integral part of these consolidated financial statements.

Healthbridge Enterprises Pty Ltd

Statement of changes in equity
For the year ended 30 June 2011

In AUD	Share capital	Retained earnings	Hedging reserve	Non-controlling interest	Total
Consolidated					
Balance at 30 June 2009	17,200,000	(1,016,240)	(237,870)	156,858	16,102,748
Shares issued during the year	23,368,354	-	-	736,194	24,104,548
Changes in ownership interest in subsidiaries that do not result in a loss of control	-	43,565	7,004	(50,569)	-
Loss attributable to the members of parent	-	(23,080,038)	-	-	(23,080,038)
Minority interest acquired through business combination	-	-	-	(28,673,069)	(28,673,069)
Dividends to non-controlling interest	-	-	-	(560,000)	(560,000)
Effective portion of changes in fair value of cash flow hedges	-	-	(184,526)	-	(184,526)
Loss attibutable to minority interest	-	-	-	(7,693,125)	(7,693,125)
Balance at 30 June 2010	40,568,354	(24,052,713)	(415,392)	(36,083,711)	(19,983,462)
Shares issued during the year	8,243,788	-	-	600,006	8,843,794
Changes in ownership interest in subsidiaries that do not result in a loss of control	-	35,905		(35,905)	-
Loss attributable to the members of parent	-	(13,418,189)	-	-	(13,418,189)
Dividends to non-controlling interest	-	-	-	(477,000)	(477,000)
Effective portion of changes in fair value of cash flow hedges	-	-	980,720	259,724	1,240,444
Profit attibutable to minority interest	-	-	-	6,505,565	6,505,565
Balance at 30 June 2011	48,812,142	(37,434,997)	565,328	(29,231,321)	(17,288,848)

The notes on pages 10 to 49 are an integral part of these consolidated financial statements.

Healthbridge Enterprises Pty Ltd

Statement of cash flows

For the year ended 30 June 2011

In AUD	*Note*	**Consolidated** **2011**	**2010**
Cash flows from operating activities			
Cash receipts from customers		104,307,095	80,462,303
Cash paid to suppliers and employees		(89,416,619)	(78,242,376)
Cash generated from operations		14,890,476	2,219,927
Finance costs		(12,582,798)	(13,650,169)
Income tax paid		1,510,463	(2,084,157)
Net cash flows from/(used in) operating activities	*29*	3,818,141	(13,514,399)
Cash flows from investing activities			
Interest received		-	888,255
Acquisition of subsidiary (including debt acquired), net of cash acquired	*7*	-	(26,314,789)
Deferred consideration for previous year acquisition of	*7*	-	(14,243,275)
Acquisition costs paid	*7*	-	(13,094,406)
Acquisition of paid property, plant and eqipment	*13*	(26,356,602)	(29,839,075)
Proceeds from sale of property, plant and equipment		54,000	
Proceeds from sale of investments		34,637,000	
Net cash flows from/(used in) investing activities		8,334,398	(82,603,290)
Cash flows from financing activities			
Proceeds from issue of share capital	*20*	8,243,759	23,368,354
Proceeds from issue of share capital to minority interests	*20*	600,006	736,194
Proceeds from issue of promissory notes	*21*	27,183,427	51,727,725
Proceeds from issue of redeemable preference shares	*21*	-	4,097,280
Proceeds from exercise of share options	*20*	-	-
Payment of transaction costs for loan facilities	*21*	-	(986,284)
Repurchase of own shares	*20*	-	-
Repayment of borrowings	*21*	(42,846,893)	(16,547,676)
Proceeds from loans	*21*	-	25,327,469
Proceeds from sale of investment in associate	*15*	-	9,509,666
Dividends paid to minority interests	*20*	-	(560,000)
Net cash flows from/(used in) financing activities		(6,819,701)	96,672,728
Net increase/(decrease) in cash and cash equivalents		5,332,838	555,039
Cash and cash equivalents at beginning of period		14,926,633	14,371,594
Cash and cash equivalents at end of period	*19*	20,259,471	14,926,633

The notes on pages 10 to 49 are an integral part of these consolidated financial statements.

1 Reporting entity

Healthbridge Enterprises Pty Ltd (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is Aurora Place Level 39, 88 Phillip Street, Sydney, NSW 2000. The consolidated financial statements as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities') and the Group's interest in associates. The principal activities of the Group during the course of the financial period were the provision of medical services in the area of human reproduction and human pathology.

2 Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on May 2012.

(b) Principles of consolidation

The Group has applied the acquisition method for business combinations as disclosed in note 6.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see note 6). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

The value of trademark acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(b) Principles of consolidation (continued)

Contingent liabilities

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Non-controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities within the Group are eliminated. Accounting policies of subsidiaries are consistent with the accounting policies of the Group.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are initially recognised at cost being the fair value of the consideration paid. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Minority interests in the result of subsidiaries are shown separately in the statement of comprehensive income and statement of financial position respectively.

(c) Basis of measurement

The consolidated financial statements have been prepared on an accrual basis and are based on historical cost except for the following:

- derivative financial instruments are measured at fair value; and
- financial instruments at fair value through profit or loss are measured at fair value.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models. All derivative financial instruments are valued using unadjusted quoted prices in active markets for identical assets or liabilities.

(d) Functional and presentation currency

The financial report is presented in Australian dollars, which is the Group's functional currency.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The estimates and assumptions that have a significant risk in respect of estimates based on future events which could have a material impact on the assets and liabilities are:

Impairment of goodwill

The directors have assessed the valuation of goodwill based on best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. The directors have assessed the recoverable amount of goodwill based on value-in-use calculations. These calculations are based on projected cash flows covering a period not exceeding five years. The present value of future cash flows has been calculated using a pre-tax discount rate of 13.49% to determine the value-in-use.

Estimation of fair values of assets acquired in Business combination

The Directors have estimated the fair value of net liabilities acquired using the best available information, including reference to an expert report prepared by Leadenhall VRG Pty Ltd.

(f) Going concern

The Group is in a net asset deficiency position of $17,288,848 (2010: $19,983,462), net current asset deficiency over current liabilities of $40,226,094 (2010: surplus of $5,522,022) and incurred a net loss of $6,912,624 (2010: $30,773,163). The net asset deficiency position is substantially the result of an accounting election made by the Group upon the consolidation of Monash IVF Holdings Pty Ltd. In accordance with accounting standard AASB 3 Business Combinations, the Group has the election to account for the value of the minority interest using either the acquisition method or the fair value method. This election is undertaken on a transaction by transaction basis. In accounting for the acquisition of the Monash IVF Holdings business, the Group elected to use the acquisition method, which resulted in the non-controlling interests being valued at their proportionate interest in the recognised amounts of identifiable assets and liabilities of the acquiree, without consideration of any portion of goodwill that may be attributable to the minority interest. Accordingly, this results in lower goodwill and minority interest values, as goodwill is not ascribed to the minority interest. Had the Group elected to account for the minority interest using the fair value method, the value of goodwill and minority interest would be increased to reflect the goodwill attributable to the interest held by minorities. The reason for the shortfall in net current assets is the requirement to classify the loan facility as current and this is explained further below.

