

Greencross Limited
The Pet Company

Annual Report

2017



ACN 119 778 862

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WHO IS GREENCROSS LIMITED?

OUR COMPANY

Greencross is Australasia's leading integrated pet care company, offering an extensive range of services and products to serve the pet owners' needs. Formed through the integration of Australasia's largest vet services and specialty pet retail businesses, we now have an extensive network of retail stores, veterinary clinics, grooming salons and dog wash facilities across Australia and New Zealand. With 239 stores, operating under the brands of Petbarn and City Farmers in Australia and Animates in New Zealand, 147 GP clinics and over 30 specialty and emergency hospitals, Greencross is well placed to conveniently serve pet owners in ANZ, with significant opportunities for further growth.

Greencross also offers a range of additional pet care services such as pet adoption, puppy training, pet insurance, dog walking, pet sitting, pet taxis, pet minding and pet hotels. In addition to selling pet food and accessories through our store and clinic network, Greencross also has an extensive and rapidly growing online business serving the evolving needs of the Australian and New Zealand pet care market.

OUR VISION

Our vision is to be the best pet care company in the world for our shareholders, our customers, our communities, our suppliers and our teams.



Our purpose

To make our
world a happier
place through
the love of pets.

CHAIRMAN'S REPORT



Dear Fellow Shareholders:

2017 has been a year of substantial progress for the Company. Our staff and management team have continued to successfully execute our integrated petcare strategy and this has translated into another year of strong financial and operating performance.

FINANCIAL PERFORMANCE

Against the backdrop of weak consumer sentiment, the financial performance of the Company this year has been commendable with double digit revenue growth translating into strong cashflows and reduced leverage. Revenue increased by 11% to \$817 million supported by 4.5% LFL sales growth, ongoing network expansion and a renewed focus on improving customer engagement. EBITDA increased by 15% to \$100 million and underlying EBITDA, excluding exceptional items, increased by 9% to \$104 million. NPAT increased by 21% to \$42 million and underlying NPAT increased by 7% to \$43 million.

The Company's increased profitability this year has led the Board to resolve to pay a final fully franked dividend of 9.5 cents per share. The final dividend takes the total dividends for the year to 19.0 cents per share. The final dividend will be paid on 6 October 2017.

OUR COMPETITIVE ADVANTAGES

The Australasian petcare sector continues to be an attractive and growing market. We estimate that the total market is now worth over \$9.5 billion and it is important to note that services represents over 40% of that market. Despite increased competition, I believe that our Company is extremely well placed to consolidate and grow its marketshare, which is currently still less than 10%.

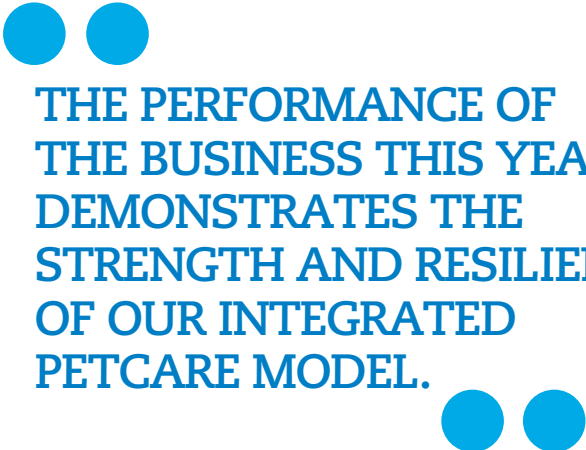
A lot has been made recently of the potential impact of Amazon on the Australian retail landscape. In response to this discussion, I think it is worth pointing out that our business has many unique features which differentiate us from our online and bricks and mortar competitors.

Our Group is the largest employer of vets in Australasia, with over 650 vets. In a world where pet consumers are increasingly seeking professional advice on medical and nutritional issues for their pets, our unparalleled veterinary expertise is a valuable asset which sets us apart from others.

Our integrated petcare platform, where we provide all the products and services that a pet owner needs in a single convenient location, is another important point of difference. I am pleased to report that we have 37 in-store clinics and 80 grooming salons in our retail stores. And we will continue to roll these out together with other in-store services like dog wash, pet insurance, pet hotel booking, dog walking and obedience training. In-store services are successfully driving foot traffic and visit frequency – a customer who shops only in our retail stores visits us about five times a year, compared to a customer who shops in retail, vet and grooming, who visits us 18 times a year.

Our private label products and exclusive brands are another important feature of our business, because they represent something new and different for our customers and can only be purchased at our stores. Private label sales have now reached 21% of Australian product sales and 13% of New Zealand product sales. Following the successful launch of our Leaps & Bounds dog food range this year, we believe there are several near-term opportunities to increase private label sales even further.

Our business also has an advantage in terms of our large and loyal retail customer base. Over 87% of sales in our retail stores are made by customers using a Group Loyalty card as members of our Friends for Life Program. When you consider that we had over 1.8 million customers shop with us in the past year, you will appreciate that our Group Loyalty Program provides us with valuable data on the shopping habits of consumers in the pet sector. This year, we have made the strategic decision to invest in our loyal customers as part of a refreshed Group Loyalty Program. Results to date in terms of customer engagement and visit frequency have been very pleasing, with a noticeable uplift in LFL sales since the relaunch.



**THE PERFORMANCE OF
THE BUSINESS THIS YEAR
DEMONSTRATES THE
STRENGTH AND RESILIENCE
OF OUR INTEGRATED
PETCARE MODEL.**

Not only do we continue to focus on excellent customer service in our stores, we are now taking steps to upgrade and refurbish our store formats, with an increased emphasis on services, in-store theatre and pet interaction. We want to ensure that our stores continue to be a fun, friendly and exciting place to visit for our customers and their pets.

Finally, while there is more work to be done, we have continued the rapid expansion of our own omnichannel offering. In February we launched click & collect which enables customers to order online and pick up in-store. This has proved to be a resounding success and click & collect now represents over 40% of online transactions. While 55% growth in our online business this year is pleasing, we enter into FY2018 with the aim of improving our online execution and expanding our online market share.

Reflecting on all of the above, I firmly believe Greencross has the right platform and business strategy in place to enhance our position as the leading specialist player in the Australian petcare market, deliver value and convenience for our customers and generate future growth and profitability for our shareholders.

BOARD CHANGES

Andrew Geddes has advised me of his intention to step down as a Director of Greencross Limited at the upcoming Annual General Meeting. On behalf of the entire Board I would like to thank Andrew for the outstanding contribution he has made to the Company over the past 10 years. Andrew's extensive experience in providing strategic advice to professional services firms and more specifically in creating business plans and management development programs for veterinarians meant he has been able to provide the Board with valuable insights into best management practice in the Australian veterinary sector.

DIVERSITY

I am pleased to confirm our commitment to gender diversity across the Group and to provide a workplace environment that embraces diversity across both gender and age. Women represent 76% of all Greencross employees and the representation of women in senior management positions has increased to 40% this year. In addition, women will now represent 33% of Non-Executive Directors on our Board.

CONCLUSION

Our FY2017 results were achieved in a downbeat consumer environment and the performance of the business this year demonstrates the strength and resilience of our integrated petcare model and the attractiveness of the sector in which we operate. The dedication and commitment of our team members across the entire organisation are critical to our success. I would like to thank our management and staff, led by Martin, for their contribution this year and thank my fellow Directors and our shareholders for your continued support.



Stuart James

Non-Executive Chairman

CEO'S REPORT



Dear Fellow Shareholders:

I am pleased to introduce you to the report on the performance of your Company for the financial year 2017. In a downbeat consumer environment, the business delivered another year of good revenue and earnings growth, highlighting the resilience of our business and the attractiveness of the ANZ petcare sector.

It has been a year of significant achievement for the business. We expanded our store and clinic network to over 400 locations, more than doubled our number of in-store clinics, generated \$6 million in sales of our private label Leaps & Bounds dog food, successfully commenced our click & collect service, grew online sales by 55% and relaunched our Group Loyalty Program.

Double digit revenue growth and strong cashflow generation has enabled us to fund our expansion, while still reducing leverage.

FINANCIAL PERFORMANCE

In FY2017 Group revenue grew by 11% to \$817 million as a result of ongoing expansion of the network and strong growth in services and online.

All three of our business divisions achieved strong LFL sales growth (Australian Retail 4.3%, Australian Veterinary 4.8% and New Zealand 4.9%). This is testimony to continued growth in the demand for pet products and services and the success of our integrated petcare platform. Providing customers with the ability to access veterinary advice, grooming services, food and pet products in a single convenient location is proving a key point of differentiation from our competitors and delivering a better shopping experience for pet owners.

Given an uncertain outlook for consumer spending, it is worth calling out that our Australian Veterinary division, a professional services business delivering above market growth, now comprises 26% of Group revenue. Furthermore, in our retail business, 66% of our product sales are comprised of staple products like food, pharmaceuticals and litter, which pet consumers purchase on a regular basis. Pleasingly, our LFL sales in core categories like dog food (7.4%), cat food (7.0%) and dog flea & tick (6.4%) remained very strong. This gives us confidence that our business is well placed to withstand any downturn in economic conditions.

Gross margin decreased by 30bps to 55.4% as retail margins were impacted by our decision to invest in the customer through the relaunch of our Group Loyalty Program. We are convinced that this was the right strategic decision as it has led to a pleasing uplift in LFL sales and has generated an increase in visit numbers and

customer engagement. Cashflow conversion remained strong at 96% and this enabled us to reduce leverage for a second consecutive year.

EBITDA increased by 15% to \$100 million driven by our sales growth. Underlying EBITDA, after adding back acquisition, due diligence and restructuring costs, increased by 9% to \$104 million. The scale of these add backs has markedly reduced and is negligible at NPAT level. Our in-store clinics continue to perform well, yet it is important to remember that our immature in-store clinics take time to reach profitability. Start up losses from immature clinics impacted Group EBITDA by almost \$1 million in 2017, in line with expectations.

NPAT increased by 21% to \$42 million while underlying NPAT (excluding abnormal items) increased by 7% to \$43 million.

EBITDA cashflow conversion was 96% reflecting well controlled inventory and cashflow management.

This enabled the Board to declare fully franked dividends totalling 19.0 cents per share.

NETWORK EXPANSION

This year we grew our network by over 10% through the addition of 18 retail stores and 25 veterinary practices.

We now have 239 retail stores, 147 GP vet clinics and more than 30 specialist and emergency practices in our fleet, making us the largest pet care specialist in Australia and New Zealand by a considerable margin.

SERVICES

Growing the number of retail stores with in-store services is a key part of our integrated petcare strategy.

In-store clinics

We continued to accelerate the roll-out of our in-store clinic network this year through the addition of 20 in-store clinics, bringing the total number of in-store clinics to 37. This included the opening of eight in-store clinics in New Zealand, which doubled the size of our veterinary business there.

In-store clinics contributed \$14 million in revenue in FY2017 and now represent over 9% of GP clinic revenue. Our in-store clinic visit numbers are continuing to ramp up ahead of expectations as customers have embraced the convenience of obtaining expert medical treatment and advice for their pets at veterinary clinics located inside our retail stores.

While loss incurring in the initial ramp up phase, we expect these in-store clinics to generate superior margins

to standalone clinics as they mature, which will boost overall margin for the Veterinary division.

Currently 15% of our retail stores have an in-store clinic and we are confident that we can reach our target of 60% of stores with an in-store clinic. This is no longer a pilot but rather a key organic growth engine for the business.

Grooming

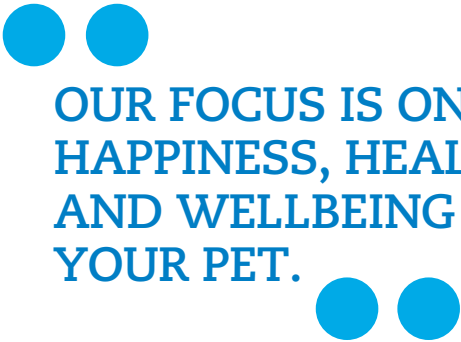
Greencross is the largest provider of grooming services in Australia and New Zealand and during the year we opened 17 in-store grooming salons, bringing the total to 80. We groomed over 140,000 dogs across Australia and New Zealand last year. One third of our retail stores now have a grooming salon and we will continue to add services like grooming, dog wash, pet hotel bookings and obedience training into both new and existing stores to drive foot traffic and visit frequency.

Insurance

I am pleased to report that this year our Petbarn insurance product was recognised by Canstar as a winner of the best value insurance policy award across a number of categories. While insurance remains a small part of our business, growth in subscription rates for pet insurance is a tailwind for our business as it increases the propensity of pet owners to spend on veterinary bills.

SPECIALIST AND EMERGENCY

Our specialist and emergency business has had a strong year of sales driven by high standards of professional care and increased referrals from our GP network. Greencross is the largest owner of specialist and emergency hospitals in Australia. By revenue, our specialist and emergency business represents over 30% of our Australian Veterinary division. The specialist and emergency sector, which is estimated to be worth more than \$400 million, is growing quickly and delivers attractive margins. This year we have expanded our footprint by opening two specialist and emergency hospitals in Brisbane and acquiring two specialist and emergency practices in Adelaide.



**OUR FOCUS IS ON THE
HAPPINESS, HEALTH
AND WELLBEING OF
YOUR PET.**

PRIVATE LABEL AND EXCLUSIVE BRANDS

Our private label and exclusive brands are high quality products which are only available for purchase at our stores.

Private label sales have now reached 21% of Australian retail product sales and 13% of New Zealand retail product sales.

In its first year of launch, our private label Leaps & Bounds dog food achieved \$6 million in sales and in response to this strong customer demand we have now extended the offer to include grain free varieties.

Based on the success of Leaps & Bounds we now have plans to expand our private label offering into the dry cat and wet dog food categories.

GROUP LOYALTY PROGRAM

We have 1.8 million active customers across Australia and New Zealand and over 87% of purchases are made on a loyalty card issued under our award winning Friends for Life Group Loyalty Program.

The program enables our customers to earn and spend points in Petbarn, City Farmers and Animates stores and Greencross vet clinics.

The success of Friends for Life means we understand the shopping habits of our customers and can tailor our product and service offering to suit their needs.

This year we made the decision to re-invest in our customers through an enhancement and relaunch of the Group Loyalty Program in April 2017. Friends for Life now includes three membership tiers, a range of complimentary upfront benefits and rewards purchases of premium food.

By including store based experiences like free dog wash, health checks with our veterinary professionals and grooming upgrades as part of the membership rewards, the rejuvenated membership scheme is designed to encourage our customers to visit our stores and clinics more frequently – to date, it has been a resounding success.

While the \$3.5 million we invested in the relaunch has had an impact on gross margin, we believe that reinvesting in our loyal customer base is a sound business decision and pleasingly we have seen an uplift in LFL sales since the relaunch of the scheme. The new program has triggered increased shopping activity from our Friends for Life members and we have welcomed back a number of previously inactive shoppers to our stores and clinics.

The success of our Group Loyalty Program and our focus on cross referrals has continued to have a positive impact on the number of customers who shop across more than one of our formats. This year, the number of cross shopping customers in our Australian business increased by 38% to over 188,000. These customers now represent 11% of our active customers, 26% of revenue and 30% of gross margin. An increase in cross shopping activity is significant for our business as the average annual spend for a customer who shops in vet, grooming and retail (\$1,445) is five times higher than the annual spend for a customer who only shops in retail.

EMPLOYER OF CHOICE

Greencross is Australia's largest employer of vets, and we currently employ 650 professional veterinary staff. This year 50 vet graduates chose to start their professional careers with Greencross by accepting positions in our graduate recruitment program and 20 vets joined us as joint owners in our in-store clinics. We also made the decision to invest in an improved reward, recognition and remuneration program for our vets which has led to a lower vet vacancy rate and is expected to deliver ongoing benefits for the business.

ONLINE

We are committed to providing a seamless omnichannel offering to our customers to give them the flexibility to shop in our stores and clinics, order online and have products delivered to home or order online and pick up in-store. We have made progress, but remain too small in this important channel.

Our total online sales grew by 55% as a result of the successful execution of a number of key initiatives. In February we launched our click & collect service which enables customers to order products online and pick them up in-store. We received an overwhelming response from our customers to this service and click & collect now represents over 40% of our online transactions.

We also entered into a partnership with Petcloud, which offers pet consumers in Australia the opportunity make online bookings for services including dog sitting, dog minding, dog walking, pet taxis and obedience training.

Finally, we expanded our online range to over 4,500 products and received over 7 million hits to our website from customers shopping online and looking to obtain expert advice on how to care for their pets.

PETBARN FOUNDATION

We raised over \$2.8 million this year for our charity partners including the RSPCA, Seeing Eye Dogs Australia, Vets Beyond Borders and the Animal Welfare League. Through our partnership with Soldier On, which provides medical and emotional support for Australian ex-service men and women, we raised enough donations for 10 K9 support dogs. This year's donations have also funded the training 13 seeing eye dogs for the visually impaired.

THANKS TO OUR TEAM

I would like to finish by thanking our pet passionate and dedicated staff for their tireless efforts in delivering another successful year. We truly have a great team, dedicated to ever improving clinical standards and customer service.

Thank you for all you have done for our customers, clients and their pets this year.

Looking forward, although the consumer outlook remains uncertain, the pet sector continues to grow supported by trends relating to humanisation of pets, increased uptake of pet insurance and growing awareness of the importance of animal health and nutrition. We will continue to focus on growing and improving our physical store and clinic network, retrofitting of services, expanding our omnichannel offering and increasing our private label range. We are committed to our integrated petcare model and to providing customers with everything they need to ensure the happiness, health and wellbeing of their pets.

I look forward to updating you on our progress throughout the year.

Yours sincerely,



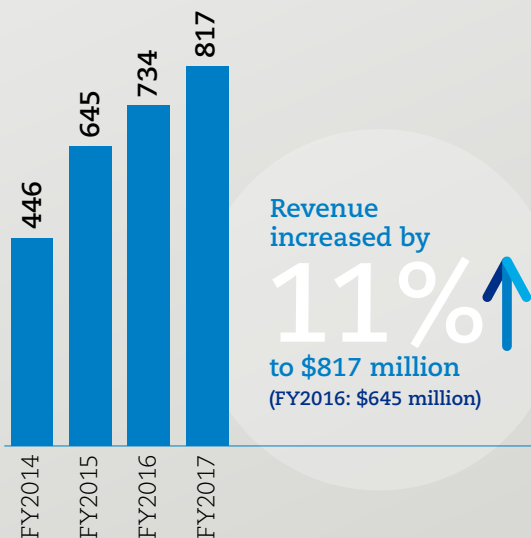
Martin Nicholas
Chief Executive Officer

● ●
THIS YEAR 50 VET
GRADUATES CHOSE
TO START THEIR
PROFESSIONAL CAREERS
WITH GREENCROSS.
● ●

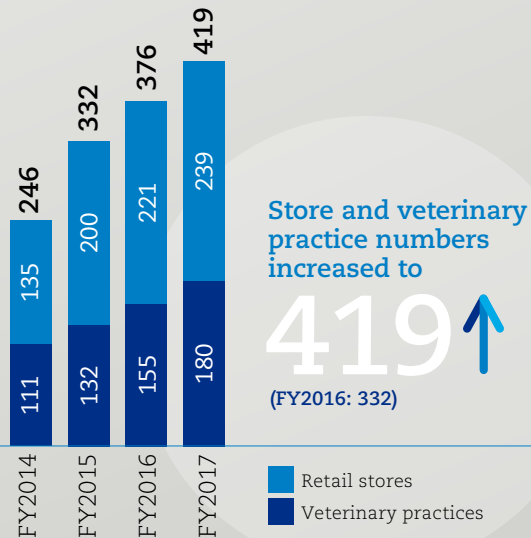


OUR FINANCIAL AND OPERATING PERFORMANCE

REVENUE



STORE AND VETERINARY PRACTICE NUMBERS



10%↑

Australian Retail

Revenue increased by 10% to \$505 million (FY2016: \$458 million) with LFL sales growth of 4.3%.

11%↑

Group Gross Margin

Group Gross Margin increased by 11% to \$453 million (FY2016: \$409 million) or 55.4% of revenue.

10%↑

Australian Veterinary

Revenue increased by 10% to \$214 million (FY2016: \$194 million) with LFL sales growth of 4.8%.

15%↑

EBITDA

EBITDA increased by 15% to \$100 million (FY2016: \$87 million).

21%↑

New Zealand

Revenue increased by 21% to \$98 million (FY2016: \$81 million) with LFL sales growth of 4.9%.

21%↑

NPAT

NPAT increased by 21% to \$42 million (FY2016: \$35 million).



18↑

RETAIL STORES

added to the network bringing the total portfolio to 239 stores.

25↑

VETERINARY PRACTICES

added to the network bringing the total portfolio to 180 veterinary practices.

20↑

IN-STORE CLINICS

added to the network, bring the total portfolio to 37 in-store clinics. 15% of retail stores now have an in-store clinic.

>1.8m

Active Customers

who shopped in Petbarn, City Farmers, Animates and Greencross Vets this year

>87%

Swipe Rate

by retail customers using a loyalty card

55%↑

Online Sales Growth

supported by the launch of click & collect and the ongoing expansion of our online product range to over 4,500 products

>40%

Click & Collect

was launched in February 2017 and now represents over 40% of online transactions

>250,000

Active Vet Clients

the largest active vet client base in Australia

>200,000

Training Hours

invested in our pet passionate store and veterinary teams

21%

Private Label Penetration

for Australian retail product sales

>7,000

Animals Saved

this year through our work with the RSPCA and other animal adoption agencies

17↑

Grooming Salons

added to the network, bringing the total portfolio to 80 grooming salons.




In-store clinics give our retail customers convenient access to expert advice from qualified veterinary professionals in modern and fully equipped veterinary hospitals.