The accounts have been prepared on a going concern basis, which contemplates continuity of business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. If assets and liabilities are not realised and extuinguished in the ordinary course of business they may realise and settle for amounts that may be different to those stated at reporting date.

(f) Going concern (continued)

The Directors consider that there are reasonable grounds to believe the consolidated entity will be able to pay its debts as and when they fall due as forecast operating cashflows indicate that cash reserves should be sufficient to fund operations, and there will be the continuing financial support of the Group's bankers and other lenders, including the continued support of its shareholders through the capitalisation of interest accruing on shareholder loans until such time as cashflows generated from operations are sufficient to meet repayment.

In December 2010 a subsidiary breached a financial covenant, included in its loan facility agreement. Accordingly the balance outstanding of $46,310,470 at reporting date has been classified as a current liability. New terms had been renegotiated by 30 June 2011 however these were not documented until September 2011. The original term of the facility being October 2013, remains unchanged with key covenants and offset facilities being amended. Had the negotiations with the lender concluded prior to 30 June 2011, the outstanding current balance of $46,310,470 would have been classified as non-current and no current asset deficiency would exist at 30 June 2011.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at foreign exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: cash and cash equivalents, loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge certain floating interest rate risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows tha could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below. All derivative financial instruments are valued using unadjusted quoted prices in active markets for identical assets or liabilities.

Cash flow hedge

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(iv) Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs (see below). Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "Other income" in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	2011	**2010**
Property plant and equipment	2-10 years	2-10 years
Software	2-10 years	2-10 years
Buildings	40 years	40 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(d) Intangible assets

Goodwill

Goodwill on consolidation represents the excess of the cost of an acquisition over the fair value of the Company's share of net identifiable assets of the acquired entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or an other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

(e) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised in the Group's statement of financial position.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost.

(g) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are Grouped together into the smallest Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Groups of assets (the "cash-generating unit").

(h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(i) Employee benefits

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefits are measured at their present value of the estimated future cash outflow to be made in respect of services provided by the employees up to the reporting date. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations.

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(k) Revenue

(i) Services

Revenue from services rendered is recognised in the profit or loss on completion of services provided. An IVF cycle is completed upon egg collection (OPU). Pathology revenue is recognised on completion of pathology episode.

Revenue from patient fees and auxilliary medical supplies is recognised when the medical procedure is performed or drugs are supplied.

(ii) Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(iii) Other revenue

Other revenue is recognised whe the right to receive revenue has been established.

(l) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(m) Finance income and expense

Finance income relating to interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rate applicable to the financial assets.

Finance expense comprise interest expense on borrowings, dividends on preference shares classified as liabilities and losses on hedging instruments that are recognised in profit or loss. Finance costs are expensed as

Foreign currency gains and losses are reported on a net basis.

(n) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(n) Income tax (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income tax expenses that arise from the distribution of cash dividends are recognised at the same time that the liability to pay the related dividend is recognised. The Company does not distribute non-cash assets as dividends to its shareholders.

(i) Tax consolidation

Healthbridge Enterprises and its controlled entities have implemented the tax consolidation legislation and formed a tax-consolidated Group from 8 October 2008. From 10 October 2008 Healthbridge Repromed Pty Ltd and its controlled entities joined the Healthbridge Enterprises Pty Ltd tax consolidation Group. On 28 March 2010 Healthbridge Repromed and its wholly owned subsidiaries exited Healthbridge Enterprises Pty Ltd tax consolidated Group. On 29 March 2010 Healthbridge Repromed and its controlled entities formed a new tax consolidation Group with Healthbridge Repromed Pty Ltd being the head entity. The parent entity and subsidiaries in the tax-consolidated Group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated Group in respect of tax amounts. During the year Healthbridge Hawthorn Pty Ltd, Healthbridge Hawthorn Finance Pty Ltd, Healthbridge Hawthorn Holdings Pty Ltd, Healthbridge CMS Pty Ltd, Healthbridge Property Holdings Pty Ltd, Healthbridge Property Hawthorn Pty Ltd and Healthbridge Obstetrics Holdings Pty Ltd joined the Healthbridge Enterprises Pty Ltd tax consolidated Group.

Healthbridge Diagnostic Holdings Pty Ltd and two subsidiary entities within the Group had implemented tax conoslidation legislation and have formed a tax-consolidated Group from 27 March 2009. This tax consolidated group was sold on 31 January 2011 as part of the HDH sale.

Monash IVF Holdings Pty Ltd and its subsidiaries implemented the tax consolidation legislation and have formed a tax-consolidated Group from 14 December 2007. Monash IVF Holdings Pty Ltd and subsidiaries in the tax-consolidated Group have entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated Group in respect of tax amounts.

Current tax expense (income), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Group are allocated to the Company and recognised using a 'Group allocation' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the Company's balance sheet and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity, and are recognised as amounts payable/(receivable) to other entities in the tax-consolidated Group in conjunction with the tax funding arrangement amounts.

(n) Income tax (continued)

The Company recognises deferred tax assets arising from unused tax losses to the extent that it is probable that future taxable profits of the Company will be available against which the assets can be utilised. The Company assesses the recovery of its unused tax losses and tax credits only in the period in which they arise, and before assumption by the head entity, in accordance with AASB 112 applied in the context of the tax-consolidated Group. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

(ii) Nature of tax funding arrangements and tax sharing arrangements

The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the Company recognising an inter-entity payable/(receivable) equal in amount to the tax liability/ (asset) assumed. The inter-entity payable/(receivable) is at call.

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

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

(o) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(p) Investments accounted for using the equity method

The equity method of accounting has been applied and recognised in the financial statements in relation to all associated companies. An associated company is a company over which the economic entity is able to exercise significant influence.

(q) Borrowing and preference shares

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

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amostised cost. Any differences between 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.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the statement of comprehensive income as finance costs.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 Financial Instruments, which becomes mandatory for the Group's 2014 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

4 Financial risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Credit risk is managed on a consolidated Group basis and reviewed regularly by the administrative / accounts receivable function. Credit risk is managed through maintaining procedures ensuring, to the extent possible, that customers and counterparties to transactions are of sound credit worthiness and includes the utilisation of systems for the approval, granting and renewal of credit limits, the regular monitoring of exposure against such limits and the monitoring of the financial stability of significant customers and counterparties. Such monitoring is used in assessing receivables for impairment.

Payment reminder notices are issued to customers with outstanding balances at 30, 60 and 90 days. After which, collection of this debt is handled by a collection agency.

(b) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group enters into derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board.

Foregn exchange risk

The Group is not exposed to material levels of foreign currency risk at the reporting date or during the financial year.

Interest rate risk

Interest rate risk is managed using a mix of fixed and floating rate debt. At 30 June 2011 approximately 75% of Group debt is fixed. This is achieved by entering into interest rate swaps to mitigate interest rate risk on floating debt.

Price risk

The Group is not exposed to any material commodity price risk.

Capital management

Management control the capital of the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and to ensure that the Group can fund its operations and continue as a going concern. The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There are no externally imposed capital requirements.

5 Economic dependency

The continuing provision of medical servces in the area of human reproduction is dependent on the supply of certain drugs for use in its programs for which only two suppliers operate in Australia. Any shortage of supply, or delay in delivery could have a material impact on the company's operations. The Group's Australian operations are dependent on remaining licensed by the relevant state Health Departments.

Notes to the financial statements (continued)

For the year ended 30 June 2011

6 Discontinued operations

In January 2011 the Group sold its entire human pathology segment; the segment was not a discontinued operation or classified as held for sale as at 30 June 2010 and the comparative income statement has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to sell this segment early in 2011.

In AUD	***Note***	**2011**	**2010**
Results of discontinued operation			
Revenue		10,755,233	3,491,060
Raw materials and consumables		(2,670,236)	(923,805)
Employee benefits expense		(10,784,984)	(8,180,095)
Employee incentives benefit scheme		-	-
Depreciation and amortisation		(1,193,943)	(1,106,434)
Professional and other fees		(469,859)	(1,909,475)
Occupancy and property costs		(3,660,872)	(2,122,585)
IT and communication expenses		(430,569)	(2,025,743)
Marketing, advertising and public relations		(1,998,379)	-
Corporate costs		(125,000)	-
Other expenses		(1,746,518)	-
Finance income		16,979	196,868
Profit / (loss) before income tax		(12,308,148)	(12,580,209)
Income tax		-	4,491,313
Profit/(loss) from discontinued operations		(12,308,148)	(8,088,896)
Profit attributable to minority interest		(3,015,496)	(5,809,552)
Profit attributable to members of the parent entity		(9,292,652)	(2,279,344)
Cash flows from discontinued operation			
Net cash from operating activities		(11,114,205)	(13,138,970)
Net cash from investing activities		(1,714,496)	(9,767,473)
Net cash from financing activities		-	-
Net cash from discontinued operation		(12,828,701)	(22,906,443)

7 Acquisitions of subsidiaries and minority interests

Prior year acquisition

On 22 September 2009 the Group acquired approximately 80 per cent of both the ordinary shares in Monash IVF Pty Ltd (the acquiree) and the mandatory redeemable preference shares (treated as debt instruments), for $37.7m in cash. The acquiree's principal activity is the provision of medical services in the area of human reproduction.

From the date of acquisition the acquiree contributed revenue of $46,283k and loss of $4,718k (excluding the transaction costs). If the acquisition had occurred on 1 July 2009, management estimates that contributed revenue would have been $93,635k and profit $4,550k (excluding the transaction costs). In determining these amounts, management has assumed that the fair value adjustments, that arose on the date of acquisition would have been the same if the acquisition had occured on 1 July 2009.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

In AUD	Note	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Property, plant and equipment	*13*	3,256,000	-	3,256,000
Intangible assets	*14*	676,447	20,495,900	21,172,347
Other non-current assets		470,033	6,052,368	6,522,401
Trade and other receivables		6,098,000	-	6,098,000
Cash and cash equivalents		11,373,000	-	11,373,000
Loans and borrowings		(154,034,000)	-	(154,034,000)
Deferred tax liabilities	*16*	(6,100,207)	(3,365,710)	(9,465,917)
Employee benefits		(2,172,000)	-	(2,172,000)
Trade and other payables		(29,041,000)	-	(29,041,000)
Net identifiable liabilities		(169,473,727)	23,182,558	(146,291,169)
Less: Minority interest acquired				28,673,069
Less: Fair value of redeemable preference shares				56,270,547
Consideration paid, satisfied in cash				(37,687,789)
Goodwill on acquisition	*14*			(99,035,342)
Cash acquired				11,373,000
Cash paid for ordinary and redeemable preference shares				(37,687,789)
Transaction costs				(13,094,406)
Cash advance to facilitate the pay-down of external debt of Monash				(8,000,000)
Net cash outflow				(47,409,195)

Pre-acquisition carrying amounts were determined based on applicable AASBs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business's work force and the synergies expected to be achieved from integrating the company into the Group's existing business (see note 14).

7 Acquisitions of subsidiaries and minority interests (continued)

Transactions separate from the acquisition

The Group incurred acquisition related cost of $13.1 million relating to external legal fees, due diligence costs, financing cost and other costs. These costs have been recognised in Group's consolidated profit and loss. The Group also paid a $8 million cash advance to the acquiree on acquisition, to facilitate the pay-down of external debt.

During the 2010 period, the Group settled deferred consideration for its prior period acquisition of Repromed Australia. An amount of $14,243,275 was paid as full and final settlement for the Group's interest. Related transaction fees increased by $196,182 over expected transaction fees.

8 Revenue

In AUD	*Note*	Consolidated 2011	2010
Service revenue		80,987,100	73,632,295
Drug sales		892,703	1,639,869
Government grants		96,000	89,460
Other revenue		1,563,669	410,870
		83,539,472	75,772,494

9 Employee benefit expense

In AUD	Consolidated 2011	2010
Salaries and other employee benefits	26,310,939	21,515,240
Superannuation contributions	1,829,011	2,945,355
	28,139,950	24,460,595

10 Other expenses

In AUD		Consolidated 2011	2010
Transaction fees	7	-	13,094,406
Service provider sign-on fee		-	1,500,000
Loss on sale of associate		374,959	-
Impairment loss intangibles	14	1,549,000	-
Impairment loss PPE	13	4,546,815	-
Other		905,313	610,803
		7,376,087	15,205,209

Loss on sale of associate: On 19 November 2010 the Group divested assets in its equity accounted investment, IVF Auckland Limited. The transaction resulted in a loss of $374,959.

11 Finance income and finance costs

Recognised in profit or loss

In AUD	*Note*	Consolidated 2011	2010
Interest income		984,066	693,593
Movement in fair value of derivative instruments		-	930,129
Finance income		984,066	1,623,722
Borrowing costs		(526,964)	(410,031)
Interest costs on financial liabilities at amortised cost		(31,574,709)	(27,030,971)
Finance costs		(32,101,673)	(27,441,002)
Net finance expense recognised in profit or loss		(31,117,607)	(25,817,280)

12 Income tax expense

		Consolidated	
In AUD	*Note*	2011	2010
Current tax (expense)/benefit		(572,220)	123,387
Deferred tax (expense)/benefit		(90,305)	5,356,458
Total income tax (expense)/benefit		(662,525)	5,479,845

Numerical reconciliation between tax expense and pre-tax accounting profit

		Consolidated	
In AUD	*Note*	2011	2010
Loss for the period		(6,912,624)	(30,773,163)
Total income tax (benefit)/expense		662,525	(5,479,845)
Loss excluding income tax		(6,250,099)	(36,253,008)
Income tax using the Group's statutory income tax rate of 30% (2010: 30%)		(1,875,030)	(10,875,902)
Non-deductible interest		1,660,878	1,258,836
Utilisation of tax losses		(1,281,263)	-
Transaction fees capitalised		-	710,208
Invetment allowance		-	(93,135)
DTA not recognised		1,364,045	4,008,257
DTA movement through OCI		531,618	55,358
Adjustment for discontinued operations		567,767	-
Other items (net)		583,179	456,181
Under/(over) provision of previous year		(888,669)	(999,648)
		662,525	(5,479,845)