15%

of our stores now have an in-store clinic and our aim is to have clinics in 60% of stores.

A woman with blonde hair, wearing a black Green Cross Vet uniform, is smiling and looking down at a golden retriever. She is standing behind a white counter. On the counter, there are various items including a white bowl, a glass jar, and some papers. In the background, there are shelves with pet products and a window showing trees outside.

In-store clinics contributed \$14 million of revenue in FY2017 and now represent over 9% of GP clinic revenue.

37

IN-STORE CLINICS

We added 20 in-store clinics to our network this year bringing the total number to 37.

80

IN-STORE GROOMING SALONS

open across Australia
and New Zealand.

Growing the number
of retail stores with
in-store services is a key
part of our integrated
petcare strategy.



>140,000
dogs and cats groomed
in the past 12 months.

33%

of our retail stores have
a grooming salon.

Greencross is the
largest provider of
grooming services
in Australia
and New Zealand.

110

OF OUR RETAIL STORES HAVE
DOG WASH SERVICES WHERE
OUR CUSTOMERS CAN GIVE
THEIR BEST FRIEND A BATH.



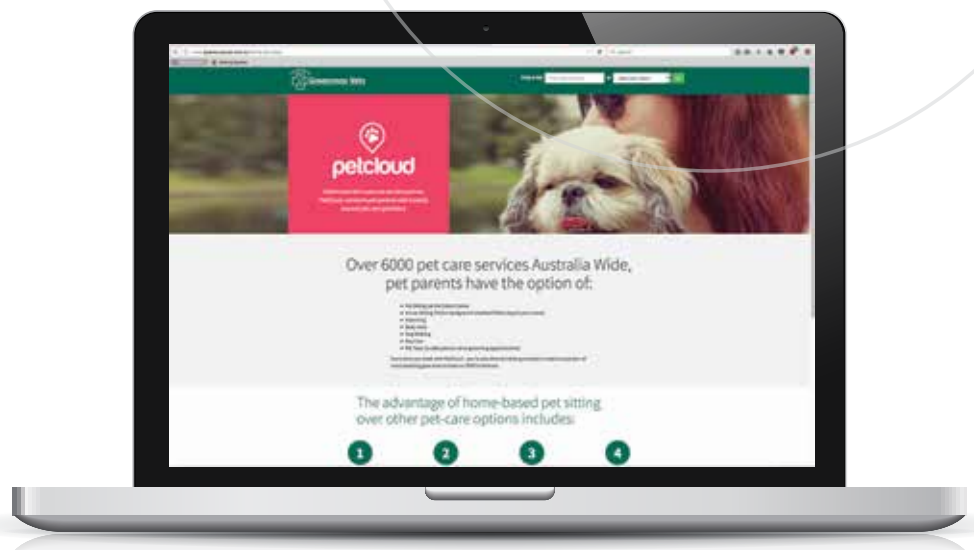
THIS YEAR PETBARN PET INSURANCE WAS RECOGNISED BY CANSTAR AS A WINNER FOR **OUTSTANDING VALUE PET INSURANCE.**



Other services we offer in-store include pet obedience training, pet adoption and pet hotel bookings.



Through our new partnership with Petcloud, we now give customers the opportunity to book online to access a variety of pet services across Australia including pet sitting, pet minding, dog walking, pet taxis and obedience training.



Greencross' network comprises 419 stores and clinics across Australia and New Zealand.



OUR STORE AND CLINIC NETWORK

In FY2017 we added 18 retail stores, 21 GP vet clinics and four specialist and emergency hospitals increasing the size of our network to 419 locations.



OUR PRIVATE LABEL AND EXCLUSIVE BRANDS ARE HIGH QUALITY PRODUCTS WHICH ARE ONLY AVAILABLE AT OUR STORES. THAT MEANS WE CAN OFFER **SOMETHING DIFFERENT** TO OUR CUSTOMERS.

Our private label and exclusive brands that can only be purchased at Petbarn, City Farmers and Animates stores include Barker's Best, Butcher's Superior Cuts, Cats in the Kitchen, Daily Bark, Leaps & Bounds and Wellness.

21%↑

Private label sales have increased to 21% of Australian retail product sales and 13% of New Zealand retail product sales.



In its first year of launch, our private label Leaps & Bounds dog food achieved **\$6 million in sales.**



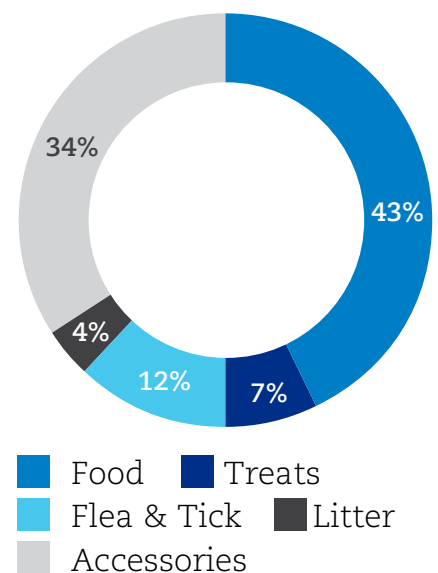


STRONG LFL SALES GROWTH IN KEY CATEGORIES.

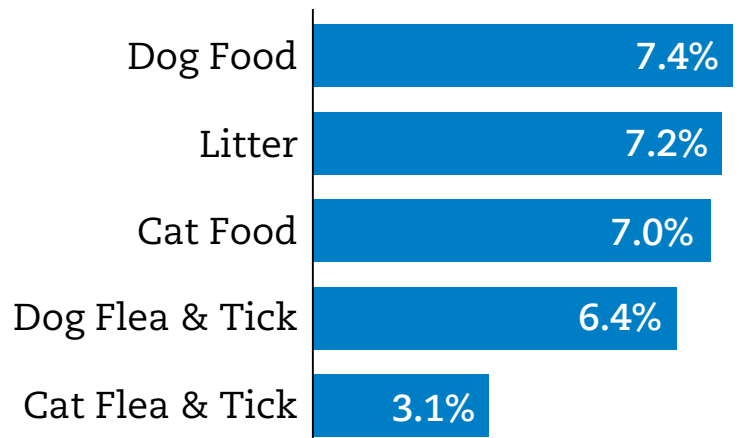
66%

of retail product sales are staple products that consumers purchase on a regular basis.

FY2017 AUSTRALIAN
RETAIL SALES
BY CATEGORY



FY2017 LFL SALES
GROWTH FOR KEY
STAPLE PRODUCTS





Greencross is the largest owner of specialist and emergency practices in Australia including emergency hospitals in Brisbane, Sydney, Melbourne, Canberra and Adelaide.

This year, we have expanded our specialist offering by opening two specialist and emergency facilities in Brisbane and acquiring two specialist and emergency practices in Adelaide.



Greencross Vets

**GREENCROSS IS THE LARGEST
EMPLOYER OF VETS IN
AUSTRALIA AND NEW ZEALAND.**

650

**VETERINARY
PROFESSIONALS**

in over 140 GP clinics.



Friends For Life

Rewards program



Life's about to
get even more
rewarding for
you and your
best friend

Our Group Loyalty Program was relaunched in April 2017 and now includes three membership tiers, a range of complimentary upfront benefits and rewards for premium food purchases.



>1.8m

WE HAVE OVER
1.8 MILLION **ACTIVE
CUSTOMERS** ACROSS
AUSTRALIA AND NEW
ZEALAND AND OVER 87%
OF PURCHASES ARE MADE
ON A LOYALTY CARD.

The Friends for Life Group Loyalty Program enables our customers to earn and spend points in Petbarn, City Farmers and Animates stores and Greencross vet clinics.

The success of this program means we understand the shopping habits of our customers and can tailor our product and service offering to suit their needs.



IN FEBRUARY 2017 WE LAUNCHED **CLICK & COLLECT**, WHICH ENABLES OUR CUSTOMERS TO ORDER PRODUCTS ONLINE AND PICK THEM UP IN-STORE.



Our online sales grew by 55%.



↑40%

Click & collect has been an outstanding success and now represents over 40% of online sales.



**CLICK &
COLLECT**

ORDER ONLINE, PICK UP IN-STORE.

petbarn.com.au

We have over
4,500
products
available online.

Our ATV for click & collect is 50% higher than for in-store purchases.

THIS YEAR'S DONATIONS
HAVE FUNDED THE
TRAINING OF **13 SEEING
EYE DOGS** TO HELP
THE VISUALLY IMPAIRED
AND **10 K9 SUPPORT DOGS**
TO SUPPORT RETURNING
WAR VETERANS.

>120

Over 120 Petbarn, City
Farmers and Animates
stores have pet adoption
centres which save
the lives of abandoned
animals by finding
them a loving home.

PETBARN FOUNDATION

We raised over
\$2.8 million
for our charity
partners including
the RSPCA,
Seeing Eye Dogs
Australia, Vets
Beyond Borders
and Soldier On.



>7,000

**ANIMALS' LIVES SAVED
IN FY2017 THROUGH
OUR IN-STORE
ADOPTION SERVICES.**



BOARD AND MANAGEMENT



Stuart James

Non-Executive Director and Chairman

Stuart has had a successful career within the Resources, Financial, Healthcare and Pharmaceutical sectors around the world.

Stuart had a 25 year career with Royal Dutch Shell Group both in Australia and internationally. His special areas of focus were Retail and South East Asia. Stuart became Managing Director of Australian Financial Services for Colonial and Managing Director of the Colonial State Bank (formerly the State Bank of NSW). Subsequently Stuart became CEO of the Mayne Group with its diverse interests in logistics, healthcare and pharmaceutical, both in Australia and internationally.

Following his executive career Stuart has held a number of Non-Executive roles in both Australian and international companies. From 2006 to 2014 he was a member of the supervisory Board of Wolters Kluwer N.V., a software as services global company which during this period underwent significant transformation from a hard copy provider of information to a total digital provider.

Stuart was Chairman of Pulse Health Group – a private hospital operator, Affinity Education Group – a childcare operator, Prime Financial Group – a wealth management and financial advisor business. Stuart was also Chairman of Progen Ltd and NED of Phosphagenics Ltd – both biotech companies. Stuart currently has interests in both fin-tech and healthcare digitisation.



Christina Boyce

Non-Executive Director

Christy has over 25 years management consulting experience advising major local and international companies in the retail and consumer goods space on marketing and sales strategies. She has worked with a number of major retailers on format renewal, category and pricing strategy and business transformation. Christy started her career at McKinsey where she co-led the Asia Pacific Retail and Consumer Goods practice. She subsequently acted as a key advisor on a number of major private equity transactions as well as advising on a range of digital transformation projects across a range of industries including retail. She was an advisor and executive at NBN Co during its initial start up with responsibility for regulatory strategy, product and pricing. She continues to provide strategic advice as a director of Port Jackson Partners, a leading consultancy, with a particular focus on strategic direction setting, negotiation strategy and revenue management. She is currently a Non-Executive Director of Monash IVF Group Limited and Oneview Healthcare Plc.



Andrew Geddes

Non-Executive Director

Andrew has over 40 years of experience as a management consultant specialising in professional service firm development and management. For 30 years, he further specialised in veterinary business development and management. During this time, he developed and delivered national practice management education programmes with Glen Richards, Greencross Limited's Co-Founder and first CEO. Andrew was Greencross Limited's first Chairman from its initial listing in 2007 through to its merger with Mammoth Pet Holdings Pty Ltd in 2014. He then continued on the Board as a non-executive Director. Andrew has also held the office of non-executive Director of Count Financial Limited from its initial listing in 2002 through to its sale to CBA in 2011.



Rebekah Horne

Non-Executive Director

Rebekah has had a successful 20-year career advising many of the world's most respected media brands and is currently the Chief Digital and Data Officer of the NRL. Rebekah was previously CDO of Network Ten and CEO of the Los Angeles based start-up Topfloor.com, a Google and POLARIS Ventures backed e-commerce business. Rebekah has also been responsible for the internationalisation of News Corp's digital business, Fox Interactive Media, starting with the build of the Australian operation, and going on to be the SVP International, responsible for 26 territories outside of the US. Prior to joining News Corp, Rebekah held senior positions at SingtelOptus.



Christopher Knoblanche AM

Non-Executive Director

Chris has held a number of high profile leadership (CEO) roles in Australia and across Asia. Chris sits on a number of boards providing his deep history on governance, financial, accounting and risk management skills. Currently Chris is the Chair of the Audit and Risk Management Committee for iMed Radiology, Australia's largest provider of radiology and medical diagnostic imaging. During his time in investment banking, Chris has provided detailed advice in the Australian consumer retail sector. Chris is currently the Principal of Advisory & Capital Pty Ltd. Chris previously held the role of Managing Director and Head of CitiGroup Corporate and Investment Banking Australia & New Zealand. Chris has been CEO of Andersen Australia, CEO of Andersen Business Consulting Asia Pacific and Regional Managing Director of Deloitte Management Solutions – Asia. Prior to CitiGroup, Chris was a Partner in the boutique Investment bank, Caliburn Partnership (now Greenhill). He serves as Board Member of the Sydney Opera House and the Environmental Protection Authority of NSW. Chris is Chairman of iSelect Limited. Chris was appointed a Member of the Order of Australia for significant service to arts administration, to the community and to the business and finance sector in 2014.

BOARD AND MANAGEMENT



Dr Glen Richards

Non-Executive Director

Glen has over 26 years of experience in the retail and professional services sectors. Glen was the founding Managing Director of Greencross Limited and Co-Founder and Director of Mammoth Pet Holdings Pty Ltd, prior to its merger with Greencross Limited in 2014. Glen established Greencross Vets Pty Ltd in 1994 and PetHQ Pty Ltd in 2005. Glen has extensive operational experience in fast growing companies, especially in health care and allied health. He established the first western veterinary practice in China (Shanghai PAW) in 2001; was a director of Lyppard Australia, one of Australia's leading veterinary wholesalers. He is currently Chairman of Healthia Ltd (Australia's largest podiatry group), a director of Montserrat Private Day Hospitals (one of Western Australia's and Queensland's largest day hospital groups), Smart Clinics General Medical Practices (with over 35 general practices), Regeneus Ltd (a regenerative medicine company), and 1300Smiles Ltd (a national dentistry group). Glen continues as a shareholder, advisor and mentor to a number of innovative technology companies (Sourcehub, OneWorld, Smartvet, Clinician Connect and Naturo) that operate nationally and globally in health, retail and agriculture.



Paul Wilson

Non-Executive Director

Paul has over 30 years of extensive experience in the Retail Sector. Paul co-founded Mammoth Pet Holdings Pty Ltd in 2005 and as its Managing Director grew its chain of pet specialty retail stores (Petbarn and Animates) from 10 to over 150 across Australia and New Zealand. During that time, he introduced sector innovation in store design, layout and merchandising, product and service range and mix, and customer loyalty programs. Immediately prior to Mammoth, Paul held leading edge positions in online commerce and digital marketing: first as Chief Operating Officer of ShopFast, which he grew to be Australia's then largest online grocery retailer (sold to Coles in 2003); and as Managing Director of Adstream Pty Ltd, a leader in the digitalisation of advertising content delivery. During the period, 1987 to 1999 inclusive, Paul held a number of senior retail positions with Caltex Australia including National Fuels Pricing and Planning Manager, General Manager of Vitalgas (a Caltex/Boral JV), and as Retail Sales Manager responsible for introducing and growing a competitive retail offer in a network of over 500 Caltex service stations.



Martin Nicholas

Managing Director and Chief Executive Officer

Martin has 30 years of operational experience in finance, M&A, IT, supply chain, retail, professional services and FMCG sectors. Martin joined Greencross Limited as Chief Financial Officer and was subsequently appointed Chief Executive Officer in August 2015. He has led the business through a period of sustained growth and built a foundation for future success. Prior to joining Greencross Limited, Martin spent two decades in the consumer goods industry with Unilever across the United Kingdom, China, Asia and Australia, with responsibility for finance, IT, supply chain, M&A, and retail pricing and promotional strategy development. Martin was also CFO of Study Group International, a private equity owned education business, and served as Group Finance Director for Rentokil Initial PLC, a multinational services business listed on the London Stock Exchange.



Tanya Houghton

Chief Operating Officer, Retail

Tanya Houghton leads the Greencross Retail Team for Australia and New Zealand. Tanya has over 20 years of experience working in retail, including over 10 years with Greencross. Prior to her appointment as COO Retail, Tanya held a number of senior management positions in Greencross' retail business including COO New Zealand, National Operations Manager, National Marketing Manager and National Business Development Manager.



Darren Maier

Chief Operating Officer, Vet Services

Darren leads the Greencross Vet Services Team. Darren has over 17 years of leadership experience working in professional services, delivered across multi-site businesses. Darren is responsible for managing Greencross' veterinary clinics and delivering excellence in clinical standards, client service and professional development.

BOARD AND MANAGEMENT



Warwick Thresher

Chief Financial Officer

Warwick was appointed Chief Financial Officer in January 2016. Warwick joined Greencross in 2014, and as General Manager, Finance has been responsible for financial planning and analysis across the Group. Before joining Greencross, Warwick was Group Financial Controller of Study Group International, a private equity owned education business and has previously held senior finance positions with InterContinental Hotels Group (a FTSE 100 company), MITIE Group (a FTSE 250 company) and GE Capital UK. Prior to this Warwick qualified as a chartered accountant in the UK with Arthur Andersen working across both assurance and corporate recovery.



Dr Rachel Chay

Chief Veterinary Officer

Rachel is Greencross' Chief Veterinary Officer and the chair of Greencross' Veterinary Advisory Board. Rachel is responsible for maintaining the highest standards of clinical care across our specialty, emergency and general practice network. Rachel has clinical leadership for our veterinarians and oversees the development and execution of clinical and professional training programs for our vet and nursing teams. Rachel is an experienced companion animal practitioner who has worked in both general and emergency and critical care practice for 15 years. Rachel has completed her membership exams in feline medicine and prior to joining Greencross worked as an accredited vet for AQIS.



David Bissett

Chief Operating Officer, Business Development

David leads Greencross' business development function and is also responsible for e-commerce, supply chain and IT business systems. David has over 15 years experience working in retail and supply chain. Most recently, prior to joining Greencross, David was Head of Vendor Management at Coles, where he led a number of major supply chain and merchandise projects and operational teams. Prior to that, David worked as a supply chain consultant with PwC.



Vincent Pollaers

Chief Human Resources Officer, General Counsel and Company Secretary

Vincent is responsible for Greencross' Human Resource, Learning and Development, and Legal Compliance functions. Vincent has over 20 years experience as a lawyer and strategy consultant. Prior to joining Greencross, he held roles as the General Counsel, Company Secretary and Strategy Executive for IBM Australia & New Zealand; Asia Pacific Managing Director for McKinney Rogers, a boutique strategy consultancy firm; corporate lawyer with Freshfields in London and Allens Arthur Robinson in Sydney; and management consultant with Pricewaterhouse Coopers in Hong Kong. Vincent is also a Director of The Petbarn Foundation.



Richard Bowker

Chief Merchant

Richard leads the Greencross Product and Merchandising Teams. Richard has over 23 years of experience working in retail including 14 years with Greencross. Prior to his appointment as Chief Merchant, in his role as GM Merchandise, Richard was instrumental in successfully expanding Greencross' product range (including private label), growing the capability of the product team and strengthening supplier relationships.

FINANCIAL INFORMATION

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Directors' Report

For the period ended 2 July 2017

The Directors present their report on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'Group') consisting of Greencross Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 2 July 2017.

Directors

The following persons were directors of Greencross Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Name	Position
Stuart James	Chairman
Martin Nicholas	Chief Executive Officer
Christina Boyce	Non-Executive Director
Andrew Geddes	Non-Executive Director
Rebekah Horne	Non-Executive Director
Chris Knoblanche	Non-Executive Director
Dr Glen Richards	Non-Executive Director
Paul Wilson	Non-Executive Director

Principal activities

The Group is an integrated pet care company providing veterinary services, operating physical and online pet stores, and providing a range of non-medical companion animal healthcare services.

Dividends

Dividends paid during the financial year were as follows:

	FY 2017 ¹ \$'000's	FY 2016 ² \$'000's
Final dividend for the period ended 26 June 2016 (2016: 28 June 2015) of 9.5 cents (2016: 9.0 cents) per ordinary share	10,849	9,992
Interim dividend for the period ended 2 July 2017 (2016: 26 June 2016) of 9.5 cents (2016: 9.0 cents) per ordinary share	11,034	10,278
	21,883	20,270

At the date of signing the financial report The Directors have recommended the payment of a final fully franked dividend of 9.5 cents per share at a record date of 8 September 2017, which is expected to be paid on 6 October 2017.

The final dividend for the period ended 2 July 2017 will not be subject to the company's Dividend Reinvestment Plan.

\$2,023,000 (2016: \$614,000) was paid to non-controlling interest in respect of their dividends in the underlying entities during the period ended 2 July 2017. There are no proposed dividends for minority interests as at signing date.

Review of operations

The profit for the Group after providing for income tax and non-controlling interest amounted to \$42,055,000 (26 June 2016: \$34,620,000).

¹ FY 2017 – 53 week period ended 2 July 2017

² FY 2016 – 52 week period ended 26 June 2016

Directors' Report

For the period ended 2 July 2017

Operating and financial review

The Directors are pleased to report the following results for the period ended 2 July 2017:

- **Group revenue up by 11%**
- **Network expanded by 17 retail stores (net of closures), 21 veterinary clinics (including 20 "in store" clinics) and 4 specialist and emergency practices**
- **Group Like for Like ("LFL") sales revenue 4.5%;**
- **Gross margin % down 30 bps to 55.4%**
- **Statutory EBITDA up 15% to \$99.8m**
- **Underlying¹ EBITDA up 9% to \$104.2m**
- **EPS up 19% to 36.2 cents**
- **Underlying EPS up 5% to 37.0 cents**
- **Cash conversion of 96%**

Financial overview – statutory performance

The Directors are pleased to report a set of results underpinned by revenue and profit growth in conjunction with strong cash generation across retail, veterinary and New Zealand operations. The Group has continued to pursue its strategy of organic and acquisitive growth while at the same time leveraging its integrated pet care offering and investing in growth capabilities.