13 Property, plant and equipment

In AUD

	Consolidated			
	Land	Building	Plant and equipment	Total
Cost or deemed cost				
Balance at 30 June 2009	-	-	4,344,740	4,344,740
Additions	7,790,000	10,794,314	11,254,761	29,839,075
Acquistion through business combination	-	-	8,954,666	8,954,666
Disposals	-	-	(273,419)	(273,419)
Balance at 30 June 2010	7,790,000	10,794,314	24,280,748	42,865,062
Additions	-	16,957,331	5,829,609	22,786,940
Disposals due to sale of business	-	-	(7,800,504)	(7,800,504)
Disposals	-	-	(88,210)	(88,210)
Balance at 30 June 2011	7,790,000	27,751,645	22,221,643	57,763,288

In AUD

	Consolidated			
	Land	Building	Plant and equipment	Total
Depreciation and impairment losses				
Balance at 30 June 2009	-	-	(751,090)	(751,090)
Acquisition through business combination	-	-	(5,698,666)	(5,698,666)
Depreciation for the year	-	-	(2,561,031)	(2,561,031)
Balance at 30 June 2010	-	-	(9,010,787)	(9,010,787)
Depreciation for the year	-	(161,715)	(3,303,768)	(3,465,483)
Impairment loss	-	(3,937,542)	(609,273)	(4,546,815)
Balance at 30 June 2011	-	(4,099,257)	(12,923,828)	(17,023,085)
Carrying amount				
At 30 June 2010	7,790,000	10,794,314	15,269,961	33,854,275
At 30 June 2011	7,790,000	23,652,388	9,297,815	40,740,203

All propery, plant and equipment assets are held as security by lenders of commercial loans detailed in note 21.

The carrying value of the assets of Healthbridge Property Hawthorn Pty Ltd, being land and buildings, and Healthbridge Hawthorn Pty Ltd, plant and equipment, have been impaired in accordance with accounting standards based on the estimated future cashflows of the business. These future cashflows do not include benefits expected to arise from improving and enhancing the assets performance. The property was developed with a view to future expansion and costs were incurred to facilitate this expansion primarily through the design and provisioning of services for a larger facility. Subsequent to year end a Development Application was approved to expand the site with an additional two storeys of hospital use. A significant improvement in the financial performance of the facility is forecast to arise from the operations of the hospital when the site is further developed. However this improved performance cannot be used to support the costs incurred to develop the site. Accordingly an impairment of $4,546,815 has been recognised.

14 Intangible assets

In AUD	Consolidated 2011	2010
Software		
Cost (gross carrying amount)	8,467,156	7,790,709
Additions	21,709	-
Acquisition through business combination	-	676,447
Accumulated amortisation and impairment	(3,721,072)	(2,434,961)
Net carrying amount	4,767,793	6,032,195
Trademark		
Cost (gross carrying amount)	19,845,000	4,516,000
Acquisition through business combination	-	15,329,000
Net carrying amount	19,845,000	19,845,000
Public contract		
Cost (gross carrying amount)	688,000	688,000
Acquisition through business combination	-	-
Accumulated amortisation and impairment	(374,347)	(236,750)
Net carrying amount	313,653	451,250
Patient relationships		
Cost (gross carrying amount)	6,977,000	3,446,000
Acquisition through business combination	-	3,531,000
Accumulated amortisation and impairment	(6,977,000)	(5,564,600)
Net carrying amount	-	1,412,400
Employment Contracts		
Cost (gross carrying amount)	1,922,000	286,000
Acquisition through business combination	-	1,636,000
Accumulated amortisation and impairment	(1,213,692)	(573,024)
Net carrying amount	708,308	1,348,976
Goodwill		
Cost (gross carrying amount)	182,019,686	82,984,344
Acquisition through business combination	-	99,035,342
Impairment loss	(1,549,000)	-
Net carrying amount	180,470,686	182,019,686
Total intangible assets		
Cost (gross carrying amount)	219,940,551	219,918,842
Accumulated amortisation and impairment	(13,835,111)	(8,809,335)
Net carrying amount	206,105,440	211,109,507

14 Intangible assets (continued)

Reconciliation of carrying amount at beginning and end of the period

In AUD	Consolidated 2011	2010
Software		
Carrying amount - opening	6,032,195	6,548,571
Additions	21,709	-
Acquisition through business combination	-	676,447
Amortisation	(1,286,111)	(1,192,823)
Carrying amount - closing	4,767,793	6,032,195
Trademark		
Carrying amount - opening	19,845,000	4,516,000
Acquisition through business combination	-	15,329,000
Carrying amount - closing	19,845,000	19,845,000
Public contract		
Carrying amount - opening	451,250	588,853
Amortisation	(137,597)	(137,603)
Carrying amount - closing	313,653	451,250
Patient relationships		
Carrying amount - opening	1,412,400	1,459,593
Acquisition through business combination	-	3,531,000
Amortisation	(1,412,400)	(3,578,193)
Carrying amount - closing	-	1,412,400
Employment Contracts		
Carrying amount - opening	1,348,976	217,308
Acquisition through business combination		1,636,000
Amortisation	(640,668)	(504,332)
Carrying amount - closing	708,308	1,348,976
Goodwill		
Carrying amount - opening	182,019,686	83,015,773
Goodwill - finalisation of provisional accounting for Healthbridge Repromed	-	(31,429)
Acquisition through business combination	-	99,035,342
Impairment loss	(1,549,000)	-
Carrying amount - closing	180,470,686	182,019,686
Total intangible assets		
Carrying amount - opening	211,109,507	96,346,098
Goodwill - finalisation of provisional accounting for Healthbridge Repromed	-	(31,429)
Acquisition through business combination	-	120,207,789
Amortisation and impairment loss	(5,025,776)	(5,412,951)
Additions	21,709	-
Carrying amount - closing	206,105,440	211,109,507

14 Intangible assets (continued)

Imapirment testing for cash-generating units containing goodwill

In AUD	Consolidated 2011	2010
Goodwill allocated to:		
Repromed Finance Pty Ltd	81,435,344	82,984,344
Monash IVF Holdings Pty Ltd	99,035,342	99,035,342
	180,470,686	182,019,686

For the purpose of impairment testing, goodwill acquired in the prior periods is allocated to Repromed Finance Pty Ltd and Monash IVF Holdings Pty Ltd which represent the lowest levels within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of Repromed Finance Pty Ltd and its controlled entities and Monash IVF Holdings Pty Ltd and its controlled entities was based on its value in use. The carrying amount of Repromed Finance Pty Ltd and its controlled entities was determined to be higher than its recoverable amount resulting in an impairment loss of $1,549,000 (2010: nil) being recognised.

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the 5-year business plan approved by the Board in 2011. Cash flow for a further period were extrapolated using a constant growth rate of 3 percent (2010: 3%), based on directors' understanding of expected future business development.

- A pre-tax discount rate of 13-14% (2010: 13-14%) was applied in determining the recoverable amount. The discount rate was estimated based on past experience, and industry average weighted cost of capital.

The recoverable amount in Repromed Finance Pty Ltd is sensitive to possible changes in EBIT. Repromed Finance Pty Ltd is forecasting for EBIT to return to 2009 levels within three years. A decrease in forecast annual EBIT would result in further impairment.

Should the average actual growth in Monash IVF Holdings Pty Ltd decrease by half of management's forecast the amount by which the Monash IVF Holdings Pty Ltd recoverable amount exceeds its carrying amount may decrease from $47m to $9m.

15 Equity accounted investees

The Group's share of profit in its equity accounted investees for the year was nil (2010: nil).

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

In AUD	Owner-ship	Current assets	Non-current assets	Total assets	Current liabilities	Non- current liabilities	Total liabilities
2011							
Repromed New Zealand Limited	47.5%	712,278	1,973,249	2,685,527	831,323	1,349,134	2,180,457
		712,278	1,973,249	2,685,527	831,323	1,349,134	2,180,457
2010							
Repromed New Zealand Limited	47.5%	2,072,527	2,482,447	4,554,974	1,834,270	3,335,965	5,170,235
		2,072,527	2,482,447	4,554,974	1,834,270	3,335,965	5,170,235

The Group has not recognised accumulated losses relating to Repromed New Zealand Limited as they exceed the interest in the associate.

16 Tax assets and liabilities

Current tax assets and liabilities

In AUD	Consolidated 2011	2010
Current tax receivable/(liability)	(290,929)	1,791,754
	(290,929)	1,791,754

Deferred tax liability

In AUD	Consolidated 2011	2010
Opening balance	(11,773,094)	(153,412)
Acquired through business combination		(9,465,917)
Charged to income	(1,803,056)	(2,153,765)
Closing balance	(13,576,150)	(11,773,094)

Deferred tax asset

In AUD	Consolidated 2011	2010
Opening balance	9,133,415	1,623,192
Charged to income	258,044	7,510,223
Charged to other comprehensive income	(565,309)	-
Closing balance	8,826,150	9,133,415

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Deferred tax assets		Deferred tax liabilities	
In AUD	For the period ended 30/06/2011	For the period ended 30/06/2010	For the period ended 30/06/2011	For the period ended 30/06/2010
Property, plant and equipment	191,158	370,066	130,861	-
Intangible assets	-	1,502,824	639,857	10,222,719
Employee benefits	395,329	1,301,964	-	-
Loans and borrowings	397,348	2,785,244	19,372	-
Trade and other receivables	14,127	9,835	4,397	181,138
Trade and other payables	114,908	327,652		-
Tax losses carried forward	5,486,027	2,452,228	204,500	-
Other items	1,661,944	383,602	12,577,163	1,369,237
Cash flow hedges	565,309	-	-	-
Tax assets/liabilities	8,826,150	9,133,415	13,576,150	11,773,094

Directors believe that tax losses are recoverable based on future budget forecasts and their understanding of business development and future growth in demand for IVF and pathology services.

Notes to the financial statements (continued)

For the year ended 30 June 2011

17 Trade and other receivables

In AUD	Consolidated 2011	Consolidated 2010
Current		
Trade receivables	3,553,179	3,855,896
Provision for impairment	(146,877)	(145,467)
	3,406,302	3,710,429
Other debtors	2,075,552	1,294,645
Loan to other related party	25,149	1,000,000
Accrued income	571,941	603,797
	6,078,944	6,608,871

18 Other assets

In AUD	Consolidated 2011	Consolidated 2010
Current		
Prepayments	1,106,389	1,820,549
Inventory	559,756	1,758,134
GST receivable from Australian Tax Office	168,995	2,049,600
Other current assets	1,309,767	293,340
	3,144,907	5,921,623
Non-current		
Prepayments	-	-
Investments	250,412	250,054
Related party loans	2,913,518	3,780,425
	3,163,930	4,030,479

19 Cash and cash equivalents

In AUD	Consolidated 2011	Consolidated 2010
Cash at bank and in hand	6,373,694	5,910,136
Short-term bank deposits	13,885,777	9,016,497
Cash and cash equivalents	20,259,471	14,926,633
Cash and cash equivalents in the statement of cash flows	20,259,471	14,926,633

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 24.

20 Capital and reserves
Share capital

	Number of ordinary shares	
On issue at 30 June– fully paid	**30 June 2011**	**30 June 2010**
A class ordinary shares	29,705,487	25,242,894
B class ordinary shares	19,106,666	15,325,469
Z class shares	10	10
Z class special shares	10	10
	48,812,173	40,568,383

Share capital of the Group is divided into A ordinary shares, B ordinary shares and Z class shares. A and B ordinary shares confer on their holders the same entitlements in all respects. Z class shares do not confer on their holders any entitlements to participate in the profits or assets or attend and vote at any general meeting. Subject to and immediately prior to a exit event each Z class share will be automatically converted, without any requirement for board or share holder approval, into B Ordinary Share by subdividing Z class share into a greater number of shares in accordance with the formula set.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholder meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Issuance of ordinary shares

Directors resolved on the issuance of ordinary shares during the year ended 30 June 2011 as follows:

Date	*number of shares*
13 August 2010	3,349,234
17 November 2010	3,687,230
4 February 2011	1,207,326

All shares are issued at a price of $1 per share and are fully paid.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Unused franking credits

	Company	
	2011	**2010**
Unused franking credits	4,188,768	4,188,768

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for franking credits that will arise from the payment of the current tax liabilities. The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

21 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings which are measured at amortised cost. For more information about the Group's exposure to interest rate and liquidity risk, see note 24.

In AUD	Consolidated	
	2011	**2010**
Non-current liabilities		
Commercial loans	83,099,783	139,743,821
Promissory notes	73,326,437	81,687,725
Accumulated interest - Promissory notes	23,518,045	11,885,855
Redeemable preference shares ('RPS')	27,041,150	27,465,658
Accumulated interest - RPS	13,373,253	8,944,431
Capitalised finance facility fees	(487,385)	(2,735,595)
Derivatives	1,884,363	-
	221,755,646	266,991,895
Current liabilities		
Derivatives	241,786	3,898,237
Commercial loans and other loans	54,143,218	7,915,194
Capitalised finance facility fees	(931,248)	-
Other loans	232,500	-
	53,686,256	11,813,431

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In AUD				Consolidated 2011	
	Currency	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Commercial loans	AUD	8%	2013	46,999,932	46,999,932
Commercial loans	AUD	9%	2013	90,475,569	90,475,569
Promissory notes	AUD	14%	2017	96,844,482	96,844,482
Redeemable preference shares	AUD	14%	2017	21,219,763	21,219,763
Redeemable preference shares	AUD	16%	2014	19,194,640	19,194,640
Total interest-bearing liabilities				274,734,386	274,734,386

Commercial loans are secured over all assets of Healthbridge Repromed Pty Ltd, Healthbridge Property Hawthorn Pty Ltd and Monash IVF Holdings Pty Ltd and their controlled entities, with a total carrying amount of $355m (2010: $332m). Loans contain certain covenants requiring quarterly compliance. In December 2010 Healthbridge Repromed Pty Ltd breached a financial covenant, included in its loan facility agreement, accordingly the balance outstanding of $46,310,470 at reporting date has been classified as a current liability. In September 2011, the Group agreed terms with its financier to amend the loan facility agreement such that the new covenants have been met. The original term of the facility being October 2013, remains unchanged with key covenants and offset facilities being amended. Had the negotiations been completed prior to the balance date, the outstnading balance would have been classified as current.