	FY 2017 53 weeks \$'000's	FY 2016 52 weeks \$'000's	Change \$'000's	%
Statutory profit or loss				
Revenue²	817,496	733,672	83,824	11.4%
Cost of sales of goods	(364,509)	(324,949)	(39,560)	12.2%
Gross margin	452,987	408,723	44,264	10.8%
Gross margin (%)	55.4%	55.7%	(0.3%)	
Operating expenses	(353,208)	(321,583)	(31,625)	9.8%
EBITDA	99,779	87,140	12,639	14.5%
EBITDA margin (%)	12.2%	11.9%	0.3%	
Depreciation and amortisation	(23,140)	(17,821)	(5,319)	29.8%
Profit before finance costs and income tax expense	76,639	69,319	7,320	10.6%
Finance costs	(13,872)	(15,649)	1,777	(11.4%)
Profit before income tax expense	62,767	53,670	9,097	16.9%
Income tax expense	(15,419)	(15,007)	(412)	2.7%
Profit after income tax expense	47,348	38,663	8,685	22.5%
Non-controlling interest	(5,293)	(4,043)	(1,250)	30.9%
NPAT³ attributable to the owners of Greencross Limited	42,055	34,620	7,435	21.5%
EPS (cents)	36.2	30.4	5.8	19.1%
Annual dividend per share (cents)	19.0	18.5	0.5	2.7%

¹ To assist readers in interpreting the underlying performance of the Group we present a set of underlying accounts as well as statutory accounts which are stated before one off or non-comparable acquisition, defence, integration and restructuring costs, but now include ongoing share based payments and site closure costs. For comparison FY2016 is now reported on this consistent basis. FY2016 underlying EBITDA of \$97.5m, NPAT \$42.1m and EPS 37.0c were previously reported after adding back share based payments and site closures. Underlying NPAT excludes the benefit of one off tax loss recognition in FY2017 results. The underlying accounts are provided on an unaudited basis. A reconciliation between underlying and statutory reported numbers is provided later in this Directors' report

² Excludes interest income

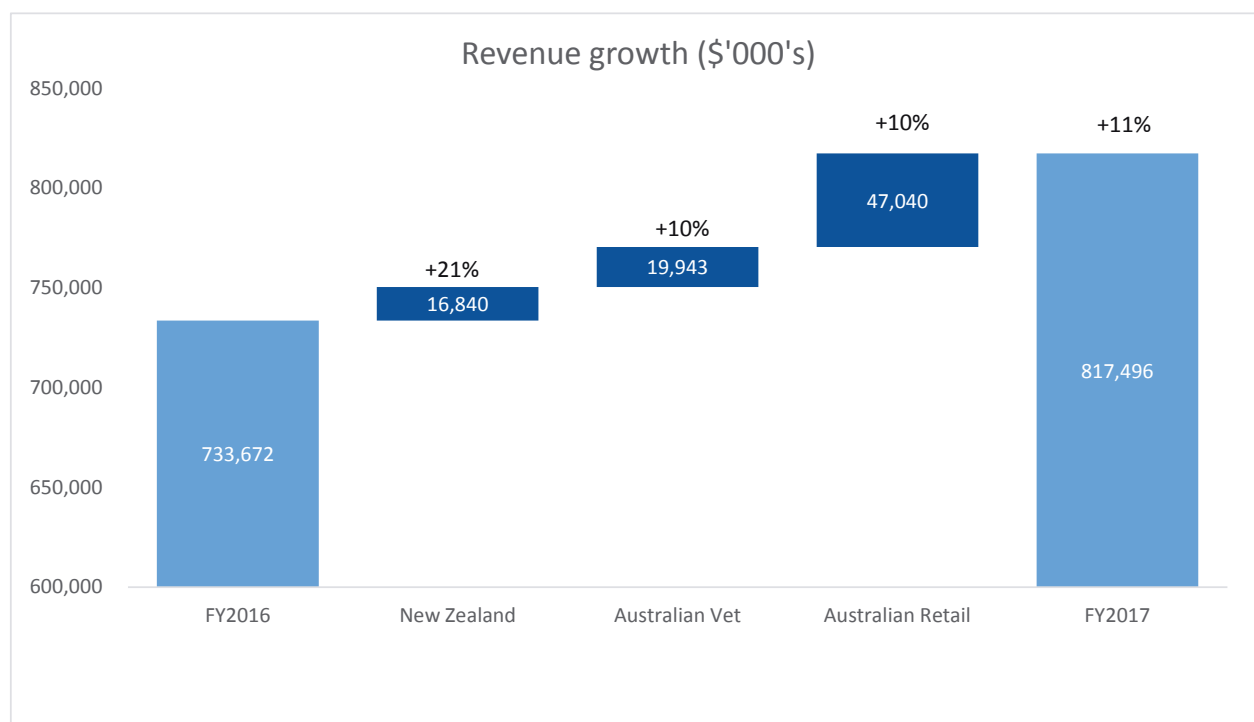
³ NPAT – Net profit after income tax expense

Directors' Report

For the period ended 2 July 2017

Revenue

Group revenues were up by 11.4% or \$83.8 million to \$817.5 million (2016: \$733.7 million) as a result of continued organic and acquisitive network expansion across all operating divisions and solid LFL sales growth (+4.5%) supported by cross referrals, omni channel investment, a successful loyalty re-launch and further private label extension.



Revenues in our Australian Veterinary business were up by +10.3% or \$19.9m to \$214.4m (2016: \$194.4m) driven by network expansion, particularly in specialist and emergency, and the accelerated roll out of “in-store” vets. Veterinary LFL sales growth (+4.8%) was in line with expectations and pleasingly supported by in-store vets and specialist and emergency. Cross referral initiatives continue to drive sales are increasingly supporting veterinary sales growth. During the financial year, the Veterinary business added 14 veterinary clinics to its network including 13 “in-store” veterinary clinics and 4 specialist and emergency practices.

Revenues in our Australian Retail business were up by +10.3% or \$47.0m to \$505.2m (2016: \$458.1m) driven by network expansion and LFL sales growth. Australian retail LFL sales growth (overall +4.4%) was a pleasing result, particularly in states outside Western Australia (“WA”). Our online business, which includes both home delivery and click & collect, together with our non-medical services businesses (grooming predominately) continue to perform extremely well and grew by 55% and 29% respectively. In Q4 of FY 2017 we successfully re-launched our award-winning loyalty program, ‘Friends for Life’, which drove sales and further rewarded loyalty. Private label sales penetration increased to 21% aided by continued growth in our private label food brand ‘Leaps & Bounds’ which contributed nearly \$6.0m sales during FY 2017. During the financial year the Australian Retail business added 10 new retail stores to its network (net of closures).

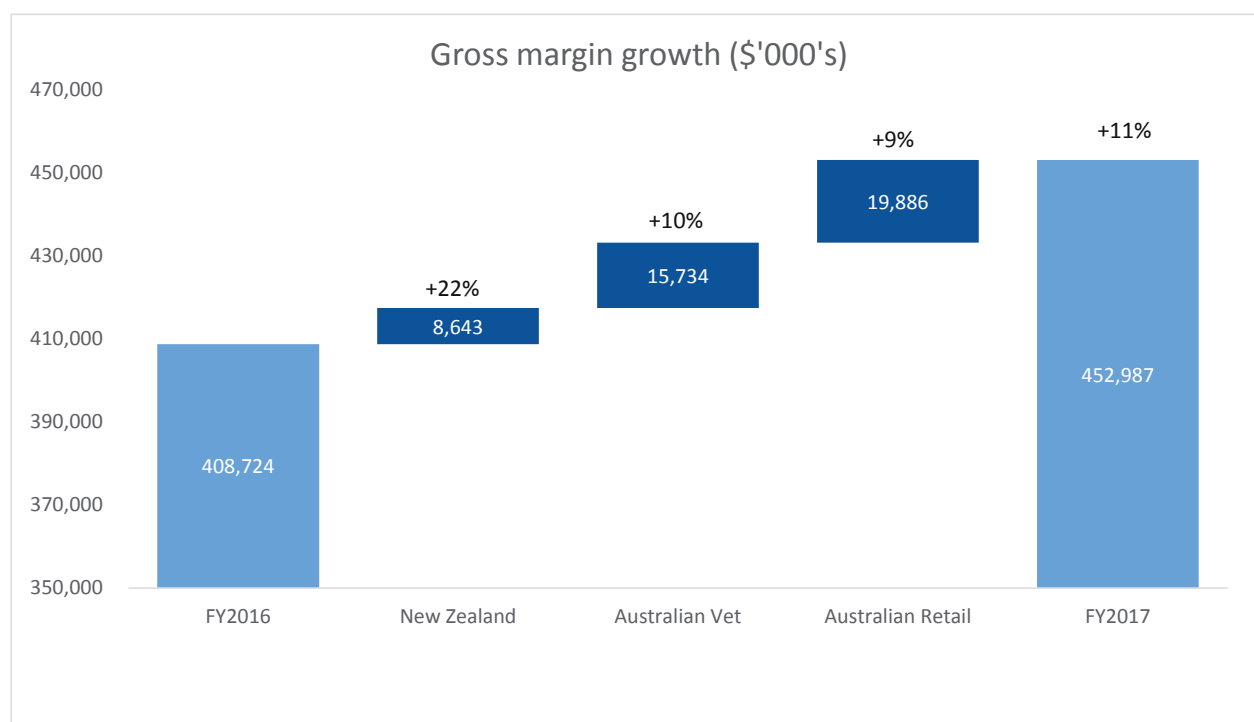
Our New Zealand (“NZ”) business saw continued strong growth in the year driven by strong LFL sales, continued growth in vet and aggressive network expansion. NZ revenues were up by +20.8% or \$16.8m to \$98.0m (2016: \$81.1m). NZ retail LFL sales growth (+4.9%) reflects the continued strength and momentum of the Animates brand in NZ while the relatively new Vet business contributed LFL sales growth of +8.0%. During the financial year the NZ business added 7 retail stores and 7 in-store veterinary clinics.

Directors' Report

For the period ended 2 July 2017

Gross margin and gross margin %

Group gross margin % as reported shows a net decrease of -0.3% to 55.4% (2016: 55.7%) over the prior year as we reinvested with consumers as part of the loyalty relaunch in the fourth quarter and delivered an increased mix towards food categories in our Retail division.



In the operating divisions gross margin % was stable in the Australian Veterinary division (+0.1%) while NZ gross margin % continues to improve (+0.5%) due to both the mix effect of higher margin veterinary clinics. Retail margins were impacted by mix as well as the loyalty relaunch.

Operating expenses

Operating expenses increased by 9.8% or \$31.6m to \$353.2m (2016: \$321.6m). Included within operating expenses are \$4.5m of acquisition, restructuring and other exceptional costs (2016: \$8.2m). After removing the effect of these items operating expenses increased by 11.3% or \$35.4m to \$348.7m (2016: \$313.4m). The increase is mainly due to the impact of expansionary activities, the incremental addition of new sites adding to operating expenses, plus a further investment in our Veterinary 'Employer of Choice' strategy aimed at improving vet retention and reducing locum hours and investment in our core network and infrastructure costs to enhance connectivity & reliability.

EBITDA

EBITDA increased by 14.5% or \$12.6m to \$99.8m (2016: \$87.1m). Underlying EBITDA grew by 9.3% or \$8.9m to \$104.2m (2016: \$95.3m) on the back of underlying business growth, continued network expansion through the addition of retail stores, in-store veterinary clinics and veterinary clinics. Exceptional and non-recurring items reduced 42% reduction or \$3.7m. Group EBITDA % increased by 30bps to 12.2% (2016: 11.9%)

Depreciation and amortisation

Depreciation and amortisation costs increased by 29.8% or \$5.3m to \$23.1m (2016: \$17.8m) primarily as a result of the investments in retail stores and veterinary clinics in both the current and prior year. Amortisation of capitalised development costs increased by \$0.8m which also impacted the current year.

Finance costs

Finance costs decreased by 11.4% or \$1.8m to \$13.9m (2016: \$15.6m) due to lower average debt across the year and improved terms

Directors' Report

For the period ended 2 July 2017

of Australian senior debt facilities and interest rate swaps.

Income tax expense

The effective tax rate reduced to 24.6% (2016: 28.0%) due to the recognition of previously unrecognised losses.

Net profit after tax

Net profit after tax ("NPAT") was up 21.5% or \$7.4m to \$42.1m (2016: \$34.6m) due to top line revenue growth through expansion and LFL sales growth, margin growth and the reduction in restructuring costs incurred during the period.

Cash flow highlights

The Group delivered a strong cash performance during the year driven by EBITDA growth and disciplined working capital management resulting in strong cash conversion and an almost neutral free cash flow position.

	FY 2017 \$'000's	FY 2016 \$'000's	Change \$'000's	%
Statutory cash flow				
EBITDA	99,779	87,140	12,639	14.5%
Net working capital movement	(3,917)	6,569	(10,486)	(159.6%)
Ungeared, pre-tax operating cash flows	95,862	93,709	2,153	2.3%
Cash conversion %	96.1%	107.5%	-11.4%	
Net interest and finance costs paid	(10,635)	(13,947)	3,312	(23.7%)
Income taxes received/(paid)	(10,241)	(1,126)	(9,115)	809.5%
Net cash from operating activities	74,986	78,636	(3,650)	(4.6%)
Expansionary capex	(57,890)	(38,567)	(19,323)	(50.1%)
Underlying capex ¹	(18,776)	(21,712)	2,936	13.5%
Net cash used in investing activities	(76,666)	(60,279)	(16,387)	27.2%
Free cash flow	(1,680)	18,357	(20,037)	(109.2%)
Net proceeds from issues of shares	-	252	(252)	(100.0%)
Net proceeds from borrowings and refinance costs	(1,059)	25,267	(26,326)	(104.2%)
Dividends paid	(2,023)	(10,892)	8,869	(81.4%)
Net cash used in financing activities	(3,082)	14,627	(17,709)	(121.1%)
Net increase/(decrease) in cash and cash equivalents	(4,762)	32,984	(37,746)	(114.4%)

Ungeared, pre-tax operating cash flow increased by 2.3% or \$2.2m to \$95.9m (2016: \$93.7m) as a result of EBITDA growth offset by adverse working capital movement resulting in a cash conversion of 96.1% (2016: 107.5%).

Continuous improvement in inventory management led to a 7.6% or \$24k reduction in average inventories per Australian retail store to \$290k (2016: \$314k). Warehouse inventory also decreased by \$0.6m to \$16.9m (2016: \$17.5m).

Despite improved credit collection processes and billing terms, trade and other receivables increased by \$2.9m to \$11.5m (2016: \$8.6m) due to timing of receivables related to supplier support for the re-launched loyalty program in Q4 of FY 2017. Continuous improvements in supplier terms, tighter working capital management and growth in volumes led to an increase of \$10.6m in trade and other payables to \$103.3m (2016: \$92.7m).

Interest and finance costs decreased by 23.7% or \$3.3m to \$10.6 (2016: \$13.9m) due to annualisation of improved terms on the Australian banking facility and a reset of interest rate swaps.

Income tax paid increased by 809.5% or \$9.1m to \$10.2m (2016: \$1.1m) as the Group returns to a more normal level of tax payments. FY 2016 was impacted by refunds received during the year coupled with reduced Australian Tax Office ("ATO") installments as a result of the low taxable income in FY 2015.

¹ Underlying capex represents total capex after removing cash paid in relation to purchase of businesses and investment in expansionary activities.

Directors' Report

For the period ended 2 July 2017

Net cash used in investing activities increased by 27.2% or \$16.4m to \$76.7m (2016: \$60.3m) due to the increased levels of investment in retail stores and veterinary clinics. During the year the Group's expansionary capex included the addition of 25 veterinary clinics (including 20 "in-store" veterinary clinics) and a further 17 retail stores (net of closures). In addition the Group continued to develop internal capabilities with underlying capex of \$18.8m (2016: \$21.7m) including investment in omni channel development, loyalty re-launch and other internal capabilities. Due to strong underlying cashflows this level of expansion is essentially self-financed before dividends.

Free cash outflow of (\$1.7m) (2016: cash inflow of \$18.4m) reflects increased level of investment and continued the transition towards a self-funding growth model leveraging strong cash conversion and careful investments to increase return on capital.

Net cash used in financing activities decreased by 121.1% or \$17.7m to \$3.1m outflow (2016: \$14.6m inflow) reflecting reduced requirements for debt. The Group paid an interim dividend of 9.5 cents per share to shareholders which was funded by the company's Dividend Reinvestment Plan (2016: \$10.3m).

Capital management

During the period ended 2 July 2017 Group net debt increased by \$6.7m to \$235.5m (2016: \$228.8m) through a combination of strong cash conversion and increased investments in network expansion. FY 2017 still represents another step in the transition towards self-funded growth outside of material, one off potential acquisitions.

As at 2 July 2017, the Group had drawn down \$280.0m borrowings (2016: \$280.0m) out of the \$350.0m Australian senior facilities with an additional accordion facility of \$50m. The strong cash result helped the Group deleverage the Australian senior debt facilities with the leverage ratio reduced to 2.2x (26 June 2016: 2.3x) on a bank covenant basis.

A summary of the Australian senior debt facility is detailed below:

Facility AUD \$'000s	Facility limit 2-Jul-2017	Expiry date	Amount drawn	
			2-Jul-2017	26-Jun-2016
A1 – bullet revolver	75,000	Oct-2018	75,000	75,000
A2 – bullet revolver	275,000	Oct-2020	204,862	204,862
B – accordion	50,000	Oct-2020	-	-
Senior debt facility	400,000		279,862	279,862

The \$400m senior debt facility comprises 2 separate revolving facilities and an accordion facility. All debt facilities are provided in equal proportions by National Australia Bank ("NAB") and Commonwealth Bank of Australia ("CBA"). The A1 facility matures in October 2018 and the A2 facility matures in October 2020 when all facilities become repayable with a final bullet payment. Under the \$50m accordion facility the Group is permitted to approach other lenders if the existing syndicate does not wish to participate.

Financial covenant ratios on the Australian senior debt facilities are fixed for the life of the facility, and comprise of a Leverage Ratio (being Net Debt to EBITDA adjusted for acquisitions) and a Fixed-Charge Coverage Ratio (being EBIT and fixed charges to fixed charges and interest). All financial covenant ratios were comfortably met at 2 July 2017.

The Group also has a NZ\$15.0 million senior facility with the Bank of New Zealand ("BNZ") facility through the 50% owned subsidiary Animates NZ Holdings Limited which is currently drawn to NZ\$15.0 million (2016: \$12.0 million). The facility is used to fund operations in New Zealand, expires on 31 December 2018 and has a bullet repayment due at expiry.

In addition, as part of the partial acquisition of Animal Emergency & Referral Centre in Adelaide, the Group now has a secured facility with ANZ Bank for \$1,700,000 which is fully drawn. The facility is secured against the freehold property where the business is being conducted and expires on 31 September 2019.

At the reporting year, \$140 million of debt was hedged by floating to fixed interest rate swaps.

The overall average effective interest rate remained at 4.7% (2016: 4.7%), inclusive of fixed rates on hedged debt, floating rates on unhedged debt and margin spreads.

The headroom of \$120.0m on the Australian senior debt facilities combined with future operating cash flows will provide ample

Directors' Report

For the period ended 2 July 2017

capacity to fund near term growth opportunities including acquisitions, NTI's¹ and the continued investment in our internal capabilities.

Acquisition, integration and restructuring expenses

During the period ended 2 July 2017 the Group incurred acquisition, restructuring and other exceptional or non-comparable costs of \$4.5m (2016: \$8.2m) related to streamlining of Brisbane back office, executive changes and costs associated with a product recall

Accounting standards as adopted by the Group require the classification of profit and loss items by nature. As a consequence the acquisition, integration and restructuring and other exceptional costs incurred during the year cannot be separately identified on the face of the statutory profit and loss statement.

In order to assist readers of the financial statements the Group has presented an underlying profit and loss statement after removing the impact of such costs from each cost type. Their removal improves comparability of results because they relate to non normal course of business activities that are variable in nature. The group no longer adjusts underlying profit for share based payments or site closure costs and has adjusted FY 2016 underlying result to this consistent basis.

The group benefited from a \$1.9m tax loss adjustment in 2017 that will not repeat in so underlying results have been adjusted for this gain to allow a fair comparison of performance.

	FY 2017		FY 2016	
	EBITDA	NPAT	EBITDA	NPAT
Reconciliation of underlying to statutory results	\$'000's	\$'000's	\$'000's	\$'000's
Statutory	99,779	42,055	87,140	34,620
Add back: acquisition & defence costs	1,803	1,298	3,390	2,712
Redundancy and restructuring costs	1,898	1,367	2,355	1,696
Integration, range and brand harmonisation	-	-	2,450	1,763
Product Recall	750	540	-	-
Tax loss recognition	-	(1,876)	-	-
Effective tax rate adjustment	-	(387)	-	(601)
Total adjustments	4,451	942	8,195	5,570
Underlying	104,230	42,997	95,336	40,190

Financial overview - underlying performance

	FY 2017 53 Weeks	FY 2016 52 Weeks	Change	
Underlying profit or loss	\$'000's	\$'000's	\$'000's	%
Revenue²	817,496	733,672	83,824	11.4%
EBITDA	99,779	87,140	12,639	14.5%
Underlying EBITDA	104,230	95,336	8,894	9.3%
<i>Underlying EBITDA margin (%)</i>	12.7%	13.0%	(0.3%)	
Underlying NPAT attributable to the owners of Greencross Limited	42,997	40,190	2,807	7.0%
Annual dividend per share (cents)	19.0	18.5	0.5	2.7%

¹ NTI – New to industry

² Excludes interest income

Directors' Report

For the period ended 2 July 2017

Underlying EBITDA & EBITDA margin %

Underlying EBITDA grew by +9.3% or \$8.9m to \$104.2m (2016: \$95.3m) on the back of underlying business growth and continued network expansion through the addition of retail stores, in-store veterinary clinics and veterinary clinics. Underlying EBITDA % decreased by 30bps to 12.7% (2016: 13.0%) which reflects the accelerated investment in start-up in-store clinics, underlying gross margin deterioration in Australian Retail following the investment in Group loyalty and change in product mix, plus investment in Vet 'Employer of Choice' initiative.