Unused debt facility amounted to nil as at 30 June 2011 (2010: $5m).

21 Loans and borrowings (continued)

Promissory notes accrue interest on a monthly basis, however promissory notes and interest are payable in cash on the earlier of 30 Novemeber 2017, immediately prior to the date of share sale or listing on ASX or as elected by the directors of Healthbridge Enterprises Pty Ltd.

RPS's of $ 19,222,314 must be redeemed on the earlier of the 30 November 2017, immediately prior to the date Healthbridge Enterprises Pty Ltd is listed on the ASX or if there is a sale of all of the shares. RPS's of $17,187,775 must be redeemed on the earlier of the 16 December 2014, immediately prior to the winding up or if there is a sale of all of the shares of Monash IVF Holding Pty Ltd. RPS's accumulate interest on a monthly basis.

Promissory notes and Redeemable preference shares are not secured but rank in priority to ordinary shareholders upon wind-up. For accounting purposes the Group has classified these as a debt instrument.

				Consolidated	
				2010	
In AUD	**Currency**	**rate**	**Year of maturity**	**Face value**	**Carrying amount**
Commercial loans	AUD	7%	2013	85,253,719	85,253,719
Commercial loans		8%	2013	62,495,296	62,495,296
Promissory notes	AUD	14%	2017	93,492,887	93,492,887
Redeemable preference shares	AUD	14%	2017	19,222,314	19,222,314
Redeemable preference shares	AUD	16%	2014	17,187,775	17,187,775
Total interest-bearing liabilities				277,651,991	277,651,991

22 Employee benefits

	Consolidated	
In AUD	**2011**	**2010**
Current		
Liability for long service leave	1,333,045	1,023,676
Liability for annual leave	1,808,690	2,346,270
Total employee benefits - current	3,141,735	3,369,946
Non-current		
Liability for long service leave	566,681	969,934
Total employee benefits – non current	566,681	969,934

A provision has been recognised for employee benefits relating to long service leave for employees. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits has been included in note 3.

23 Trade and other payables

Current	**Consolidated**	
In AUD	**2011**	**2010**
Trade payables	2,099,355	2,355,440
Accrued expense	1,463,609	1,569,494
Prepaid income	4,504,835	4,260,458
Other current liabilities	4,522,697	4,256,327
	12,590,496	12,441,719

24 Financial assets

Credit risk

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated	
In AUD	**2011**	**2010**
Trade receivables	6,078,944	6,608,871
Other assets	7,693,975	6,144,368
Cash and cash equivalents	20,259,471	14,926,633
	34,032,390	27,679,872

The aging of the Group's trade receivables at the reporting date was:

	Consolidated	
In AUD	**2011**	**2010**
Past due 0-30 days	3,210,629	3,324,463
Past due 31-120 days	75,484	120,843
Past due 121 days to 1 year	100,784	83,006
More than one year	166,282	327,584
Provision for impairment	(146,877)	(145,467)
	3,406,302	3,710,429

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Consolidated	
	2011	**2010**
Balance at beginning of period	145,467	23,813
Impairment loss recognised	1,410	121,654
Balance at end of period	146,877	145,467

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Liquidity risk (continued)
Consolidated
30 June 2011

In AUD	Carrying amount	Contractual cash flows	Within 1 year	1-5 years	Over 5 years
Non-derivative financial liabilities					
Bank overdraft and loans	137,475,501	(152,506,248)	(53,994,575)	(98,511,673)	-
Promissory notes	96,844,482	(225,045,694)	-	-	(225,045,694)
Redeemable preference shares	40,414,403	(84,662,104)	-	(33,426,364)	(51,235,741)
Trade and other payables	8,085,661	(8,067,799)	(8,067,799)	-	-
	282,820,047	(470,281,845)	(62,062,374)	(131,938,037)	(276,281,434)

Consolidated
30 June 2010

In AUD	Carrying amount	Contractual cash flows	Within 1 year	1-5 years	Over 5 years
Non-derivative financial liabilities					
Bank overdraft and loans	147,659,015	(185,302,030)	(27,451,616)	(157,850,414)	-
Promissory notes	93,573,580	(167,828,717)	-	-	(167,828,717)
Redeemable preference shares	36,410,089	(59,175,446)	-	(25,632,207)	(33,543,239)
Trade and other payables	8,181,261	(8,181,261)	(8,181,261)	-	-
	285,823,945	(420,487,454)	(35,632,877)	(183,482,621)	(201,371,956)

Fair values
Fair values versus carrying amounts
The fair values equal carrying amounts as at 30 June 2011 as well as 30 June 2010.

Foreign exchange risk

The Group's exposure to foreign currency risk at reporting date was as follows, based on notional amounts:

	Consolidated			
In AUD	AUD	NZD	AUD	NZD
	30 June 2011		30 June 2010	
Current related party receivables	2,802	3,633	456,918	574,800
Non current related party receivables	-	-	1,325,663	1,582,329
Gross balance sheet exposure	2,802	3,633	1,782,581	2,157,129

Interest rate risk

The maximum exposure to credit risk by class of recognised financial assets at reporting date, excluding the value of any collateral or other security held is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

Interest rate risk is managed using a mix of floating and fixed rate debt.This is achieved by entering into interest rate swaps.

Notes to the financial statements (continued)

For the year ended 30 June 2011

Interest rate risk (continued)

In AUD	Consolidated Carrying amount 2011	2010
Fixed rate instruments		
Financial assets	6,078,944	6,608,871
Financial liabilities	(137,258,885)	(129,983,669)
	(131,179,941)	(123,374,798)
Variable rate instruments		
Financial assets	20,259,471	14,926,633
Financial liabilities	(137,475,501)	(147,749,015)
	(117,216,030)	(132,822,382)

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties.

The Group does not have any material credit risk exposure to any single receivable or Group of receivables under financial instruments entered into by the Group. The trade receivables balance at reporting date does not include any counterparties with external credit ratings. Customers are assessed for credit worthiness using the criteria detailed above.

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates remain constant.