Underlying NPAT

Underlying NPAT was up +7.0% or \$2.8m to \$43.0m (2016: \$40.2m) primarily due to EBITDA growth. Higher depreciation and amortisation costs and outside equity interests were partially offset by reduced finance costs.

Directors' Report

For the period ended 2 July 2017

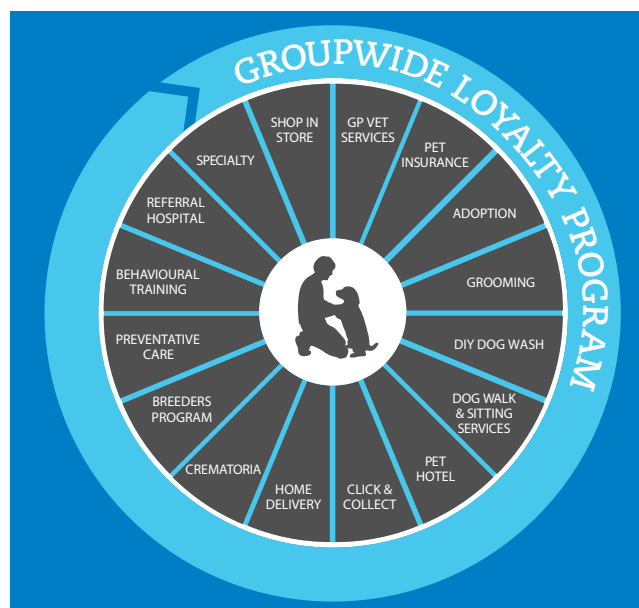
Group Strategy

Our three pronged group strategy aims to deliver an integrated pet care offering and the convenience of 'one-stop shopping' to as many Australasian pet owning households as possible.

We will invest to:

- Optimize our current business improving customer service and our product and service offerings making pet ownership more **affordable** to more families
- Expand our network and reach to make our offering **accessible** to as many households as possible
- Focus on our integrated model making convenient **one-stop shopping** available to our clients and customers

This strategy enhances customer engagement by putting the pet owner at the centre of all we do. As we engage with our customers we grow profitably and increase shareholder returns.



Greencross is simply 'better together' focusing on nurturing longer, deeper relationships between pets and the people that love them through a network of convenient destinations that provide the services and products that fulfil all of their pet care needs.

Material business risks

The key risks that the Group faces that have the potential to have a material impact on the performance of the Group, and how they are managed are detailed below. The Group is committed to managing the potential risks it faces in a continuous and proactive manner.

Expected industry trends

If overall economic conditions worsened, reducing consumer spending or if the level of pet ownership in Australasia declined this could have an adverse effect on the Group's growth prospects and financial performance.

Workplace relations risk

Greencross staff members operate under a modern award and are subject to the terms and conditions of the Fair Work Act. Staffing costs are the biggest single cost that Greencross incurs and any material adverse effect due to labour market forces may increase cost, reduce overall profitability and have an adverse impact on medium term performance.

Identification and completion of acquisition opportunities

There are low barriers to entry in the market that Greencross is seeking to grow via acquisition and new store openings. This gives rise to the risk that an existing or new entrant could aggressively drive up the price or drive down the availability of growth opportunities, thus limiting the Group's ability to grow profitably. We believe that the scale of the market and the alternative of "in-store" clinics can mitigate against this risk in the medium term.

Product sourcing

The Group's products are sourced from a network of third parties. Loss or interruption to the business of a major supplier, including delays or failures in receiving orders may result in increased product sourcing costs for the Group or a reduction in the available range in one or more stores, impacting sales, margin and growth.

Directors' Report

For the period ended 2 July 2017

Loss of key management personnel and shortages of skilled personnel

The loss of key management personnel and/or skilled team members in an unplanned or unexpected manner could have a negative impact on the ability of the Group to deliver on its growth plans with subsequent impact on financial results. Market attractive packages, including short term incentive plan (STIP) and long term incentive plan (LTIP) are offered to key personnel to encourage retention and to attract new talent. This helps mitigate against this risk, as does succession planning.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 2 July 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Outlook

The Group expects to deliver ongoing revenue growth and earnings growth in FY 2018 driven by the expansion of its proven business platform and delivery of the benefits of its integrated business model.

The Group expects to deliver continued strong operating cash flows to support both acquisitive and organic growth in FY 2018.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Directors' Report

For the period ended 2 July 2017

Information on directors

Stuart James	
Title	Non-Executive Director and Chairman
Qualifications	BA (Hons), MAICD, FAIM
Experience and expertise	<p>Stuart has had a successful career within the Resources, Financial, Healthcare and Pharmaceutical sectors around the world.</p> <p>Stuart had a 25 year career with Royal Dutch Shell Group both in Australia and internationally. His special areas of focus were Retail and South East Asia. Stuart became Managing Director of Australian Financial Services for Colonial and Managing Director of the Colonial State Bank (formerly the State Bank of NSW). Subsequently Stuart became CEO of the Mayne Group with its diverse interests in logistics, healthcare and pharmaceutical, both in Australia and internationally.</p> <p>Following his executive career Stuart has held a number of Non-Executive roles in both Australian and international companies. From 2006 to 2014 he was a member of the supervisory Board of Wolters Kluwer N.V., a software as services global company which during this period underwent significant transformation from a hard copy provider of information to a total digital provider.</p> <p>Stuart was Chairman of Pulse Health Group - a private hospital operator, Affinity Education Group - a childcare operator, Prime Financial Group - a wealth management and financial advisor business. Stuart was also Chairman of Progen Ltd and NED of Phosphagenics Ltd - both biotech companies. Stuart currently has interests in both fin-tech and healthcare digitisation.</p>
Other current public company directorships	None
Former directorships (last 3 years)	Pulse Health Limited Affinity Education Group Limited Progen Pharmaceuticals Limited NED of Phosphagenics Limited
Special responsibilities	Member of the Remuneration and Nomination Committee
Interests in shares as at 3 July 2017	2,266,004 ordinary shares
Martin Nicholas	
Title	Managing Director and Chief Executive Officer
Qualifications	BA (Hons) Oxford University, ACMA
Experience and expertise	<p>Martin has 30 years of operational experience in finance, M&A, IT, supply chain, retail, professional services and FMCG sectors. Martin joined Greencross Limited as Chief Financial Officer and was subsequently appointed Chief Executive Officer in August 2015. He has led the business through a period of sustained growth and built a foundation for future success. Prior to joining Greencross Limited, Martin spent two decades in the consumer goods industry with Unilever across the United Kingdom, China, Asia and Australia, with responsibility for finance, IT, supply chain, M&A, and retail pricing and promotional strategy development. Martin was also CFO of Study Group International, a private equity owned education business, and served as Group Finance Director for Rentokil Initial PLC, a multinational services business listed on the London Stock Exchange.</p>
Other current public company directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Managing Director and Chief Executive
Interests in shares as at 3 July 2017	35,549 ordinary shares

Directors' Report

For the period ended 2 July 2017

Christina Boyce

Title	Non-Executive Director
Qualifications	B.Ec. (University of Sydney), MBA (KGSM), GAICD
Experience and expertise	Christy has over 25 years management consulting experience advising major local and international companies in the retail and consumer goods space on marketing and sales strategies. She has worked with a number of major retailers on format renewal, category and pricing strategy and business transformation. Christy started her career at McKinsey where she co-led the Asia Pacific Retail and Consumer Goods practice. She subsequently acted as a key advisor on a number of major private equity transactions as well as advising on a range of digital transformation projects across a range of industries including retail. She was an advisor and executive at NBN Co during its initial start up with responsibility for regulatory strategy, product and pricing. She continues to provide strategic advice as a director of Port Jackson Partners, a leading consultancy, with a particular focus on strategic direction setting, negotiation strategy and revenue management. She is currently a Non-Executive Director of Monash IVF Group Limited and Oneview Healthcare Plc.
Other current public company directorships	Monash IVF Group Limited
Former directorships (last 3 years)	Oneview Healthcare Public Limited Company - Oneview Healthcare Plc is listed on ASX Cryosite Limited
Special responsibilities	Chair of the Remuneration and Nomination Committee, Member of Audit and Risk Management Committee
Interests in shares as at 3 July 2017	19,000 ordinary shares

Andrew Geddes

Title	Non-Executive Director
Qualifications	B.Com, Dip. Fin. Mgt, M.Ec, FCPA, F.A.I.C.D.
Experience and expertise	Andrew has over 40 years of experience as a management consultant specialising in professional service firm development and management. For 30 years, he further specialised in veterinary business development and management. During this time, he developed and delivered national practice management education programmes with Glen Richards, Greencross Limited's Co-Founder and first CEO. Andrew was Greencross Limited's first Chairman from its initial listing in 2007 through to its merger with Mammoth Pet Holdings Pty Ltd in 2014. He then continued on the Board as a non-executive Director. Andrew has also held the office of non-executive Director of Count Financial Limited from its initial listing in 2002 through to its sale to CBA in 2011.
Other current public company directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Member of Audit and Risk Management Committee
Interests in shares as at 3 July 2017	267,632 ordinary shares

Directors' Report

For the period ended 2 July 2017

Rebekah Horne

Title	Non-Executive Director
Qualifications	BBus
Experience and expertise	Rebekah has had a successful 20-year career advising many of the world's most respected media brands and is currently the Chief Digital and Data Officer of the NRL. Rebekah was previously CDO of Network Ten and CEO of the Los Angeles based start-up Topfloor.com, a Google and POLARIS Ventures backed e-commerce business. Rebekah has also been responsible for the internationalisation of News Corp's digital business, Fox Interactive Media, starting with the build of the Australian operation, and going on to be the SVP International, responsible for 26 territories outside of the US. Prior to joining News Corp, Rebekah held senior positions at SingtelOptus.
Other current public company directorships	None
Former directorships (last 3 years)	None
Special responsibilities	None
Interests in shares as at 3 July 2017	0 ordinary shares

Christopher Knoblanche AM

Title	Non-Executive Director
Qualifications	BCom, ACA, FCPA
Experience and expertise	Chris has held a number of high profile leadership (CEO) roles in Australia and across Asia. Chris sits on a number of boards providing his deep history on governance, financial, accounting and risk management skills. Currently Chris is the Chair of the Audit and Risk Management Committee for iMed Radiology, Australia's largest provider of radiology and medical diagnostic imaging. During his time in investment banking, Chris has provided detailed advice in the Australian consumer retail sector. Chris is currently the Principal of Advisory & Capital Pty Ltd. Chris previously held the role of Managing Director and Head of CitiGroup Corporate and Investment Banking Australia & New Zealand. Chris has been CEO of Andersen Australia, CEO of Andersen Business Consulting Asia Pacific and Regional Managing Director of Deloitte Management Solutions – Asia. Prior to CitiGroup, Chris was a Partner in the boutique Investment bank, Caliburn Partnership (now Greenhill). He serves as Board Member of the Sydney Opera House and the Environmental Protection Authority of NSW. Chris is Chairman of iSelect Limited. Chris was appointed a Member of the Order of Australia for significant service to arts administration, to the community and to the business and finance sector in 2014.
Other current public company directorships	iSelect Limited
Former directorships (last 3 years)	None
Special responsibilities	Chair of the Audit and Risk Management Committee, Member of Remuneration and Nomination Committee
Interests in shares as at 3 July 2017	6,000 ordinary shares

Directors' Report

For the period ended 2 July 2017

Dr Glen Richards

Title	Non-Executive Director
Qualifications	B.V.Sc.(Hons), M.Sc., F.A.I.C.D.
Experience and expertise	Glen has over 26 years of experience in the retail and professional services sectors. Glen was the founding Managing Director of Greencross Limited and Co-Founder and Director of Mammoth Pet Holdings Pty Ltd, prior to its merger with Greencross Limited in 2014. Glen established Greencross Vets Pty Ltd in 1994 and PetHQ Pty Ltd in 2005. Glen has extensive operational experience in fast growing companies, especially in health care and allied health. He established the first western veterinary practice in China (Shanghai PAW) in 2001; was a director of Lyppard Australia, one of Australia's leading veterinary wholesalers. He is currently Chairman of Healthia Ltd (Australia's largest podiatry group), a director of Montserrat Private Day Hospitals (one of Western Australia's and Queensland's largest day hospital groups), Smart Clinics General Medical Practices (with over 35 general practices), Regeneus Ltd (a regenerative medicine company), and 1300Smiles Ltd (a national dentistry group). Glen continues as a shareholder, advisor and mentor to a number of innovative technology companies (Sourcehub, OneWorld, Smartvet, Clinician Connect and Naturo) that operate nationally and globally in health, retail and agriculture.
Other current public company directorships	1300 Smiles Limited Regeneus Limited
Former directorships (last 3 years)	None
Special responsibilities	None
Interests in shares as at 3 July 2017	2,356,770 ordinary shares

Paul Wilson

Title	Non-Executive Director
Qualifications	B.Bus, MBA, MAID
Experience and expertise	Paul has over 30 years of extensive experience in the Retail Sector. Paul co-founded Mammoth Pet Holdings Pty Ltd in 2005 and as its Managing Director grew its chain of pet specialty retail stores (Petbarn and Animates) from 10 to over 150 across Australia and New Zealand. During that time, he introduced sector innovation in store design, layout and merchandising, product and service range and mix, and customer loyalty programs. Immediately prior to Mammoth, Paul held leading edge positions in online commerce and digital marketing: first as Chief Operating Officer of ShopFast, which he grew to be Australia's then largest online grocery retailer (sold to Coles in 2003); and as Managing Director of Adstream Pty Ltd, a leader in the digitalisation of advertising content delivery. During the period, 1987 to 1999 inclusive, Paul held a number of senior retail positions with Caltex Australia including, National Fuels Pricing and Planning Manager, General Manager of Vitalgas (a Caltex/Boral JV), and as Retail Sales Manager responsible for introducing and growing a competitive retail offer in a network of over 500 Caltex service stations.
Other current public company directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Chairman, Animates NZ Holdings Ltd, a joint venture between Greencross Limited and EBOS Chairman, The Pet Foundation
Interests in shares as at 3 July 2017	3,194,837 ordinary shares

Directors' Report

For the period ended 2 July 2017

Vincent Pollaers – Company Secretary

Title	Chief Human Resources Officer, General Counsel and Company Secretary
Qualifications	B.E (Elec.); B.Sc.; CPE & LSF, England; Admitted as Solicitor & Barrister in NSW, England & Wales; MLawSoc, NSW; Grad. Dip. Counselling & Psychotherapy; Clinical Member, PACFA; Honorary Fellow, Faculty of Medicine, University of Melbourne
Experience and expertise	Vincent was appointed Chief Human Resources Officer, General Counsel and Company Secretary of Greencross Limited following its merger with Mammoth Pet Holdings Pty Limited in early 2014. Prior to the merger, Vincent was the Group HR Director and General Counsel of Mammoth Pet Holdings Pty Limited. In both roles, Vince has been responsible for the establishment and management of the Human Resource, Learning and Development, and Legal Compliance functions. Prior to joining Mammoth in 2008, he held roles as the General Counsel, Company Secretary and Strategy Executive for IBM Australia & New Zealand; Asia Pacific Managing Director for McKinney Rogers, a boutique strategy consultancy firm; a corporate lawyer with Freshfields in London and Allens Arthur Robinson in Sydney; management consultant with Pricewaterhouse Coopers in Hong Kong; and weapons electrical engineering officer in the Royal Australian Navy. Vincent is a Director of The Petbarn Foundation. Additional philanthropic endeavours have included being the Chairman of the Australian Twin Registry (a medical research enabling facility funded by the federal government), and a special advisor to the National Breast Cancer Foundation and the Centre for Epidemiology at the University of Melbourne. In acknowledgement for services rendered, he was appointed an Honorary Fellow of the Faculty of Medicine at the University of Melbourne in 2010.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the period ended 2 July 2017, and the number of meetings attended by each director were:

	Full Board		Remuneration and Nomination Committee		Audit, Compliance and Risk Management Committee	
	Attended	Held ¹	Attended	Held ¹	Attended	Held ¹
Stuart James	10	10	4	4	-	-
Martin Nicholas	10	10	-	-	-	-
Christina Boyce	10	10	4	4	5	5
Andrew Geddes	10	10	-	-	5	5
Rebekah Horne	10	10	-	-	-	-
Chris Knoblanche	9	10	3	4	4	5
Dr Glen Richards	10	10	-	-	-	-
Paul Wilson	10	10	-	-	-	-

¹ Held: represents the number of meetings held during the time the director of Greencross held office.

Directors' Report

For the period ended 2 July 2017

Remuneration Report

The Directors present the 2017 Remuneration Report prepared in accordance with section 300A of the Corporations Act 2001, for the Company and the consolidated entity for the period ended 2 July 2017 ("FY 2017"). The information provided in this Remuneration Report has been audited by PricewaterhouseCoopers as required by section 308(3C) of the Corporations Act 2001. The Remuneration Report forms part of the Directors' Report.

The Remuneration Report outlines the remuneration strategies and arrangements for the Company's Key Management Personnel ("KMP"), who have authority and responsibility for planning, directing and controlling the activities of the Company.

1. Introduction

1.1 Overview of FY 2017 Remuneration Initiatives

No major changes were made to the remuneration framework and policy in FY 2017.

Considerations in developing, applying and maintain the current framework are:

Fairness	Performance	Balance	Risk
Remuneration evaluated against independent market data Fixed pay based on experience and comparable position Attracts and retains	Half of pay is at risk and linked to performance Measures include both relative and absolute performance Requires growth and improvement on prior required	Reward balances short term and long term focus Mix of cash with equity Employ formulaic incentives tempered with judgement Provide reward in both current and deferred pay	Mix of performance measures and time periods for assessment for sustainable results Discretion to apply malus Shareholding guidelines and payment in equity for longer term alignment Incentive caps to limit prospect of excessive risk taking

In managing and oversight of remuneration we:

Do	Don't
Seek shareholder approval for CEO equity grants Grant equity based on face value Monitor executive shareholdings against guideline requirements Vary payments with performance Retrospectively disclose performance attained and payments made Limit executive termination payment to less than 12 months pay Align interests of executives with shareholders with payments in equity Demand progress on strategy execution Exercise a final judgement when applying formulas	Permit hedging of Greencross equity Have soft performance targets Blindly follow formulas without exercising a final judgement on performance

Over the long term our incentives reward sustained earnings growth, total shareholder returns in excess of peers, and capital efficiency.

The Company focussed the FY 2017 KMP short term incentive plan ("STI Plan") on cash generation, working capital management, revenue growth and the successful completion of a number of large, complex and business critical strategic projects, including launching the Company's first private label dog food product "Leaps & Bounds", relaunching the Friends for Life Loyalty Program, accelerating the roll-out of veterinary clinics within retail stores, and the continued delivery of our integrated petcare model.

The Company welcomes shareholder feedback on our remuneration framework.

Directors' Report

For the period ended 2 July 2017

Remuneration Report

1.2 Key Management Personnel

Set out below is the list of the Directors and Executives of the Company whose remuneration details are outlined in this Remuneration Report. These Directors and Executives comprised the key management personnel ("KMP") of the Company for FY 2017, who have authority and responsibility for planning, directing and controlling the activities of the Company, as defined within the relevant accounting standard and confirmed by our auditors. Except where noted, these Directors and Executives were employed for all of FY 2017 in the positions noted below.

Table 1 – Key Management Personnel

Name	Position	Period Covered Under this Report
Directors		
Christina Boyce	Non-Executive Director	Full financial year
Andrew Geddes	Non-Executive Director	Full financial year
Rebekah Horne	Non-Executive Director	Full financial year
Stuart James	Non-Executive Chairman	Full financial year
Christopher Knoblanche	Non-Executive Director	Full financial year
Martin Nicholas	Managing Director and Chief Executive Officer ("CEO")	Full financial year
Glen Richards	Non-Executive Director	Full financial year
Paul Wilson	Non-Executive Director	Full financial year
Other KMP		
Warwick Thresher	Chief Financial Officer ("CFO")	Full financial year
Tanya Houghton	Chief Operating Officer - Retail ("COOR")	Full financial year
Darren Maier	Chief Operating Officer - Vet Services ("COOV")	Full financial year
Scott Charters	Group Chief Operating Officer ("COO")	1 July 2015 to 5 July 2016

1.3 Link between Remuneration and Company Performance

The Company believes it is crucial to shareholder value creation to have clearly identified key performance metrics that link Executive KMP remuneration to company performance.

The key financial measures for FY 2017 that applied to Executive KMP incentives are all considered to be appropriate for sustainable long-term performance and shareholder value creation. They were:

- **Earnings Per Share ("EPS") growth** – EPS is a measure of profitability, a direct determinant of dividends and a measure of the Company's long-term success. In FY 2017, the actual reported EPS was 36.2 cents, being a 19.1% increase on the previous year. EPS may, at the discretion of the board, exclude any exceptional non-repeating or non-comparable income or costs that are not relevant to the long term performance of the Group including acquisition costs, restructuring and the impact of significant acquisitions and disposals. In FY 2017, the actual reported underlying EPS was 37.0 cents, being a 4.0% increase on the previous year. The FY 2017 underlying EPS result excluded \$0.9m (FY 2016: \$5.9m) of exceptional, non-repeating or non-comparable costs.

Directors' Report

For the period ended 2 July 2017

Remuneration Report

- **Underlying Return on Invested Capital ("ROIC")** - is a measure of capital efficiency. It takes into account both the cost of equity and debt. It ensures that earnings growth is achieved on a sustainable basis. Underlying ROIC may, at the discretion of the board, exclude any exceptional non-repeating or non-comparable income or costs that are not relevant to the long term performance of the Group including acquisition costs, share based payments, restructuring and site closure costs and the impact of significant acquisitions and disposals. In FY 2017 underlying ROIC was 8.5%, this excluded \$4.5m (FY 2016: \$8.2m) of exceptional, non-repeating or non-comparable costs
- **Total Shareholder Return ("TSR")** - is a measure of share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualized percentage. The Company measures performance by comparison against the total shareholder returns of the ASX200 over a period of 3 years. In FY 2017 TSR was (6.8%).
- **Underlying EBITDA** - Underlying Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") is a measure of the company's underlying ability to generate cash to pay dividends and support growth. Underlying EBITDA excludes, at the discretion of the board, any exceptional non-repeating income or non-comparable income or costs that are not relevant to the long term performance of the Group including acquisition costs, and restructuring costs. In FY 2017, the actual reported underlying EBITDA was \$104.2m, being a 9.3% increase on the previous year. The FY 2017 underlying EBITDA result excluded \$4.5m (FY 2016: \$8.2m) of exceptional, non-repeating or non-comparable income or costs.
- **Total comparable sales growth percentage** – (alternatively referred to as Like for Like Sales) is a measure of the percentage of growth of 52 weeks of sales revenue generated in the current financial year compared to 52 weeks of sales revenue generated in the previous financial year for stores and clinics that were open in the same period last year. In FY 2017, the actual reported total comparable sales growth percentage was 4.5% (FY 2016 4.4%). No adjustment is made for either cannibalisation or competition in the calculation of Like for Like sales.
- **Cash Generation Percentage** - is a measure of the effectiveness of the Company in generating cash to fund expansion, tax, interest and dividends and is defined as EBITDA less Working Capital (adjusted for NTI inventory) less Underlying Capex. Cash Generation Percentage is defined as Cash Generation divided by EBITDA. In FY 2017, the actual reported cash generation percentage was 81.7%.
- **Vet Vacancy Rate** - is a measure of the absolute number of vet vacancies expressed as a percentage of active vet roles in the Company in Australia. The Vet Vacancy Rate is measured monthly. For testing this performance condition, the Vet Vacancy Rate is the rate for June 2017. In June 2017, the actual reported vet vacancy rate was 9.1%. (FY16 was 9.7%)
- **Retail Net Promoter Score ("NPS")** - is a measure of the satisfaction and loyalty of the Company's retail customers in Australia. Customer feedback is collected weekly. For testing this performance condition, NPS is the average for Q4 of FY 2017. In Q4 of FY 2017, the actual reported NPS was 56.3 (FY 2016 used a different non comparable methodology).
- **Cross Shopper Rate** - is a measure of the percentage of active customers and clients of the Company who are members of the Company's loyalty programs and who are purchasing products and services from multiple platforms. It is measured weekly. For testing this performance condition, Cross Shopping Rate is the moving average total for June 2017. In June 2017, the actual reported cross shopper rate was 11.2% (FY 2016 8.9%)

Directors' Report

For the period ended 2 July 2017

Remuneration Report

Performance and Remuneration

Table 2 below outlines Greencross's performance over the last five years.

Table 2 – Greencross Financial Performance and Remuneration for the Past Five Years

	Measure	FY 2013 ²	FY 2014 ²	FY 2015	FY 2016	FY 2017
Revenue	\$M	362.0	445.5	644.5	733.6	817.5
Revenue Growth (on previous year)	%	23.5%	23.1%	44.7%	13.8%	11.4%
Total LFL Sales	%	NA	6.0%	6.2%	4.4%	4.5%
Underlying EBITDA ¹	\$M	41.2	54.3	86.8	95.3	104.2
Underlying EBITDA Growth (on previous year)	%	23.0%	31.8%	59.9 %	9.8%	9.3%
EBITDA	\$M	36.7	38.6	63.3	87.1	99.8
EBITDA Growth (on previous year)	%	11.6%	5.2%	64.0%	37.7%	14.5%
Underlying NPAT ¹	\$M	14.9	21.6	38.2	40.2	43.0
Underlying NPAT Growth (on previous year)	%	49.0%	45.0%	76.9%	5.2%	7.0%
NPAT	\$M	10.7	(127.8)	19.1	34.6	42.1
NPAT Growth (on previous year)	%	27.4%	(1,294.4%)	114.9%	82.5%	21.5%
Underlying EPS ¹	cents	18.7	24.0	34.3	35.3	37.0
Underlying EPS Growth (on previous year)	%	24.7%	28.3%	42.9%	2.9%	4.9%
EPS	cents	NA	(190.6)	17.2	30.4	36.2
EPS Growth (on previous year)	%	NA	NA	109.0%	76.7%	19.1%
Operating Cash Flow	\$	NA	45.0	41.3	87.9	81.5
Closing share price	\$	4.73	9.24	5.75	6.76	6.05
Dividend Per Share	cents	10.0	12.5	17.0	18.5	19.0
Total Shareholder return	%	NA	98%	(36%)	21%	(6.8%)

¹ Underlying results exclude exceptional costs and income items in order to facilitate year on year comparison. Underlying EBITDA is reported after excluding acquisition and restructuring costs, but now includes ongoing share based payments and site closure costs. For comparison FY2016 is now reported on this consistent basis. FY2016 underlying EBITDA of \$97.5m, NPAT \$42.1m and EPS 37.0c were previously reported after adding back share based payments and site closures. Underlying NPAT excludes the benefit of one off tax loss recognition in FY2017 results.

² Pro forma as if the merger had occurred on 1 July 2010

Directors' Report

For the period ended 2 July 2017

Remuneration Report

2. Remuneration Governance and Policy

2.1 Remuneration Governance

The Board oversees, and is responsible for, remuneration decisions. To assist the Board, governance and oversight of remuneration is delegated to the Remuneration and Nomination Committee ("Committee").

The purpose of the Committee, as stated in its Charter, is to assist the Board by reviewing and making recommendations to the Board in relation to:

- The Company's remuneration policy, including as it applies to Directors and the process by which any pool of Directors' fees approved by shareholders is allocated to Directors;
- Board renewal and planning;
- The appointment and re-election of members of the Board and its committees;
- Director and senior executive remuneration, equity-based incentive plans and other employee benefit programs;
- The Company's superannuation arrangements;
- The Company's recruitment, retention and termination policies;
- CEO and senior executive succession;
- The evaluation process of the Board, its Committees and individual Directors;
- Senior executive and Board member performance review, which takes place at least annually;
- Those aspects of the Company's remuneration policies and packages, including equity-based incentives, which should be subject to shareholder approval; and
- The size and composition of the Board and strategies to address Board diversity and the Company's performance in respect of the Company's Diversity Policy, including whether there is any gender or other inappropriate bias in remuneration for Directors, senior executives or other employees.

The Committee Charter is available on the Company's website at www.greencrosslimited.com.au. The Charter is reviewed annually.

All members of the Committee are Independent Non-Executive Directors.

Committee members in FY 2017 were Christina Boyce (Chair), Stuart James and Christopher Knoblanche.

During FY 2017, the Committee met 4 times with full attendance by all member with exception of one meeting when Christopher Knoblanche was absent. The Chief Executive Officer and Chief Human Resources Officer have a standing invitation to attend all Committee meetings to assist in deliberations (excluding matters relating to their own employment).

Further information on the Remuneration and Nomination Committee is provided in the Corporate Governance Statement in this Annual Report.

2.2 External Remuneration Advice

From time to time, the Committee seeks independent external advice on the appropriateness of the remuneration framework and remuneration arrangements for Directors and Executives. The Chair of the Committee oversees the engagement and payment of independent consultants.

During the year, the Committee (on behalf of the Board) engaged Guerdon Associates as its independent consultant to provide information on remuneration matters. The Board was satisfied that advice received from Guerdon Associates was free from any undue influence by KMPs to whom the advice related, because strict protocols were observed and complied with regarding any interaction between Guerdon Associates and management. All remuneration advice was provided directly to the Chair of the Committee or the Chairman of the Board. No remuneration recommendations as defined in section 9B of the Corporations Act, were made by Guerdon Associates.

Directors' Report

For the period ended 2 July 2017

Remuneration Report

2.3 Remuneration Policy and Key Principles

Policy purpose

The purpose of the Greencross remuneration policy is to establish a framework for remuneration that will:

- Ensure that competitive remuneration policies and practices are observed which enable the attraction and retention of senior management and directors who will create value for shareholders;
- Fairly and responsibly reward senior management and Directors having regard to the Company's performance, the performance of senior management, the aspirations of the Company, and the general pay environment;
- comply with all relevant legal and regulatory provisions; and
- Facilitate good governance.

A copy of the Remuneration Policy can be found on the Company's website at www.greencrosslimited.com.au.

Executive Remuneration Policy

The Greencross Remuneration Policy complements the Company's business strategy by aiming to reward Executives fairly and responsibly in accordance with the market and ensure that Greencross:

- Provides remuneration that attracts and retains appropriately qualified and experienced executives;
- Sets fixed remuneration at a level that reflects the executives' duties and accountabilities relative to market standards and their level of experience and expertise;
- Instils an ownership culture by encouraging executives to hold shares;
- Aligns executive incentive rewards with the creation of value for shareholders;
- Links an executive's remuneration to demanding levels of performance;
- Manages risk by measuring performance over different time periods and for multiple measures of performance, ensuring a significant component is received and held as equity;
- Benchmarks remuneration against appropriate comparator groups; and
- Complies with applicable legal requirements and appropriate standards of governance.

Executive remuneration is reviewed annually having regard to individual and business performance, internal equity, and comparative information.

Non-Executive Director Remuneration Policy

The Greencross policy for Non-Executive Director remuneration is to provide remuneration that is sufficient to attract and retain Directors with the experience, knowledge, diversity and judgement to oversee the Company's success.

Remuneration for Non-Executive Directors may contain any or all of the following:

- Cash fees that reflect the individuals' time commitment and board responsibilities;
- Other benefits such as superannuation payments as required under Australian superannuation guarantee legislation.

No retirement benefits are provided in addition to the individual's superannuation.

Further details on Non-Executive Remuneration are contained in section 4.0 of this Remuneration Report.

Directors' Report

For the period ended 2 July 2017

Remuneration Report

3. Chief Executive and Other Executive KMP Remuneration

3.1 Executive KMP Remuneration Structure

Executive KMP remuneration has a fixed component and an 'at risk' component that varies with performance. The 'at risk' component comprises a Short Term Incentive ("STI") and a Long Term Incentive ("LTI"). STI and LTI are set as a percentage of each executive's Total Fixed Remuneration ("TFR"). TFR is the sum of salary, salary sacrifice arrangements and the direct cost of benefits, including superannuation, motor vehicles, car parking, living away from home expenses and fringe benefits tax.

Framework Summary

The table below summarises the framework, performance requirements and performance outcomes for FY 2017. The framework is reviewed each year. There have been no substantive changes from prior.

Total Fixed Remuneration ("TFR")	<p>Comprises:</p> <ul style="list-style-type: none"> Cash salary; Salary sacrifice items; and Employer superannuation contributions in line with statutory obligations. <p>TFR is determined by reference to the following:</p> <ul style="list-style-type: none"> the market 25th to 75th percentile to accommodate the range of incumbent skills and experience; individual's skills and experience relative to the position's requirements; and in the case of internal promotions, policy is consistent with market convention in setting initial TFR below median.
Short Term Incentive	<p>Up to 50% of TFR ("maximum STI") awarded, 50% in cash and 50% in Performance Rights ("Deferred STI"). The Performance Conditions and their weighting, threshold and maximum targets, and actual achievements are as follows:</p> <ul style="list-style-type: none"> 25% - Underlying EBITDA (threshold = \$105m, maximum = \$115m, achievement = \$104.2m) 25% - Comparative Sales Growth (threshold hurdle = 3.5%, maximum = 5%, achievement = 4.5%) 25% - Cash Generation Percentage (threshold hurdle = 62.7%, maximum = 78.4%, achievement = 79.7%) 8.33% - Vet Vacancy Rate (threshold hurdle = 9.7%, maximum = 9.2%, achievement = 9.1%) 8.33% - Retail Net Promoter Score (threshold hurdle = 54%, maximum = 56%, achievement = 56.3%) 8.33% - Cross Shopper Percentage (threshold hurdle = 8.9%, maximum = 10%, achievement = 11.2%) <p>Threshold hurdles are set relative to budget.</p> <p>Payment scale of 30% at threshold and 100% at maximum.</p> <p>Deferred STI vests immediately following FY18 full year results announcement, and converts to shares upon exercise by participant. The Board has discretion to settle exercise in cash equivalent rather than shares for the Deferred STI.</p> <p>STI payouts achieved vary with performance and have been 49%, 29% and 69% of maximum opportunity in FY 2015, FY 2016 and FY 2017 respectively.</p>
Long Term Incentive	<p>Grant value of 50% of TFR ("maximum LTI") in Performance Rights. Vesting of the maximum LTI (100%) is dependent on achieving Key Performance Indicators during a three year performance period:</p> <p><u>EPS</u></p> <ul style="list-style-type: none"> 50% of maximum LTI dependent on achieving EPS growth hurdles based on predefined growth rates 30% vests at threshold performance, and 100% vests at stretch performance EPS growth averaged over 3 year period: 1 July 2015 to 30 June 2018. Threshold hurdle is 9.5%. <p><u>ROIC</u></p> <ul style="list-style-type: none"> 30% of maximum LTI dependent on achieving ROIC target ("ROIC Target"). Vesting scale of 30% at threshold and 100% at ROIC Target Threshold hurdle is higher than the weighted average cost of capital (WACC). Threshold hurdle: 80% of ROIC Target. <p><u>Total Shareholder Return</u></p> <ul style="list-style-type: none"> 20% of maximum LTI dependent on total shareholder return of the Company measured compared to the ASX 200 consumer discretionary accumulation index return over a period of 3 years. Vesting scale of 50% at threshold and 100% at stretch Threshold payment hurdle: TSR equal to the index return Maximum payment hurdle: TSR equal to or greater than the index return plus 5% per annum

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Company's Ownership Philosophy

It has long been the Company's philosophy that Executives should share in the ownership of the Company. All KMP Executives have a guideline to build and maintain a minimum shareholding equal to one times fixed remuneration. Whilst this is not mandated, it is monitored and encouraged.

3.2 Executive KMP Total Fixed Remuneration

TFR is the sum of salary, salary sacrifice arrangements and the direct cost of benefits, including superannuation, motor vehicles, car parking, living away from home expenses and fringe benefits tax.

Executives receive TFR which is determined by the scope of the Executive's position and the individual's level of knowledge, skill and experience relative to position requirements.

The Company annually reviews the TFR of key Executives and benchmarks this against appropriate market comparisons using information and advice from external consultants. There is no guarantee of any base pay increases included in any Executive's contract.

Fixed remuneration is determined by reference to the market median, P25 and P75, (relevant to the expected size of the Company and position scope) and the individual's skills and experience relative to the position's requirements. This policy recognises the need for flexibility to promote from within or recruit externally, attract and retain talent by recognising Executive experience and expertise, within an acceptable market remuneration range.

3.3 Executive KMP Short Term Incentive

The Company's STI Plan aims to reward Executives for meeting or exceeding annual performance thresholds on financial measures that, if achieved, create value.

The following summarises the key features of the 2017 STI Plan:

Who is eligible to participate in STI awards?

All executive management including KMP Executives participate in the STI Plan.

How are STI rewards set?

The STI is an annual 'at risk' incentive scheme. The level of STI opportunity is set as a percentage of an employee's TFR. This percentage is determined by the Remuneration and Nomination Committee with reference to market comparator data, the scope of the employee's position and responsibilities and the employee's ability to influence outcomes. The maximum STI that can be earned is capped to minimise excessive risk taking by Executives and other plan participants.

What are the performance requirements?

The six performance requirements and the maximum potential STI payment that can be awarded in respect of each is set out in Section 3.1.

What is the method of assessment against performance hurdles?

The amount of the maximum STI awarded will depend on the extent to which the performances requirements are met. Testing is to occur following the Company's announcement of audited results for the year ended 2 July 2017.

Actual outcomes are measured against the pre-defined threshold and maximum hurdles, which are referenced to the internal budgets and set at the beginning of the financial period.

The philosophy in setting these financial hurdles is to establish thresholds that represent the desired minimum outcomes and maximums that are realistically achievable with exceptional performance.

What is the form of payment?

For FY 2017, STI outcome is payable 50% in cash and 50% in deferred share rights. The vesting date for the deferred share rights is after the Company's announcement of audited results for the year ended 30 June 2018.

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Can any of the STI be clawed back or forfeited?

Where a Trigger Event occurs and a Participant receives an Incentive Payment that the Participant would otherwise not have received, or receives a greater Incentive Payment than the Participant would otherwise have received, had the event not occurred (an "Unfair Benefit"), the Board reserves the right to clawback any previously paid remuneration, or forfeit proposed remuneration (whether as part of an Award under a Plan or as part of the fixed annual remuneration of the Participant).

The Trigger Events that could lead to a clawback or forfeiture are:

- any person has committed an act which constitutes fraud, or dishonesty or gross misconduct in relation to the affairs of any Group Company;
- a Participant brings any Group Company into disrepute;
- a Participant is in breach of his or her obligations to any Group Company, including compliance with this Clawback Policy or any other applicable Group policy;
- a Participant fails to perform any other act reasonably and lawfully requested of the Participant by the Company;
- an act or omission (whether intentional or inadvertent) of any person occurs that has the effect of delivering strong Group performance in a manner that is unsustainable or involves unacceptably high risk, and results, or is likely to result, in a detrimental impact on Group performance, including but not limited to write downs or impairments;
- the Company becomes aware of a material misstatement or omission in the financial statements in relation to the Company in any of the previous three financial years; or
- any other circumstances which the Board determines in good faith to have resulted in an Unfair Benefit to the Participant.

Can the board exercise discretion in relation to STI awards?

The Board can exercise its discretion to amend any element of the STI award plan.

3.4 Executive KMP Long Term Incentive

The following summarises the key features of the 2017 LTI Plan.

Who is eligible to participate in the LTI plan?

Select senior Executives (including all KMP Executives) were eligible. The Chief Executive Officer had Shareholder approval to participate in the plan.

What Securities Are Offered?

Performance rights are granted over ordinary fully paid shares. Each performance right represents a right to receive one share in the Company plus prorated shares in accord with dividends accrued over the vesting period, subject to the terms of the LTI Plan. The default settlement is in shares. The Board may, in its absolute discretion, permit settlement in cash. The Board also has discretion to satisfy vested grants and the allocation of subsequent shares to participants by either the issue of new shares or an on-market acquisition.

How do Rights Vest?

Rights granted to participants will vest to the extent that the Board determines that:

- the performance condition was satisfied during the Performance Period; and
- the participant was continuously employed by the Company until the Vest Date of the rights (unless the participant ceased employment by reason of redundancy, permanent disability or death (Good Leaver)) and has not given notice to terminate their employment.

What is the Performance Period?

A 3-year Performance Period will apply. The Performance Period for the 2017 LTI is 1 July 2016 to 30 June 2019.

When are performance conditions tested?

The performance conditions are tested following the announcement of the FY 2019 full year result, in or around August 2019.

How do you determine the number of performance rights?

The number of performance rights each participant receives is determined by dividing 50% of the Executive's 2017 financial year TFR by the Allocation Price. The Allocation Price is the volume weighted average price (VWAP) of the Company's shares over ten

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days after the FY16 results were announced on 23 August 2016, which was \$6.67.

What are the performance conditions?

The three performance hurdles and the maximum potential LTI payment that can be awarded in respect of each is set out in Table 3.

Together, the use of these three hurdles is intended to provide a balanced view of the Company's performance and delivery against strategic objectives and provide alignment with shareholder interests.

EPS growth – EPS is a measure of profitability, a direct determinant of dividends and a measure of the Company's long-term success. It reflects the company's focus on profitable growth. Underlying EPS may, at the discretion of the board, exclude any exceptional non-repeating or non-comparable income or costs that are not relevant to the long term performance of the Group including acquisition costs, restructuring and the impact of significant acquisitions and disposals. Any judgement to exercise discretion will be disclosed.

ROIC is a measure of capital efficiency. It reflects the company's focus on ensuring an attractive return from capital invested in new stores, clinics and online growth as well as from capital invested in business improvement such as the recent supply chain investments. It takes into account both the cost of equity and debt. It ensures that earnings growth is achieved on a sustainable basis. Underlying ROIC may, at the discretion of the board, exclude any exceptional non-repeating or non-comparable income or costs that are not relevant to the long term performance of the Group including acquisition costs, share based payments, restructuring and site closure costs and the impact of significant acquisitions and disposals. Any judgement to exercise discretion will be disclosed.

Relative TSR is a measure of share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualized percentage. Relative TSR growth measures success in providing return to shareholders relative to alternative investments. Relative TSR helps align remuneration of management with returns to shareholders. However, the company recognises that management has less ability to directly impact this metric than other metrics used in the LTI. For this reason, relative TSR receives a weighting of only 20% of total opportunity. The Company measures performance by comparison against the total shareholder returns of the ASX200 consumer discretionary accumulation index of companies over a period of 3 years.