	Consolidated profit or loss 2011		2010	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets	202,595	(202,595)	149,266	(149,266)
Financial liabilities	(159,491)	159,491	(214,324)	214,324
	43,104	(43,104)	(65,058)	65,058

Exposure to interest rate risk
Consolidated

In AUD	30 June 2011 Carrying amount	Within 1 year	1-5 years	Over 5 years
Assets at variable interest rate				
Cash and cash equivalents	20,259,471	20,259,471	-	-
Liabilities at variable interest rate				
Bank overdraft and loans	(137,475,501)	(15,987,286)	(121,488,215)	-
	(117,216,030)	4,272,185	(121,488,215)	-
Derivative instruments				
Fixed for floating	121,526,413	1,600,000	119,926,413	-
	4,310,383	5,872,185	(1,561,802)	-

25 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

In AUD	Consolidated 2011	2010
Less than one year	1,977,724	6,052,368
Between one and five years	3,379,602	18,393,748
More than five years	1,326,581	2,066,845
	6,683,907	26,512,961

26 Capital expenditure commitments

Within one year	-	14,855,000
One year or later and no later than five years	-	-
Later than five years	-	-
	-	14,855,000

Capital expenditure commitments relate to project activities of Healthbridge Property Hawthorn Pty Ltd.

27 Contingencies

The Director's are not aware of any contingent liabilities as at reporting date.

28 Employee compensation commitments

Key management personnel

	Consolidated 2011	2010
Short-term benefits	1,348,300	5,858,000
Post Employment benefits	104,244	327,000
Other	-	-
	1,452,544	6,185,000

Share based payments

Healthbridge Hawthorn Holdings Pty Ltd and Healthbridge CMS Pty Ltd, the subsidiaries of the Company issued $300,006 and $300,000 ordinary shares respectively to its management resulting in management holding equity interest of approximately 18.5% and 8% in the respective businesses. As described in note 33 a loan from the Group was utilised to finance the issuance of ordinary shares.

These loans are repayable on the date on which employment or services providing by management ceases, or on the date when shares are sold. These loans are secured by any payment due to management and shares held.

29 Reconciliation of cash flows from operating activities

		Consolidated	
In AUD	***Note***	**2011**	**2010**
Cash flows from operating activities			
Loss for the period		(6,912,624)	(30,773,163)
Adjustments for:			
Net finance expense	*11*	31,297,417	25,620,412
Depreciation and amortisation		6,980,718	8,521,054
Income tax expense	*12*	989,521	(5,479,845)
Impairment loss		6,095,815	-
Net profit on sale of investment		(23,825,997)	-
Operating profit before changes in working capital and provisions		14,624,850	(2,111,542)
Change in trade and other receivables	*17*	529,927	(3,888,242)
Change in trade and other payables	*23*	148,777	9,345,133
Change in other assets		3,048,303	(5,491,678)
Change in provisions and employee benefits	*22*	(631,464)	3,073,498
Change in tax balances		(2,110,321)	-
		15,610,072	927,169
Net interest paid		(13,302,394)	(12,357,411)
Income taxes paid		1,510,463	(2,084,157)
Net cash from operating activities		3,818,141	(13,514,399)

Healthbridge Enterprises Pty Ltd

Notes to the financial statements (continued)
For the year ended 30 June 2011

30 Group entities

Ultimate controlling party

The ultimate controlling party of the Group is Ironbridge Fund II LP. The ultimate controlling party was the same in the prior reporting period.

Parent entity	*Country of incorporation*	**Ownership interest**	
		2011	**2010**
Healthbridge Enterprises Pty Ltd	Australia		
Significant subsidiaries			
Healthbridge IVF Holdings Pty Ltd	Australia	100.0%	100.0%
Healthbridge Shared Services Pty Ltd	Australia	100.0%	100.0%
Healthbridge Repromed Pty Ltd	Australia	98.3%	98.3%
Repromed FinancePty Ltd	Australia	98.3%	98.3%
Repromed Holdings Pty Ltd	Australia	98.3%	98.3%
Prepromed NZ Holding Pty Ltd	Australia	98.3%	98.3%
Repromed Australia Pty Ltd	Australia	98.3%	98.3%
Adelaide Fertility Centre Pty Ltd	Australia	98.3%	98.3%
Healthbridge Diagnostics Holdings Pty Ltd	Australia	-	75.7%
Australian Diagnostics Group Pty Ltd	Australia	-	75.7%
Pathology Victoria Pty Ltd*	Australia	-	0.0%
Pathology NSW Pty Ltd*	Australia	-	0.0%
Pathology Diagnostics Pty Ltd*	Australia	-	0.0%
Pahthology Specialists Pty Ltd*	Australia	-	0.0%
Pathology Vision Pty Ltd*	Australia	-	0.0%
Pathology south Coast Pty Ltd*	Australia	-	0.0%
Pathology First Pty Ltd*	Australia	-	0.0%
Monash IVF Holdings Pty Ltd	Australia	77.0%	77.0%
Monash IVF Finance Pty Ltd	Australia	77.0%	77.0%
Monash IVF Pty Ltd	Australia	77.0%	77.0%
Wesley Monash IVF Pty Ltd**	Australia	46.2%	46.2%
Wesley Monash JV**	Australia	46.2%	46.2%
Monash Reproductive Pathology and Genetics Pty Ltd	Australia	77.0%	77.0%
Monash Ultrasound Pty Ltd	Australia	77.0%	77.0%
Healthbridge Property Holdings Pty Ltd	Australia	100.0%	100.0%
Healthbridge Property Hawthorn Pty Ltd	Australia	100.0%	100.0%
Healthbridge Obstetrics Holdings Pty Ltd	Australia	100.0%	100.0%
Healthbridge CMS Pty Ltd	Australia	92.0%	100.0%
Healthbridge Hawthorn Holdings Pty Ltd	Australia	81.5%	100.0%
Healthbridge Hawthorn Finance Pty Ltd	Australia	81.5%	100.0%
Healthbridge Hawthorn Pty Ltd	Australia	81.5%	100.0%

30 Group entities (continued)

* Although the Group held less than half of the voting power of Pathology Victoria Pty Ltd, Pathology NSW Pty Ltd, Pathology Diagnostics Pty Ltd, Pathology Specialists Pty Ltd, Pathology Vision Pty ltd, Pathology South Coast Pty Ltd, Pathology First Pty Ltd, Wesley Monash IVF Pty Ltd and Wesley Monash JV, the Group has consolidated these entities in accordance with AASB 127 *Consolidated and Separate Financial Statements* because it has the majority of risks and benefits associated with the ownership and therefore has consolidated these entities in its results for the year ended 30 June 2010.

** The Group's majority owned subsidiary Monash IVF Pty Ltd , holds a 60% interest in these entities as at 30/06/11 (2010: 60%).

During January and February 2011 Healthbridge Hawthorn Holdings Pty Ltd and Healthbridge CMS Pty Ltd, the subsidiaries of the Company issued $300,006 and $300,000 ordinary shares respectively to its management resulting in management holding equity interest of approximately 18.5% and 8% in the respective businesses. As described in note 33 a loan from the Group was utilised to finance the issuance of ordinary shares.

On 31 January 2011, the Group sold its interest in Healthbridge Diagnostics Holdings Pty Ltd ('HDH') to a third party for proceeds totalliing $37 million, representing $36.5 million repayment of intercompany loans and $0.93 million for sale of shares. Of these proceeds $2.45 million was passed on to the minority shareholder, HDH employee Trust ('HDE'). The Group profit on disposal was recorded in the statement of comprehensive income as profit from discontinued operation.