Details of the EPS performance condition

Fifty percent of the rights will only vest under the FY 2017 Grant to the extent a reported EPS growth condition is satisfied over the Performance Period. Broadly, EPS measures the earnings generated by the Company attributable to each share on issue. The EPS growth hurdle is based on the 3-year average annual growth over the Performance Period. Vesting of FY 2017 grants will be based on average EPS growth for FY 2017, FY 2018 and FY 2019.

The target and threshold hurdle are set with reference to the group's average annual EPS growth achieved over the Performance Period. The threshold hurdle is 9.5%. The vesting scale is 30% vesting at threshold and 100% at the maximum performance hurdle.

Performance against these hurdles will be disclosed retrospectively at the conclusion of the performance period.

Details of the ROIC performance condition

Thirty percent of the FY 2017 Grant will be subject to an underlying ROIC hurdle, based on the Company's underlying ROIC performance over the Performance Period.

The target and threshold hurdles are set with reference to the group's annual underlying ROIC achievement over the Performance Period. The threshold hurdle is 9.2%. The vesting scale is 30% vesting at threshold and 100% at the maximum performance hurdle.

Performance against these hurdles will be disclosed retrospectively at the conclusion of the performance period.

Is there a testing of performance conditions?

Following the end of the relevant performance period, the Board will:

- test the applicable performance and other conditions and determine the extent to which the these conditions have been satisfied and rights will vest;
- determine the time when the rights will vest; and

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- within a reasonable timeframe, notify participants of the extent to which any applicable performance and other conditions have been satisfied and rights will vest (or have vested), and, if relevant, confirmation that the rights will be settled in shares.

Testing will occur following the announcement of the Company's full year results and before 30 August 2019.

There are no re-tests after the initial, and final, test of performance.

What is the treatment for Dividends and Voting Rights in Performance Rights?

Rights do not carry a right to vote or, in general, a right to participate in other corporate actions such as bonus issues. Dividends are recognised in the value of a performance right, and in the number of shares that may vest with each right. However, recipients do not receive any dividends on rights that have not vested.

Are there restrictions on Hedging of LTIs?

A Participant must not enter into any scheme, arrangement or agreement (including options and derivative products) under which the Participant may alter the economic benefit to be derived from any Rights, irrespective of future changes in the market price of Shares.

Is there a real risk of Forfeiture?

A Performance right granted will lapse if:

- The applicable performance condition is not satisfied;
- The participant leaves the Company due to resignation or dismissal, unless the Board in its absolute discretion determines otherwise, or if the employee is a Good Leaver (i.e. has left due to redundancy, permanent disability, death or another circumstance deemed acceptable to the board);
- The Board determines (in its absolute discretion) that the employee has acted fraudulently or dishonestly or is in material breach of his/her obligations under the LTI Plan or to the Company; or
- The employee purports to transfer, mortgage, charge or otherwise dispose of any right or interest in a performance right other than in accordance with the terms of the LTI Plan

Change in Control

If an Event occurs prior to the vesting of rights, then the Board may, within 14 days after the Event, determine in its absolute discretion the treatment of the participant's unvested rights and the timing of such treatment, which may include determining that the unvested rights:

- Vest (whether subject to further performance conditions or not);
- lapse or are forfeited;
- remain subject to the applicable performance conditions and/or Performance Period(s);
- become subject to substitute or varied performance conditions and/or Performance Period(s); or
- which Vest in accordance with this rule, may only be settled in cash or with securities other than Shares, having regard to any matter the Board considers relevant, including, without limitation, the circumstances of the Event (including the value being proposed to Shareholders), the extent to which the applicable performance conditions have been satisfied (or estimated to have been satisfied) at the time of the Event and/or the proportion of the Performance Period that has passed at the time of the Event.

How do Rights vest?

The participant will be allocated Shares (or Cash Equivalent Value) for rights that vest as soon as practicable following the relevant Vesting Date.

Following the determination of vesting of rights, the Board will notify the participant of the method by which the vested rights will be settled (i.e. the allocation of Shares or the payment of the Cash Equivalent Value).

Can any of the LTI be clawed back or forfeited?

Where a Trigger Event occurs and a Participant receives an Incentive Payment that the Participant would otherwise not have received, or receives a greater Incentive Payment than the Participant would otherwise have received, had the event not occurred (an **Unfair Benefit**), the Board reserves the right to clawback any previously paid remuneration, or forfeit proposed remuneration (whether as part of an Award under a Plan or as part of the fixed annual remuneration of the Participant).

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The Trigger Events that could lead to a clawback or forfeiture are:

- any person has committed an act which constitutes fraud, or dishonesty or gross misconduct in relation to the affairs of any Group Company;
- a Participant brings any Group Company into disrepute;
- a Participant is in breach of his or her obligations to any Group Company, including compliance with this Clawback Policy or any other applicable Group policy;
- a Participant fails to perform any other act reasonably and lawfully requested of the Participant by the Company;
- an act or omission (whether intentional or inadvertent) of any person occurs that has the effect of delivering strong Group performance in a manner that is unsustainable or involves unacceptably high risk, and results, or is likely to result, in a detrimental impact on Group performance, including but not limited to write downs or impairments;
- the Company becomes aware of a material misstatement or omission in the financial statements in relation to the Company in any of the previous three financial years; or
- any other circumstances which the Board determines in good faith to have resulted in an Unfair Benefit to the Participant.

3.5 Executive KMP Shareholding Guideline

All KMP Executives have a guideline to build and maintain a minimum shareholding requirement equal to one times fixed remuneration. This is monitored annually.

3.6 Executive Service Contracts

Remuneration and other terms of employment for the Chief Executive, and the other KMP Executives are formalised in service agreements.

A summary of the key contractual provisions for each of the current Executive personnel is set out in Table 4 below.

Table 4 – Key Contractual Provisions for FY 2017 KMP Executives

	Employing Company	Contract Duration	Termination Notice Period (Company)	Termination Notice Period (Employee)
Martin Nicholas Managing Director and Chief Executive	Greencross Limited	No Fixed Term	12 Months	12 Months
Warwick Thresher Chief Financial Officer	Greencross Limited	No Fixed Term	6 Months	6 Months
Tanya Houghton Chief Operating Officer - Retail	Greencross Limited	No Fixed Term	6 Months	6 Months
Darren Maier Chief Operating Officer - Vet Services	Greencross Limited	No Fixed Term	6 Months	6 Months

3.7 Executive Remuneration Received and Statutory Tables

Managing Director and Chief Executive Officer

The total annual fixed remuneration for the Chief Executive Officer for FY 2017 was \$780,000.

As Chief Executive Officer, Mr Nicholas was eligible to participate in the Executive Short Term Incentive Plan and Long Term Incentive Plan in FY 2017; up to an aggregate of 100% of his total annual fixed remuneration.

The total annual remuneration of Mr Nicholas is at or near the median for this role in comparable companies.

Chief Financial Officer

The total annual fixed remuneration for the Chief Financial Officer for FY 2017 was \$350,000.

As Chief Financial Officer, Mr Thresher was eligible to participate in the Executive Short Term Incentive Plan and Long Term Incentive Plan in FY 2017; up to an aggregate of 100% of his total annual fixed remuneration.

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The total annual remuneration of Mr Thresher is at or near the median for this role in comparable companies.

Chief Operating Officer - Retail

The total annual fixed remuneration for the Chief Operating Officer – Retail for FY 2017 was \$440,000.

As Chief Operating Officer – Retail, Mrs Houghton was eligible to participate in the Executive Short Term Incentive Plan and Long Term Incentive Plan in FY 2017; up to an aggregate of 100% of her total annual fixed remuneration.

The total annual remuneration of Mrs Houghton is at or near the median for this role in comparable companies.

Chief Operating Officer - Vet Services

The total annual fixed remuneration for the Chief Operating Officer – Vet Services for FY 2017 was \$360,309.

As Chief Operating Officer – Vet Services, Mr Maier was eligible to participate in the Executive Short Term Incentive Plan and Long Term Incentive Plan in FY 2017; up to an aggregate of 100% of his total annual fixed remuneration.

The total annual remuneration of Mr Maier is at or near the median for this role in comparable companies.

Other KMP Executives

Mr Charters ceased to be employed by the Company in FY 2017, and, at the end of his employment, received his statutory and contractual entitlements.

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Table 5 details the nature and amount of remuneration of the Chief Executive and other KMP Executives for the period ended 2 July 2017:

Table 5 – Remuneration of KMP Executives											
		Fixed Term Remuneration			Variable Remuneration				Total Remuneration in Accordance with Accounting Standards \$	Performance Related %	STI Forfeiture %
		Short Term Benefits	Post Employment Benefits		Short Term Benefits		Long Term Benefits				
		Salary, Fees and Allowances \$	Non- Monetary \$	Super \$	STI Award (Cash) \$	Fair Value of Deferred Shares/Rights Under STI Awards ⁷ \$	Fair Value of Equity Grants Under LTI Plan \$				
Martin Nicholas	2017	760,390	-	19,616	135,018	51,795	-	966,819	19%	31%	
	2016	707,548	-	18,519	113,183	109,121	12,036	960,407	24%	71%	
	2017	330,375	-	19,616	60,585	23,216	-	433,792	19%	31%	
Warwick Thresher	2016 ¹	146,654	-	9,654	11,402	-	909	168,619	7%	71%	
	2017 ²	417,612	-	24,809	76,164	29,125	-	547,710	19%	31%	
Tanya Houghton	2016	-	-	-	-	-	-	-	-	-	
	2017 ³	326,693	-	19,616	62,370	23,850	-	432,529	19%	31%	
Darren Maier	2016	-	-	-	-	-	-	-	-	-	
	2017	-	-	-	-	-	-	-	-	-	
Jeff David	2016 ⁴	353,520	-	8,262	-	-	-	361,782	-	-	
	2017 ⁵	105,315	-	1,229	-	-	-	106,544	-	-	
Scott Charters	2016	479,956	-	18,604	72,553	97,701	7,715	676,529	26%	71%	
	2017	-	-	-	-	-	-	-	-	-	
Ian Kadish	2016 ⁶	646,056	-	25,262	16,000	70,699	-	758,017	7%	71%	
	2017	1,940,385	-	84,886	334,137	127,986	-	2,487,394	19%	31%	
Total	2016	2,333,734	-	80,301	213,138	277,521	20,660	2,925,354	17%	73%	

¹ Mr Thresher - pro rata for the period in role from 1 January 2016 to 26 June 2016.

² Mrs Houghton - commenced role from 1 July 2016.

³ Mr Maier - commenced role from 1 July 2016.

⁴ Mr David - pro rata for the period in role and includes termination payments, including statutory entitlements

⁵ Mr Charters - pro rata for the period in role from 1 July 2016 to his leaving date of 5 July 2016 inclusive, and includes statutory entitlements.

⁶ Mr Kadish - Pro rata for the period in role from 1 July 2015 to his leaving date of 4 January 2016 inclusive, and includes termination payments, including statutory entitlements.

⁷ In FY 2016 all short term benefits classified under deferred shares/rights under STI were awarded in relation to the FY 2015 Deferred STI Plan. In FY 2017 all short term benefits classified under deferred shares/rights under STI were awarded in relation to the FY 2017 Deferred STI Plan.

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STI Awards for 2017

STI payments to the Chief Executive and other KMP Executives for the 2017 financial year are set out in Table 6 below. The amounts reflect STI awards awarded but not yet paid or granted in respect of the 2017 financial year.

Table 6 – STI Awards FY 2017 for KMP Executives

		STI Cash \$	STI Deferred Share Rights \$	% of maximum STI awarded	% of maximum STI forfeited
Martin Nicholas	2017	135,018	135,018	69%	31%
	2016	113,183	-	29%	71%
Warwick Thresher ¹	2017	60,585	60,585	69%	31%
	2016	11,402	-	29%	71%
Tanya Houghton	2017	76,164	76,164	69%	31%
	2016	-	-	-	-
Darren Maier	2017	62,370	62,370	69%	31%
	2016	-	-	-	-
Total	2017	334,137	334,137	69%	31%
Total	2016	124,585	-	29%	71%

¹ FY 2016 STI Cash pro rata to reflect period in role from 1 January 2016 to 26 June 2016

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Movement in Long-Term Incentives

Details of unvested long-term incentive performance rights held by KMP Executives and movement during the year are detailed in Table 7 below.

Table 7 – Details of movement of unvested Performance Rights held during the year by Executives

	Type	FY 2015 Performance period 1 Jul 2014 – 30 June 2017			
		Granted	Vested	Lapsed	Unvested
Martin Nicholas ¹	Rights	23,874	-	-	23,874
Warwick Thresher ²	Rights	7,838	5,225	-	2,613

¹ In accordance with the terms and conditions of the FY 2015 Executive LTIP Scheme applying to Mr Nicholas, the Performance Conditions are to be tested against performance over the performance period immediately following the FY 2017 results announcement. The number of performance rights capable of vesting will then be calculated. As Mr Nicholas was not a Director on the date of grant, vesting will be subject to shareholder approval at the 2017 annual general meeting. The performance conditions were detailed in the FY 2015 Remuneration Report. In fulfilment of the Company's commitment to disclose threshold and maximum targets at the end of the performance period, the threshold and maximum targets were as follows: Earnings Per Share (threshold 20%, maximum 27%); and Return on Invested Capital (threshold 7.7%, maximum 9.0%).

² Granted to Mr Thresher under the FY 2015 and FY 2016 Senior Management LTIP Scheme, while he was in the non-KMP role of Group Financial Controller.

	Type	FY 2016 Performance period 1 Jul 2015 – 30 June 2018			
		Granted	Vested	Lapsed	Unvested
Martin Nicholas	Rights	60,653	-	-	60,653
Warwick Thresher ¹	Rights	12,220	-	-	12,220
Tanya Houghton	Rights	32,955	-	-	32,955

¹ Awarded under the FY 2015 and FY 2016 Senior Management LTIP Scheme

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	Type	FY 2017 Performance period 1 Jul 2016 – 30 June 2019			
		Granted	Vested	Lapsed	Unvested
Martin Nicholas	Rights	58,471	-	-	58,471
Warwick Thresher	Rights	26,237	-	-	26,237
Tanya Houghton	Rights	32,955	-	-	32,955
Darren Maier	Rights	28,059	-	-	28,059

4. Non-Executive Directors' Remuneration

4.1 Non-Executive Directors' Remuneration Structure and Fee Pool

Non-Executive Directors' remuneration consists of a base fee for their role as Board members plus committee fees for their role on nominated Board sub-committees. All fees are inclusive of statutory superannuation.

Non-Executive Directors' fees are determined within an aggregated Directors' fee pool limit of \$1 million, which was last approved by shareholders at the Annual General Meeting held on 22 October 2015.

Director fees are benchmarked and reviewed against market data provided by independent external advisers.

Table 8 – Annual Board and Committee Fees Payable to Non-Executive Directors

Position	Board
Chairman of the Board	210,000
Non-Executive Director	105,000

Position	Audit and Risk Committee	Remuneration and Nomination Committee
Committee Chairman	27,250	27,250
Committee Member	10,500	10,500

No retirement benefits are paid other than the statutory superannuation contributions required under Australian superannuation guarantee legislation. Board and committee fees amounts are inclusive of statutory superannuation contributions.

4.2 Non-Executive Directors' Remuneration Statutory Tables

Details of the nature and amount of remuneration of Greencross's Non-Executive Directors for FY 2017 are set out in Table 9.

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Table 9 – Remuneration of Non-Executive Directors

		Non-monetary benefits	Cash Fees (including superannuation) \$
Christina Boyce	2017	-	141,749
	2016	-	139,595
Andrew Geddes	2017	-	104,364
	2016	-	132,078
Rebekah Horne	2017	-	105,000
	2016	-	84,173
Stuart James	2017	-	220,500
	2016	-	217,271
Christopher Knoblanche	2017	-	141,749
	2016	-	139,595
Glen Richards	2017	-	105,000
	2016	-	99,614
Paul Wilson	2017	-	105,000
	2016	-	103,404
Total	2017	-	923,362
	2016	-	915,730

4.3 Non-Executive Director Shareholding Guideline

All Non-Executive Directors are encouraged to build and maintain a minimum shareholding equal to one times fixed remuneration.

5. Additional disclosures relating to key management personnel

5.1 Related Party Transactions

Diagram 1 – Related Party Transactions

The following transactions occurred with related parties:

	Consolidated	
	FY 2016	FY 2017
	\$	\$
Payment for other expenses:		
Rent and outgoings paid to Greencross Properties Pty Ltd and KCORM Property Trust, entities controlled by director Dr Glen Richards.*	266,733	232,597
Rent paid to AEC Property Trust, a trust associated with director Dr Glen Richards.*	73,482	-
Fees paid to Paul Wilson for his role as Chairman of Animates NZ Holdings Limited	26,250	26,250

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Receivable from and payable to related parties

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

	Consolidated	
	FY 2016	FY 2017
	\$	\$
Current payables and receivables:		
Rent prepaid to AEC Property Trust, a trust associated with director Dr Glen Richards	632	-

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

* Greencross has strong disciplines to avoid any real or perceived conflict of interest with respect to related party transactions. Dr Richards has no involvement in the evaluation, negotiation or management of leases of the properties in which he has an interest. All rental agreements on all properties are managed by the Company's central property department on an arms-length basis and are maintained in a real property information system to ensure visibility. All veterinary services related properties were transitioned onto this information system during FY 2015. All contract renewals, market reviews and new leases are negotiated and reviewed by the General Manager, Property, who reports to the Chief Operating Officer, Business Development. All lease renewal and new leases also come to the CFO for formal approval. Dr Richards has no executive role in the Group so is not involved in this process. The related party properties are treated identically to all other properties. Full disclosure is made in the Annual Report. The Company will continue to disclose the position on these properties. As they come up for renewal, the attractiveness of these properties will be reviewed, their fit within the real estate portfolio assessed and, if retained, market rate rents will be negotiated on an arms length basis.

5.2 KMP Shareholdings

In accordance with Class Order 14/632 issued by the Australia Securities and Investments Commission relating to 'Key management personnel equity instrument disclosures', the following disclosure relates only to equity instruments in the company or its subsidiaries.

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

Table 10 – KMP Shareholdings

KMP	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Stuart James	2,103,051	-	162,953	-	2,266,004
Martin Nicholas	17,752	17,797	-	-	35,549
Christina Boyce	9,000	-	10,000	-	19,000
Andrew Geddes	259,854	-	7,778	-	267,632
Rebekah Horne	-	-	-	-	-
Christopher Knoblanche	6,000	-	-	-	6,000
Dr Glen Richards	2,556,770	-	-	200,000	2,356,770
Paul Wilson	3,169,837	-	25,000	-	3,194,837
Warwick Thresher	-	7,887	-	7,887	-
Tanya Houghton	91,646	-	-	-	91,646
Darren Maier	-	-	-	-	-

1 Issued pursuant to the FY 2015 Executive Short Term Incentive Program

This concludes the remuneration report, which has been audited

Corporate Governance Statement

For the period ended 2 July 2017

This statement reports on the Company's key governance framework, principles and practices as at 2 July 2017 with respect to the Company and its controlled entities (together, the **Group**), and has been approved by the Board. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and best practice in corporate governance.

As a company listed on the Australian Securities Exchange Limited (**ASX**), the Company must comply with the Corporations Act 2001 (Cth) (**Corporations Act**), the ASX Listing Rules, and other laws applicable in Australia and in countries where the Group operates.

1.0 Compliance with ASX Corporate Governance Principles and Recommendations

ASX Listing Rule 4.10.3 requires ASX listed companies to report on the extent to which they have followed the Corporate Governance Principles and Recommendations (**ASX Principles and ASX Recommendations**) 3rd Edition released by the ASX Corporate Governance Council.

Details of the Company's compliance with the Corporate Governance Principles and Recommendations are set out in this statement.

The Company's corporate governance practices were in place throughout the period ended 2 July 2017, and comply in all material respects with the ASX Recommendations, unless otherwise stated.

A checklist, cross referencing the ASX Recommendations to the relevant sections of this statement and the remuneration report, is provided at the end of this report.

2.0 The Board of Directors and Management

2.1 The Board Charter

ASX Recommendation 1.1

In August 2014, the Board adopted a new charter which clearly sets out the role and responsibilities of the Board.

In particular, the Charter details the:

- roles and responsibilities of the Board;
- roles and responsibilities delegated to the Managing Director and the management team of the Group;
- composition of the Board and related matters;
- protocols to observe where a Director has a conflict of interest;
- procedure for the Directors to obtain independent professional advice; and
- term of appointment of Directors.

A copy of the Board Charter is available on the Company's website at: www.greencrosslimited.com.au

2.2 The role of the Board

ASX Recommendation 1.1

The Company's Constitution provides that the business and affairs of the Group are to be managed by, or under the direction of, the Board.

The primary role of the Board is to:

- provide input, guidance and approve the strategic direction of the Group;
- guide, monitor, and evaluate the performance of, the management of the Group and its businesses in achieving its strategic plans; and
- ensure the highest standard of governance of the Group.

The Board aims to protect and enhance the interests of its shareholders, while taking into account the interests of other stakeholders, including employees, customers, clients, suppliers and the wider community.

Corporate Governance Statement

For the period ended 2 July 2017

2.3 The responsibilities of the Board

ASX Recommendation 1.1

Broadly, the Board is responsible for:

- achieving, and demonstrating, the highest standard of governance of the Group;
- the overall operation and stewardship of the Group;
- the long-term growth and profitability of the Group;
- the strategies, policies and financial objectives of the Group; and
- monitoring the implementation of the Group's strategies, policies and financial objectives.

In fulfilling the above responsibilities, the Board oversees the Group's strategy, risk management and reporting practices, relationship with management (including the monitoring of performance) and corporate governance.

Strategy

The Board is responsible for:

- providing input to, and approving, the Group's strategic direction and budgets as developed by management;
- monitoring and assessing the Group's performance against strategic and business plans; and
- monitoring major capital expenditure.

Risk Management and Reporting

The Board is responsible for:

- identifying the principal risks of the Group's business and ensuring the Group has in place an appropriate risk management framework and establishing the acceptable levels of risk within which the Board expects the management of the Group to operate;
- reviewing and ratifying the Group's systems of internal compliance and control, risk management and legal compliance systems, to determine the integrity and effectiveness of those systems; and
- approving and monitoring material internal and external financial and other reporting, including:
 - periodic reporting to shareholders, the ASX and other stakeholders; and
 - overseeing the Company's processes for making timely and appropriate disclosure of all material information concerning the Group that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Relationship with Management

The Board is responsible for:

- appointing and removing the Managing Director and the Company Secretary;
- ratifying the appointment and removal of senior executives (which includes all executives who report directly to the Managing Director);
- approving the Group's remuneration policies and framework and determining whether the remuneration and conditions of service of senior executives are appropriate and consistent with the approved remuneration policies and framework;
- monitoring executive succession planning;
- delegating the day to day decision making and implementation of Board approved strategy to the Managing Director; and
- setting specific limits of authority for management.

Monitoring of Performance

The Board is responsible for:

- establishing criteria for assessing performance of senior executives and monitoring and evaluating their performance;
- undertaking an annual evaluation of the performance of the Board, each Board Committee and individual Directors, comparing their performance with the requirements of the Board Charter, relevant Board Committee Charters and the reasonable expectations of individual Directors;
- appointing a suitable non-executive Director to conduct an annual evaluation of the performance of the Chair, including the canvassing of views of the other Directors; and
- where appropriate, engaging external facilitators to conduct its performance evaluations.

Corporate Governance Statement

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Corporate Governance

The Board is responsible for:

- selecting and appointing the Board Chair;
- ensuring ethical behaviour and compliance with the Company's own governing documents, including its Code of Conduct; and
- monitoring and evaluating the Group's compliance with its corporate governance standards.

The corporate governance policies are available on the Company's website at www.greencrosslimited.com.au

2.4 Board Delegation to Managing Director and Management

ASX Recommendation 1.1

The Board has reserved certain powers for itself and delegated authority and responsibility for management of the Group to the Managing Director. This authority is broad ranging and may be sub-delegated to other levels of the management team of the Group. Delegations are subject to strict limits.

Mr Martin Nicholas was appointed Managing Director on 27 August 2015. The Managing Director is responsible for running the day to day affairs of the Group and to implement the policies and strategies set by the Board. In carrying out these responsibilities, the Managing Director must report to the Board in a timely and clear manner.

The Board has delegated, through the Managing Director, the following responsibilities to the management team of the Group:

- proposing the strategic direction of the Group for consideration by the Board;
- developing business plans and budgets and, to the extent approved by the Board, implementing these plans and budgets to deliver the strategy;
- operating the Group's business within the parameters set by the Board from time to time and keeping the Board informed of material developments in the Group's business;
- in respect of proposed transactions, commitments or arrangements that exceed the parameters set by the Board, referring such matters to the Board for its consideration and approval;
- identifying and managing operational and other risks and, where those risks could have a material impact on the Group's businesses, formulating strategies for managing these risks for consideration by the Board;
- implementing the policies, processes and codes of conduct approved by the Board; and
- managing the Group's current financial and other reporting mechanisms and controlling and monitoring systems to ensure that these mechanisms and systems function effectively and capture all relevant material information on a timely basis.

All delegated authorities provided by the Board to the Managing Director are reviewed regularly.

2.5 Responsibilities of Chairman

ASX Recommendations 2.5

The Board Charter prevents the same person from simultaneously holding the roles of Chairman and Managing Director. These roles are distinct and separate.

The Board is chaired by an independent non-executive Director. The Chairman is Mr Stuart James, who was appointed as the Group's Chairman on 6 February 2014. Mr James is an experienced director and former executive within the financial and healthcare sectors. A detailed list of his directorships and prior experience is set out in the 'Information on Directors' section in the Directors' Report of this Annual Report.

The Chairman is responsible for:

- chairing meetings of the Board and providing effective leadership to the Board;
- maintaining ongoing dialogue with the Managing Director and providing appropriate mentoring and guidance; and
- being a respected ambassador for the Group, including chairing meetings of shareholders and dealing with key stakeholders including investors, customers and regulatory bodies.

The positions held by Mr James outside the Group do not prevent him executing and fulfilling all of his obligations and responsibilities to the Board and the Group.

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2.6 Responsibilities of Company Secretary

ASX Recommendation 1.4

The Company Secretary is appointed and removed by the Board. The Company Secretary, Mr Vincent Pollaers, reports, and is accountable to, the Board, through the Chairman, on all matters to do with the proper functioning of the Board and Board Committees. The Company Secretary's responsibilities include:

- advising the Directors, the Board and its Committees on governance and regulatory matters;
- monitoring that Board and Committee policy and procedures are followed;
- coordinating the timely completion and dispatch of Board and Committee papers;
- ensuring that the business at Board and Committee meetings is accurately captured in the minutes; and
- helping to organise and facilitate the induction and professional development of Directors.

Each Director is able to communicate directly with the Company Secretary and vice versa, and to receive advice from the Company Secretary.

Mr Pollaers, the current Company Secretary, was appointed on 2 April 2014. The profile for the Company Secretary is provided in the 'Company Secretary' section in the Directors' Report of this Annual Report.

2.7 Composition of the Board

ASX Recommendations 2.2, 2.4

The Board Charter requires that:

- a majority of the Board are independent Directors; and
- the Board comprise people with a mix of skills and diversity of backgrounds to enable the Board to discharge its duties effectively in order to allow for the Group to fulfil its goals and responsibilities to shareholders and other key stakeholders.

The composition of the Board is also based on the following factors:

- the Board being of a size to assist in efficient decision making;
- the Board size being not less than 3; and
- each Director possessing unquestionable integrity and being of good character.

The skills, experience, expertise, commencement dates, and length of service of the Directors are set out in the 'Information on Directors' section in the Directors' Report of this Annual Report.

A review of Board composition and skills is undertaken annually by the Board which enables the Board to assess the skills and the experience of each Director and the combined capabilities of the Board. The results of this review are considered in the context of the Group's operations and strategy. Further information on the skills assessment conducted in FY 2017 is set out in paragraph 2.9 below. The results of this review are then incorporated into the selection process for new Directors.

2.8 Independence of Directors

ASX Recommendations 2.3, 2.4

Directors are expected to bring independent views and judgment to Board deliberations. An independent Director must be independent of management and able to exercise unfettered and independent judgment, free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of the Director's judgment as to what is in the best interests of the Group. The 'Information on Directors' section of this Annual Report identifies the major associations of each Director outside of the Group.

The Board currently comprises the following independent Directors: Christina Boyce, Andrew Geddes, Stuart James, Rebekah Horne and Christopher Knoblanche. Two former executives of the Company, Paul Wilson and Glen Richards, remain on the Board as non-executive directors.

In assessing whether a Director is independent, the Board has adopted the independence requirements of applicable laws, rules and regulations, as well as the ASX Principles. The criteria adopted by the Company in assessing independence, as prescribed by the ASX Principles, are set out in both the Board Charter and the Audit and Risk Management Committee Charter, which are available on the Company's website.

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The Board Charter provides that the Board will regularly review the independence of each Director in light of the interests disclosed by each Director. Specifically, the Board will review the independence of any Director who has served in that position for more than 10 years in order to confirm that their independent status can be maintained.

In determining independence, each non-executive Director is required to make an annual disclosure of all relevant information to the Board. Any assessment of independence for a non-executive Director who does not meet the independence standards adopted by the Board will be specifically disclosed to the market in the Group's Annual Report.

The Board has procedures in place to ensure it operates independently of management.

Disclosure of related party transactions is set out in the notes to the financial statements and remuneration report of the Annual Report.

2.9 Board Skills Matrix

ASX Recommendation 2.2

The Board has identified particular qualifications, attributes, skills and experience ("Skills") that it believes important to be represented on the Board as a whole, in light of the Company's current and expected future business needs. Each year, on behalf of the Board, the Remuneration and Nomination Committee reviews these Skills to ensure that they are still relevant and appropriate in enabling the Board to provide constructive challenge to the Company's strategy, evaluate company performance, execute the required governance functions and assess capital markets risks and opportunities. Each year, the Committee also reviews the capabilities of each current Director against these Skills. The table immediately below (the "Skills Matrix") sets out the Skills confirmed in FY2017 and an assessment of each current Director against those Skills. A cross indicates that the particular Director has skill, or experience, at an advanced level arising from experience across multiple organisations and over an extended period. As an executive or an advisor, the individual has had deep engagement in this area and accountability for outcomes.

The Board is satisfied that it has sufficient skills and experience in place in all critical areas. The Skills identified ensure that key components of the Company's strategy can be supported by the Board. They include:

- High standards of governance, legal and regulatory compliance, and financial management;
- Expanding the Company's network of stores, clinics and hospitals, in Australia and New Zealand, organically and through acquisition;
- Continuing to expand and deepen the range of pet specialty products and professional services;
- Providing an innovative and integrated pet care offer to its customers and clients both on-site and online; and
- Being the leading pet care company in Australasia.

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Skills Matrix

	Stuart James	Martin Nicholas	Christina Boyce	Christopher Knoblanche	Glen Richards	Paul Wilson	Andrew Geddes	Rebekah Horne
Overarching Skills								
Strategic Insight	x	x	x	x	x	x	x	x
Managing Change	x	x	x	x	x	x	x	x
Managing Integration	x	x			x	x	x	
Accounting expertise		x	x	x			x	
Financial literacy	x	x	x	x	x	x	x	x
Risk Management	x	x		x	x		x	x
Legal / Governance	x			x			x	
Capital / Debt Management	x	x		x	x	x		
Industry Experience								
Insight into Vet / Pet		x			x	x	x	
Retail / Services Combinations	x				x			
International	x	x	x	x	x			x
International Pet / Vet					x	x		
Healthcare	x		x	x	x			
Retailing	x	x	x	x		x		
Consumer Services	x		x	x				x
Professional Services	x	x	x	x	x		x	x
Functional Experience								
Online Sales	x				x	x		x
Digital Marketing	x		x	x				x
Branding	x	x	x	x	x	x	x	x
Loyalty	x		x	x		x		x
Marketing Spend Effectiveness		x	x	x	x			x
Sales Effectiveness					x	x	x	
Retail Concept Renewal	x		x			x		
Consumer Pricing	x	x	x		x	x		
Regulatory Management	x		x	x		x	x	
M&A	x	x		x	x	x	x	x
Human Capital	x			x	x		x	
Operations	x	x		x	x	x		
IT & Technology	x	x			x	x		x

2.10 Appointment and re-election of Board members

ASX Recommendations 1.3

The Company has formal letters of appointment for each Director, setting out the key terms and conditions of the appointment.

The process for appointing a Director is:

- when a vacancy exists, the Board identifies candidates with the appropriate expertise and experience, using external consultants if appropriate.;
- the Board undertakes appropriate checks in relation to the character, experience, education, criminal record and bankruptcy history for each of these candidates; and
- the most suitable candidate is appointed by the Board but must stand for election at the next annual general meeting of the Company.

The process for re-election of a Director is in accordance with the Company's Constitution and the ASX Listing Rules, which require that, other than the Managing Director, no Director may hold office (without re-election) past the third annual general meeting following the Director's appointment or 3 years, whichever is longer. A Director who has held office for that period is therefore required to retire by rotation at the relevant annual general meeting and, if they wish to do so, they may stand for re-election.

A candidate standing for election as a non-executive Director will be asked to provide the Board, or the Remuneration and Nomination Committee, with the following information, which will be provided to shareholders to enable them to make an informed decision as to whether to elect or re-elect the candidate at the next annual general meeting:

- biographical details, including the relevant qualifications and experience and the skills the candidate can bring to the Board;

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- details of any other material Directorships currently held by the candidate;
- in the case of a candidate standing for election as a Director for the first time:
 - any material adverse information revealed by the checks the Company has performed about the Director;
 - details of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect, their independent judgement;
 - if the Board considers that the candidate will, if elected, qualify as an independent Director, a statement to that effect;
- in the case of a candidate standing for re-election as a Director:
 - the term of office currently served by the Director; and
 - if the Board considers the Director to be an independent Director, a statement to that effect; and
- a statement by the Board as to whether it supports the election or re-election of the candidate.

In determining whether it will support the election or re-election of a Director, the Board will assess the above information and, in the case of Directors standing for re-election, the performance of each Director.

2.11 Board meetings

Directors are expected to prepare adequately for, attend and participate at Board meetings and meetings of Committees. The number of Board meetings and each Director's attendance at those meetings are set out in the 'Meetings of Directors' section in the Directors' Report of this Annual Report.

2.12 Performance of Board, its Committees and individual Directors

ASX Recommendation 1.6

The Board periodically conducts an assessment of the performance and effectiveness of the Board as a whole, the Board Committees and individual Directors. The performance of the Board, each Board Committee and individual Directors is compared with the relevant performance requirements of the Board Charter, relevant Board Committee Charters and the reasonable expectations of individual Directors, including by reference to the goals and objectives of the Board established by the Chairman following the performance review of the previous year.

Performance of each Committee of the Board is initially discussed and reviewed within each Committee and then subsequently reviewed as part of the Board's annual assessment.

The Board Charter requires that the review of the performance of the Chairman be conducted by a suitable non-executive Director, appointed by the Board.

External experts will be engaged as required to review aspects of the Board's activities and to assist in a continuous improvement process to enhance the overall effectiveness of the Board.

Following on from an independent review conducted in FY16, in FY17 the Board conducted a comprehensive assessment of the performance and effectiveness of the Board as a whole, which included an assessment of the functioning of the Board Committees as well as the contribution and skill set of individual directors involving peer assessment. Specific feedback sessions were held with each director. The performance review of the Chairman was conducted by the Chair of the Remuneration and nomination committee.

2.13 Conflicts of interest

Directors are expected to avoid any action, position or interest that conflicts or appears to conflict with an interest of the Group. This is a matter for ongoing consideration by all Directors, and any Director who has a material personal interest in a matter relating to the Group's affairs must, in accordance with their obligations under law and the Company's constitution, notify the Board of that interest.

To assist Directors in managing any such conflicts, the Board has developed protocols (appended to the Board Charter) which set out the structures and procedures to be followed where a conflict of interest arises in respect of a Director. The objectives of these protocols are to ensure that:

- the consideration of matters by the Board and any Board committees is undertaken free from any actual influence or appearance of influence from Directors who have a conflicting interest; and
- the disclosure of the Group's confidential information is subject to appropriate corporate governance controls.

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The Corporations Act 2001 and the Company's Constitution provide that a Director who has a material personal interest in a matter that is being considered at a Directors' meeting cannot be present while the matter is being considered at the meeting or vote on the matter, except in the following circumstances:

- the Directors without a material personal interest in the matter have passed a resolution that identifies the Director, the nature and extent of the Director's interest in the matter and its relation to the affairs of the Group, which states that the remaining Directors are satisfied that the interest should not disqualify the Director from voting or being present;
- the Australian Securities and Investments Commission (**ASIC**) has made a declaration or order under the Corporations Act 2001, which permits the Director to be present and vote even though the Director has a material personal interest;
- there are not enough Directors to form a quorum for a Directors' meeting because of the disqualification of the interested Directors, in which event one or more of the Directors (including a Director with a material personal interest) may call a general meeting to address the matter; or
- the matter is of a type which the Corporations Act 2001 specifically permits the Director to vote upon and to be present at a Directors' meeting during consideration of the matter notwithstanding the Director's material personal interest.

Even though the Corporations Act 2001 and the Company's Constitution allow these exceptions, the Board's conflict of interest protocols provide that when a potential conflict of interest arises in respect of a relevant matter to be considered by the Board, the participation of the Director concerned in the Board's consideration of the relevant matter is to be assessed by the other Directors. The protocols allow for the other Directors to:

- exclude the Director concerned from the Board's consideration of the relevant matter by directing that the Director concerned:
 - must not receive any information about the relevant matter; and
 - is not entitled to participate in any discussions regarding, nor take part in any decision-making process in relation to, the relevant matter; or
- allow the Director to participate in the Board's consideration of the relevant matter on a limited basis, by directing that the Director concerned:
 - receive part of the information in respect of the relevant matter; or
 - receive redacted versions of information distributed to the Board in respect of the relevant matter; or
 - participate in the discussions regarding the relevant matter but not to vote on resolutions covering the relevant matter.

Additionally, the board protocols set out detailed administrative procedures to be observed by the Company in such circumstances where a Director has a conflict of interest in relation to a matter subject to consideration by the Board, to ensure that the Director concerned takes no part in discussions and exercises no influence over other members of the Board.

2.14 Access to management

ASX Recommendation 1.1

Board members have complete and open access to management through the Chairman, Managing Director and the Company Secretary at any time. In addition to regular presentations by management to Board and Board Committee meetings, Directors may, through the Chairman or Managing Director, seek briefings from management on specific matters.

2.15 Access to independent professional advice

The Board Charter allows each Director to seek independent professional advice at the Group's expense, with the prior approval of the Chairman. Such independent professional advice can be obtained by Directors where the issue or recommendation in question is one which the Director reasonably considers, after consulting with the Board or the Chairman, is of a character that makes obtaining independent advice appropriate.

In addition, the Board can conduct or direct any investigation to fulfil its responsibilities and can retain, at the Group's expense, any legal, accounting or other services that it considers necessary from time to time to perform its duties.

2.16 Remuneration arrangements

ASX Recommendation 8.2

The Group's Remuneration Policy, as it relates to the remuneration of the Board, each Director and senior executives is set out in the 'Remuneration report' which forms part of the Directors' Report as set out in the Annual Report.

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2.17 Senior executives

ASX Recommendations 1.7, 8.2

Information on the performance evaluation and structure of remuneration for the Group's senior executives can be found in the 'Remuneration report', which forms part of the Directors' Report as set out in the Annual Report.

3.0 Board Committees

3.1 Board Committees and Membership

ASX Recommendations 2.1, 4.1, 4.2, 7.1, 7.2 and 8.1

The Board has the ability, under the Company's Constitution, to delegate its powers and responsibilities to Committees of the Board. This allows the Directors to spend additional and more focused time on specific issues.

The Board currently has two standing committees to assist in the discharge of its responsibilities.

Committee	Members	Key responsibilities	Composition
Audit and Risk Management Committee	Christopher Knoblanche (Chair) Christina Boyce Andrew Geddes*	Monitors the financial reporting process, and external audit functions. Oversees the management of material business risks and the development of corporate governance principles.	Three Independent Non-Executive Directors.
Remuneration and Nomination Committee	Christina Boyce (Chair) Stuart James Christopher Knoblanche	Assists the Board in considering remuneration policies, practices and decisions. Ensures the Board and the CEO have the necessary range of skills, expertise and experience to further corporate objectives.	Three Independent Non-Executive Directors.

* At this year's AGM, Andrew Geddes will be retiring as a Director and so he will also cease to be a member of the Audit and Risk Management Committee and will be succeeded by Rebekah Horne.

The qualifications of each standing Committee's members and the number of meetings they attended during the year are set out in 'Information on Directors' and 'Meetings of Directors' sections in the Directors' Report in the Annual Report.

3.2 Committee Charters and Governance

ASX Recommendations 2.1, 4.1, 7.1 & 8.1

In August 2014, the Board adopted a new charter for each of its standing committees which clearly sets out the role and responsibilities of the Committees.

Copies of the Charters for each of these Board Committees and the policies relevant to the responsibilities of each Board Committee, are available on the Company's website.

Each Board Committee must review their Charter and the policies relating to their responsibilities, at least once every year. The Board also conducts its own periodic reviews of each Board Committee Charter and Policy. Board approval is required for any amendments to these Charters or Policies, which are suggested by the Board Committees.

Following each Committee meeting, the Board receives a copy of the minutes of meeting from the relevant Committee. Further, on an annual basis, the Board receives a report from each Committee on its activities undertaken during the financial year.

3.3 Committee access to Management

Each Board Committee may, within the scope of its responsibilities, have access to the management team of the Group, information and

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external professional advice it needs to the carrying out of its responsibilities under its Charter.

3.4 Audit and Risk Management Committee

ASX Recommendations 4.1 and 7.1

3.4.1 Role of the Audit and Risk Management Committee

The Audit and Risk Management Committee assists the Board in carrying out its responsibility to exercise due care, diligence and skill in relation to the Group's reporting of financial information, internal control systems, compliance with applicable laws and regulations, and monitoring and controlling the accounting policies and procedures designed to safeguard the Group's assets and maintain the integrity of financial reporting.

The Audit and Risk Management Committee's role, responsibilities, composition and membership requirements are documented in the Audit and Risk Management Committee Charter approved by the Board.

The Audit and Risk Management Committee relies on the information provided by management and the external auditor.

3.4.2 Responsibility of the Audit and Risk Management Committee

The primary responsibility of the Committee in relation to financial matters is to oversee the Group's financial reporting process on behalf of the Board and to report the results of its activities to the Board. More specifically, the Committee is responsible for:

- the integrity of the accounting and financial reporting processes of the Group;
- the Group's external audits;
- compliance with applicable accounting standards to give a true and fair view of the financial position and performance of the Group;
- oversight of management in the preparation of the Group's financial statements and financial disclosures;
- oversight of the work of the external auditor;
- setting, approval and regulation of the annual fee for each type of audit or non-audit service to be provided by the external auditor;
- review and oversight of the risk profile of the Group within the context of the Board determined risk appetite;
- conducting annual reviews and making recommendations to the Board concerning the Group's risk management policy, risk appetite and particular risks or risk management practices of concern to the Committee;
- review of management's plans for mitigation of material risks faced by the Group;
- promoting awareness of a risk-based culture and the achievement of a balance between risk minimisation and reward for risks accepted;
- review and making recommendations to the Board in relation to any incident involving fraud or other failure of the Group's internal controls; and
- review and making recommendations to the Board regarding the Group's insurance program, having regard to the business of the Group and the insurable risks associated with the business.