31 Parent entity

	Company	
In AUD	**30/06/2011**	**30/06/2010**
	$	**$**
Result of the parent entity		
Profit/(loss) for the period	(2,085,794)	(698,558)
Other comprehensive income	-	-
Total comprehensive income for the period	(2,085,794)	(698,558)
Financial position of the parent entity at year		
Current assets	5,378,803	3,200,266
Total assets	163,564,191	156,346,893
Current liabilities	50,968	4,260,014
Total liabilities	118,115,212	117,055,908
Total equity of the parent entitiy comprising of:		
Share capital	48,812,142	40,568,354
Retained earnings	(3,363,163)	(1,277,369)
Total equity	45,448,979	39,290,985

32 Subsequent events

On 16 September 2011 the Group divested assets in it's equity accounted investment, Repromed Christchurch Ltd. This transaction will result in immaterial gain to the Group.

In December 2010, a subsidiary company breached a financial covenant with its senior lender. The breach was acknowledged by the lender but no action was taken by the lender whilst the subsidiary negotiated new covenants and other loan terms with the lender. An amendment to the funding arrangement was negotiated prior to 30 June 2011. The documentation for the revised arrangment was executed after the financial year end resulting in the loan being classified as current at year end in the financial statements of both subsidiary and in these consolidated accounts.

As at the date of signing these accounts the Repromed Finance Pty Ltd and its related entities remains compliant with its revised covenants.

On 22 September 2011 notice was received from the Australian Taxation Office ('ATO') advising that a comprehensive risk review will be undertaken into the parent and the Repromed subsidiary respective tax consolidated groups, tax affairs for the 2009 and 2010 income tax periods. At this stage the Directors are unable to determine what impact the review will have, if any. The ATO review is ongoing at the date of this report.

The ATO has undertaken a tax audit of the subsidiary Monash IVF Holdings Pty Ltd ("Monash IVFH") and Monash IVFH's tax consolidated group over the last 2 years. The ATO are in the process of finalising their audit and requested support for the deduction of redemption premiums on certain financing instruments on an accruals basis. The ATO are considering an alternative view that these premiums should be deducted when paid. In late April 2012, Monash IVFH supplied the ATO with strong legal opinion including senior counsel advice supporting the basis for treatment adopted by Monash IVFH. The ATO has not yet responded to the submissions. If the ATO maintain their position Monash IVF could appeal the decision. Whilst the Directors believe the appropriate treatment has been adopted if the ATO position was upheld an estimated tax payment of $5.6 million would be required to be made. The company have the cash resources to make such a payment and would remain compliant with bank covenants.

The Directors of Monash IVF Holdings Pty Ltd approved a $2,814,036 dividend to shareholders on 18 October 2011.

The Board is assessing the sale of land and buildings it owns along with the Group's interest in the private hospital business. The private hospital was developed with designs and services in place to expand the hospital beyond its current configuration of 3 operating theatres and 30 overnight beds. Subsequent to the year end a Development Application was approved to add an additional two storeys to the building and concepts for additional operating theatres and ward accommodation obtained. Proceeding with this expansion would dramatically improve the financial performance of the hospital business. Accounting standards preclude recognition of the improved financial performance when assessing the carrying value of the existing assets. Accordingly an impairment of the value of the existing assets related to the existing business has been made.

Other than disclosed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial periods.

Notes to the financial statements (continued)

For the year ended 30 June 2011

33 Auditors' remuneration

In AUD	Consolidated 2011	2010
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	149,200	147,400
Pitcher Partners:		
Audit and review of financial reports	-	42,364
	149,200	189,764
Other services		
Auditors of the Company		
KPMG Australia		
Other assurance services	88,500	17,000
Financial statement preparation	45,000	45,000
Taxation services	84,041	84,041
	217,541	146,041

34 Related party transactions

Transactions with key management personnel and related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

During the year ended 30 June 2010, a number of transactions took place with Directors (and their related entities) and other entities controlled by the the ultimate parent of the Group Ironbridge Fund II LP.

Outstanding balances

In AUD	Consolidated 2011	2010
Trade and other receivables - current		
IVF Auckland Ltd (associate of Repromed Australia)	-	162,690
IVF Christchurch Ltd (associate of Repromed Australia)	27,951	19,322
Vilmos Pty Ltd (minority interest in Monash IVF)	-	1,000,000
Other assets - current		
Vilmos Pty Ltd (minority interest in Monash IVF)	-	209,394
Other assets - non-current		
Vilmos Pty Ltd (minority interest in Monash IVF)	495,000	-
IVF Christchurch Ltd (associate of Repromed Australia)	-	1,782,583
Repromed Management Trust	25,000	290,000
Management of Monash IVF Holdings Pty Ltd and their related parties	1,793,234	1,707,842
Management of Healthbridge CMS Pty Ltd and their related parties	600,284	
	2,941,469	3,173,989

34 Related party transactions (continued)

Redeemable preference shares		
Directors and their related parties	4,142,485	4,142,485
Management of Healthbridge Enterprises Pty Ltd	11,594,796	11,594,796
Promissory notes		
Shareholders of the Group	86,920,990	84,588,422
Directors and their related parties	-	1,944,448
Management of Healthbridge Enterprises Pty Ltd	-	388,120
Interest payable or paid for Redeemable preference shares and promissory notes		
Shareholders of the Group	23,518,045	6,369,961
Directors and their related parties	1,821,285	1,148,368
Management of Healthbridge Enterprises Pty Ltd	4,085,706	2,619,295

Repromed Management Trust, Monash Management and Healthbridge CMS loans were provided to management to take equity ownerships into Healthbridge Repromed Pty Ltd, Monash IVF Holdings Pty Ltd and Healthbridge CMS and controlled entities respectively. Loan to Monash accrues 5 per cent interest and loan to Healthbridge CMS Management accrues 10 per cent interest per annum. Loans are secured by any payment due to management and shares held. These loans are repayable on the date on which employment or services providing by management ceases, or on the date when shares are sold.

As described in note 9 acquisition related costs amounting to $7,698,743 were paid to related parties of the ultimate parent entity. An amount of $3,144,406 was paid to minorities of the group and $4,554,337 to equity holders of the Group.

Healthbridge Enterprises Pty Ltd

Director's declaration

In the opinion of the directors of Healthbridge Enterprises Pty Ltd (the "Company"):

a) the financial statements and notes that are set out on pages 6 to 49, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of it's performance for the financial year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), other mandatory professional reporting requirements to the extent described in note 2, and the Corporations Regulations 2001; 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.

c) The financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Signed in accordance with a resolution of directors.

Richard Henshaw
Director

Dated at Melbourne this 24 day of May 2012.

KPMG

Independent auditor's report to the members of Healthbridge Enterprises Pty Ltd

Report on the financial report

We have audited the accompanying financial report of Healthbridge Enterprises Pty Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising 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 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements of the Group 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 of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

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 the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group'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 and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG

KPMG

M. Bisetto

Maurice Bisetto
Partner

Melbourne

24 May 2012