3.4.3 Composition of the Audit and Risk Management Committee

All members of the Audit and Risk Management Committee must be non-executive Directors (a minimum of three is required) and a majority must be independent Directors. It is a requirement that all members of the Audit and Risk Management Committee be financially literate and have a range of different backgrounds, skills and experience, having regard to the operations and financial and strategic risk profile of the Group. The members of the Audit and Risk Management Committee are:

- Chris Knoblanche - Independent Non-Executive – (Chairman);
- Christina Boyce – Independent Non-Executive; and
- Andrew Geddes* – Independent Non-Executive.

* Andrew Geddes will retire from the Board and this Committee at this year's AGM and will be succeeded by Rebekah Horne

The qualifications and experience of the members of the Audit and Risk Management Committee are set out in the 'Information on Directors' section of this annual report.

Members of the Committee are appointed for a term of no more than 3 years. Existing Committee members are eligible for re-appointment to the Committee for so long as they remain independent Directors.

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3.4.4 Access to the Audit and Risk Management Committee

To draw appropriate matters to the attention of the Audit and Risk Management Committee, the following individuals have direct access to the Committee:

- Managing Director;
- Chief Financial Officer;
- Company Secretary; and
- the external auditor.

‘Direct access’ means that the person has the right to approach the Committee without having to proceed via normal reporting line protocols. Other employees of the Group may have access to the Audit and Risk Management Committee through the ‘Whistleblower Policy’.

The Committee provides sufficient opportunities for the external auditor to meet privately with members of the Committee.

3.4.5 External auditor

ASX Recommendation 4.3

The Audit and Risk Management Committee is responsible for making recommendations to the Board on the appointment, reappointment or replacement, remuneration, monitoring the effectiveness and independence of the external auditors. The Committee will also provide the Board with recommendations as to resolving disagreements between the management team and the external auditor regarding financial reporting. In addition, the Committee considers the rotation of the external auditor and the scope and adequacy of the external audit.

The Audit and Risk Management Committee ensures that the lead external audit partner and quality review partner rotate off the Group’s audit at least every five years and that they are not reassigned to the Group’s audit for another five years.

The Audit and Risk Management Committee meets with the external auditor throughout the year to review the adequacy of the existing external audit arrangements with particular emphasis on the effectiveness, performance and independence of the audit. The Audit and Risk Management Committee receives assurances from the external auditor that they meet all applicable independence requirements in accordance with the Corporations Act 2001 and the rules of the professional accounting bodies. This independence declaration follows the Directors’ Report and is provided immediately before this Corporate Governance Statement in the Annual Report.

The external auditor attends the Company’s annual general meeting and is available to answer shareholder questions regarding aspects of the external audit and their report.

3.4.6 Internal audit function

ASX Recommendation 7.3

The Company does not have a dedicated internal audit function. At present, the Committee delegates responsibility for risk management and internal controls to both the Managing Director and Chief Financial Officer who continually monitor the Company’s internal and external risk environment, and report to the Committee. Necessary action is taken to protect the integrity of the Company’s books and records including by way of design and implementation of internal controls, and to ensure operational efficiencies, mitigation of risks, and safeguard of company assets.

3.5 Remuneration and Nomination Committee

ASX Recommendations 2.1 and 8.1

3.5.1 Role of the Remuneration and Nomination Committee

Members of the Remuneration and Nomination Committee have been selected to ensure that the Committee has the appropriate level of remuneration, risk, legal and industry expertise and knowledge to allow the Committee to discharge its mandate.

3.5.2 Composition of the Remuneration and Nomination Committee

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The Committee comprises non-executive Directors (a minimum of three is required), with a majority of its members being independent Directors.

The Members of the Remuneration Committee are:

- Christina Boyce – Independent Non-Executive Director (Chair).
- Stuart James – Independent Non-Executive Director; and
- Christopher Knoblanche - Independent Non-Executive Director.

Members of the Committee are appointed for a term of no more than 3 years. Existing Committee members are eligible for re-appointment to the Committee for so long as they remain independent Directors.

3.5.3 Responsibilities and Charter

Under the Group's Remuneration and Nomination Committee Charter (available on the Company's website at www.greencrosslimited.com.au) the Remuneration and Nomination Committee is responsible for assisting the Board to determine the appropriate remuneration for Directors and senior executives consistent with the Group's Remuneration Policy.

The Remuneration and Nomination Committee is, inter alia, specifically responsible for:

- the Group's remuneration policy, including as it applies to Directors and the process by which the maximum aggregate amount of Directors' fees approved by shareholders is allocated to Directors;
- Board succession issues and planning;
- the appointment and re-election of people as members of the Board and its committees;
- induction of people as Directors and continuing professional development programs for Directors;
- remuneration packages of Directors and senior executives, equity-based incentive plans and other employee benefit programs;
- succession plans of the Managing Director;
- the process for the evaluation of the performance of the Board, its Board Committees and individual Directors;
- the review of the performance of the Managing Director and members of the Board, which should take place at least annually;
- those aspects of the Group's remuneration policies and packages, including equity-based incentives, which should be subject to shareholder approval; and
- the size and composition of the Board and strategies to address Board diversity and the Group's performance in respect of the Group's Diversity Policy, including whether there is any gender or other inappropriate bias in remuneration for Directors, senior executives or other employees.

3.5.4 Equity-Based Remuneration Scheme

ASX Recommendation 8.3

Under the Group's Remuneration Policy, remuneration for executive Directors and senior executives may incorporate equity-based remuneration which includes participation in employee share and option schemes. Where a participant in either of these Company equity schemes enters into any transactions which are designed to limit the economic risk of participating in those schemes:

- the participant must disclose the details of the transaction to the Company Secretary;
- the Company Secretary will disclose to the Board the details of the transaction; and
- the Board will consider whether:
 - the participant is a key management personnel and if so, whether there has been a breach of any law;
 - the equity-based remuneration scheme should be amended; or
 - future participation of senior executives in the equity-based remuneration scheme should be amended in any way.

3.5.5 Induction of new Directors

ASX Recommendation 2.6

As the Remuneration and Nomination Committee maintains oversight over the process for appointing new Directors, the Committee also plays a role in ensuring that newly appointed Directors are sufficiently inducted to the business in line with the Board's Induction Program.

4.0 Risk Management and Internal Control

ASX Recommendations 7.1 and 7.4

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4.1 Approach to Risk Management

The Board and management recognise that risk management and internal compliance and controls are key elements of good corporate governance.

The Company's approach to risk management is based on the identification, assessment, monitoring and management of material business risks embedded in its business and integrated management systems.

The operating and financial review within the Directors' Report outlines the Company's performance during the year, the financial position and the main business strategies and prospects. It also highlights the material business risks associated with the ongoing operations of the business and achievements of the Company's stated strategies.

The Board and its Audit and Risk Management Committee is responsible for oversight of the material business risks. Senior executives are responsible for overseeing the implementation of the Company's Risk Management Policy.

The Company ensures that team meetings are held regularly at each level of management in the organisation and that at each meeting there is an opportunity to identify material risks to the business (whether environmental, economic, social or otherwise) and to health and safety. Where a risk can be managed and mitigated at the level at which it was identified, teams are empowered to do so and have the appropriate financial and other delegations. Where a risk can only be managed and/or mitigated through escalation, that is also expected. Material risks are escalated to the CEO, CFO and the Executive Team for review, management and mitigation. They are regularly reported to the Audit and Risk Management Committee.

During the year, the Audit and Risk Management Committee completed a review of the Company's Risk Management Policy. A copy of the Company's Risk Management Policy is available on the Company's website.

4.2 Risk Management Roles and Responsibilities

The Board is responsible for ensuring that risks and opportunities are identified on a timely basis and that the Company's objectives and activities are aligned with those risks and opportunities.

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

- the Board receives regular updates on key risks;
- the implementation of Board approved annual operating budgets and plans and monitoring actual progress results;
- the Audit and Risk Management Committee receives reports on material business risks and is tasked with assessing processes and procedures to identify risks and mitigation strategies in the Group's activities; and
- the Board annually reviews the Company's strategic plan and prospects and the material business risks which may impact achievement of the Company's strategies.

During the year, the Audit and Risk Management Committee and the Board reviewed the material business risks for the Company and received reports from management of the effectiveness of the Company's management of those risks.

4.3 Assurance provided to the Board in relation to the financial statements

ASX Recommendations 4.2

The Board receives bi-monthly reports about the financial condition and operational results of the Group.

The Managing Director and Chief Financial Officer provide, at the end of each six monthly period, a formal statement to the Board confirming that the Company's financial reports present a true and fair view, in all material respects, and the Group's financial condition and operational results have been prepared in accordance with the relevant accounting standards.

The statement confirms:

- the integrity of the Company's financial statements;
- that the notes to the financial statements are based on a sound system of risk management and internal compliance and control (which implement the policies approved by the Board);
- that the Company's risk management and internal compliance and control systems, to the extent they relate to financial reporting, are operating efficiently and effectively in all material respects.

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This statement also includes:

- the relevant declarations required under section 295A of the Corporations Act 2001; and
- the relevant assurances required under Recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations, jointly from the Managing Director and the Chief Financial Officer.

4.4 Economic, Environmental and Social Sustainability

ASX Recommendations 7.4

The Company closely monitors its exposure to economic, environmental and social sustainability risks as part of its Company-wide risk management policy and procedures referred to earlier in this document.

The following outlines the material economic, environmental and social sustainability exposures identified and the manner in which those exposures are managed and risk mitigated:

- **Work Health & Safety:** The Company operates from a considerable number of sites throughout Australia and New Zealand. Those sites are frequented by employees and customers and can if not managed correctly present risk to health and safety. In retail sites the predominant risk to employees relates to manual handling, and to customers, slipping where water has inadvertently spilt near for example fish tanks. In veterinary sites, the predominant risk to employees is cat scratches. There is also a risk of self-harm to employees in veterinary sites due to the availability of certain restricted drugs. All of the above mentioned risks are mitigated through the development and execution of processes and procedures, and practical training and education. The Safety and Risk Management Manager reports directly to the Chief Human Resources Officer and oversees all work health and safety practices across the Company. The Company puts safety first and has a good track record in managing work health and safety risks, with steady year-on-year improvements in key performance indicators such as lost time injury frequency rates and new claims frequency rate. Performance against agreed targets is reviewed at every Board meeting. For FY 2017, key work health & safety metrics were as follows:
 - in Retail, an LTIFR of 9.51 against a target of 13.11 and a NCFR of 22.97 against a target of 37.41. LTIFR in Retail has decreased by 34.7% and NCFR by 44.7% compared to the previous year.; and
 - in Vet, an LTIFR of 15.25 against a target of 13.11 and a NCFR of 33.36 against a target of 37.41. LTIFR in Vet has decreased by 20.9% and NCFR by 13.3% compared to the previous year.
- **Product Manufacturing - Ethical Labour Management, Environmentally Friendly Practices & Quality Control:** With respect to any product manufactured in a third world country, there is an increased risk that the manufacturer and/or factory employs child or slave labour. There is also a risk with any manufacturer that their manufacturing practices are not environmentally friendly nor their quality control of a high enough standard. The Company sources products for resale direct from manufacturers and through wholesalers. The Company mitigates the risks referred to through due diligence and factory audits. Where a manufacturer or wholesaler directly or indirectly manages the relationship with the factory in which the product is produced, the Company places the onus on the manufacturer and/or wholesaler to ensure that the products are produced in an ethical manner (particularly in relation to labour management) and that appropriate consideration is given to environmental sustainability issues (e.g., pollution control, waste management, power consumption) and quality control. Prior to entering into contractual arrangements for the supply of products for resale with a manufacturer, wholesaler or directly from a factory, the Company will perform due diligence and only enter into such arrangements if satisfied that the products are being produced in an ethical manner and with due consideration given to environmental sustainability and quality control.
- **Energy Consumption:** The Company is a substantial consumer of electricity. The Company's aim in 2018 is to reduce electricity consumption by identifying areas where it can be more efficient. This includes:
 - Revising the set points for air conditioning and fridges and freezers
 - Introducing timers for air conditioning units which currently do not have them
 - Using sensor lights for infrequently used areas (managers office and bathrooms)
 - Identifying energy efficient fridges and freezers for new stores, and for replacing older units
 - Investigating the replacement of highbay lights with LEDs (most other lighting is already LED which the Company completed in a project over two years ago)

The Company is also conducting a solar feasibility study to understand how it could be used in the future. On a monthly basis, the Company produces a sustainability scorecard at a site and company level to track progress.

- **Waste Management:** Due to the supply of product and associated packaging to its sites, the Company is in possession of a substantial amount of waste each day, predominantly cardboard and plastic. The Company continues to identify areas in which

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it can reduce general waste and maximise recycling. In most sites, the Company currently is able to recycle all soft plastic and cardboard packaging, which is the bulk of its waste. The Company currently reuses cardboard boxes that are delivered to its Distribution Centre, and use them to package items for delivery to sites. The Company's primary focus has been on the education of team members to ensure that they are correctly recycling whenever possible.

- **Plastic Bags:** Due to the number of transactions at its sites each day, the Company is a substantial consumer of plastic bags. In FY2018, the Company aims to phase out single use plastic bags throughout its sites in Australia. Initially, the Company will introduce a 5cent charge per plastic bag to remind customers of the impact that single use plastic bags have on the environment. To provide an alternative carry bag option, the Company will be launching fun reusable bags for customers to purchase before Christmas, with customers being given the opportunity to help decide which designs they prefer via the Company's Facebook page. Once this alternative is available, the provision of single use plastic bags will be discontinued.
- **Attraction, Recruitment, Training & Development, and Retention:** As a large employer and growth company in a specialized sector, it has become increasingly more challenging to recruit individuals with the required skills and experience, particularly vets and dog groomers. For this reason, the Company invests significantly in both attraction, recruitment, training and development, and retention programs. In attraction, the Company offers competitive remuneration and career opportunities. In recruitment, the Company has developed the necessary expertise and practices to seek out and attract individuals with the right experience and skills, including through a network of recruitment channels both locally and internationally. In training and development, the Company provides continuing professional development to its employees and has established graduate programs and training programs to develop the necessary levels of professional skills, particularly for Vets entering the workforce and employees wishing to become groomers. In retention, the Company regularly reviews its employee management practices, remuneration and benefits, and wellness programs to provide an environment that fosters high employee engagement. This also includes investment in philanthropic activities through the Company's Petbarn Foundation and employee volunteer programs with organisations such as the SPCA and Vets Beyond Borders. An employee engagement survey completed at the end of FY 2017 indicated high levels of employee engagement across the organization. The Company intends to conduct a company-wide employee engagement survey at least once every two years.
- **Service Excellence and Care:** As a provider of specialty products and services, it is imperative that the Company's employees in stores and clinics present with a high level of knowledge and expertise and are able to engage with customers and clients in a very friendly and helpful manner. The Company invests significantly in training and development, and continuous professional education, to ensure its employees are able to deliver service and care to a very high level. Through an active field management team, customer and client satisfaction surveying, mystery shopping audits and the application of Net Promoter Score measuring and practices, the Company is able to assess areas of strength and weakness and respond accordingly.
- **Acquisition Integration:** As a growth company, the Company is often involved in the integration of businesses that it has acquired, more often stores, clinics or hospitals. Over the years, it has established processes and procedures to ensure these businesses and their teams are quickly and effectively welcomed and integrated.
- **Product Integrity:** As a provider of products and medication sourced through third parties, there is a risk that a product will be supplied to the Company for on-sale which is defective. The Company has processes and procedures in place to quickly and effectively respond to any defect and particularly any defect that could cause harm to humans or animals. Where necessary, the Company will not hesitate to remove a product from sale if such a defect is suspected or found to exist. The withdrawal for sale of the BFF brand of cat food in FY 2017 is an example of this.
- **Animal Welfare:** As the leading pet care company in Australasia, the Company is focused on ensuring all animals in its care, whether in store adoption centres, or in its veterinary clinics and hospitals, receive the highest standards of care and attention. This is delivered through ongoing professional training and supervisions and, in stores and clinics, and via partnerships with organisations such as the RSPCA.

5.0 Communicating with shareholders

5.1 Strategy

ASX Recommendation 6.1, 6.2

The Group aims to be open and transparent with all stakeholders, including the shareholders. Information is communicated to shareholders regularly through a range of forums and publications. These include:

- the Group's annual general meeting;
- notices and explanatory memoranda of annual general meetings;
- the annual financial report (for those shareholders who have requested a copy), which is also located on the Company's website;
- trading updates and market/investor briefings;
- disclosures to the ASX (on which the Group's securities are listed);
- the Group's website (<http://www.greencrosslimited.com.au>), where there is an Investor Relations Centre providing access to

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Group announcements, media releases, previous years' financial results, investor presentations and corporate governance materials, including the charters governing each Board Committee and the Group's corporate governance policies.

The Group is committed to maintaining a level of disclosure that provides all investors with timely and equal access to information. Consistent with this commitment, the Group has developed its Communications Policy which promotes efficient two-way communication between the Company and its investors, brokers and analysts.

5.2 Meetings and briefings

ASX Recommendation 6.3

The Company encourages shareholders to attend and actively participate in its general meetings. The Company sends shareholders a notice of meeting in advance of each meeting, which includes details of the time and place of the meeting, the resolutions to be considered and proxy voting procedures.

To allow for the participation of any shareholders who are unable to attend these meetings, the Company encourages shareholders to forward their questions to the Company Secretary prior to the meeting. Where appropriate, these questions will be read out and answered at the meeting, or, if this is not practicable, the question and answer will be recorded in the transcript of the meeting.

The Board's current policy and precedent is to utilise a poll for all resolution considered at the meetings of shareholders, as demonstrated at its 2014 Annual General Meeting.

5.3 Electronic Communications

ASX Recommendation 6.4

The Company recognises that it is often efficient to communicate electronically. Therefore, the Communications Policy allows for shareholders to receive from, and send communications to, the Company and its share registry electronically. The Company will endeavour to format its communications to shareholders in a way that is easily accessible and readable on a computer screen or other electronic devices which are commonly used for that purpose. A printer-friendly option will also be included in such communications.

5.4 Continuous disclosure

ASX Recommendation 5.1

The Corporations Act 2001 and the ASX Listing Rules require that the Group discloses to the market matters which could be expected to have a material effect on the price or value of the Group's securities. In compliance with these continuous disclosure requirements, the Group's policy is that shareholders are informed in a timely manner of all major developments that impact the Group. There is a detailed Continuous Disclosure Policy in place, which has been formed to provide advice on the requirements for disclosure of information to the market. The policy is intended to maintain the market integrity and market efficiency of the Group's securities. In addition to the Company's legal obligations under the Corporations Act 2001 and the ASX Listing Rules, the Continuous Disclosure Policy is based on the best practice guidelines set out in relevant documents produced by the ASX (including its Corporate Governance Council), ASIC and the Australasian Investor Relations Association.

As well as ensuring compliance with the Company's legal obligations, the Continuous Disclosure Policy promotes the provision of timely, balanced, direct and equal shareholder access to Group information and investor confidence in the integrity of the Group and its securities. The Continuous Disclosure Policy contains detailed procedures regarding the preparation and release of Company announcements, how the Company proposes to respond to media and market speculation regarding the Group and the conduct of briefings or meetings with investors or analysts.

In accordance with the Continuous Disclosure Policy, all material matters which may potentially require disclosure are promptly reported to the Board. Where appropriate executives will refer matters to the Board, to make an assessment and determination as to disclosure. Where appropriate the Board will be consulted on the most significant and material disclosures. All executives and Board members are responsible for reporting matters qualifying for disclosure to the Board and/or the Company Secretary. Routine administrative announcements will be made by the Company Secretary without requiring approval from the Board. The Company Secretary is responsible for all communications with the ASX.

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6.0 Promoting Ethical and Responsible Behaviour

ASX Recommendation 3.1

6.1 Code of conduct

The Group has a Code of Conduct which requires the observance of strict ethical guidelines. The Code of Conduct applies to all employees and Directors of the Group, with the conduct of the Board and each Director also governed by the Board Charter.

The Code of Conduct covers:

- the Group's business ethics (including standards of openness, honesty, fairness and integrity);
- the protocol relating to the giving and receiving of business courtesies and entertainment and other financial inducements;
- professional and personal conduct (including in relation to trading in shares, privacy and intellectual property, financial integrity and relationships with other Group employees);
- prevention of fraud and other forms of deceitful conduct;
- financial advice to customers;
- the standards of behaviour expected of Group employees;
- conflict of interest; and
- disclosure of any suspected breaches of the Code of Conduct.

The Group's behaviours, together with its Code of Conduct, take into account the Group's legal obligations and the reasonable expectations of the Group's stakeholders, and emphasise the practices necessary to maintain confidence in the Group's integrity.

6.2 Whistleblower Policy and Escalation

The Group has developed a detailed Whistleblowers Policy, which sets out clear and established procedures for the escalation of complaints and notification of incidents to the senior management team and the Board. This ranges from escalation of daily business or management concerns, up to serious financial, cultural or reputational matters. The Whistleblowers Policy is underlined by the Group's commitment to promoting and supporting a culture of corporate compliance and ethical behaviour.

Employees are provided with various avenues for escalation of complaints or concerns. To the extent possible and subject to legal and regulatory requirements, information reported under the Whistleblower Policy will be kept confidential.

The Whistleblower Policy provides for the confidential reporting of unacceptable or undesirable conduct. The system enables disclosures to be made to a protected disclosure officer by employees, or, where applicable, if the matter is highly sensitive and the employee believes it more appropriate, directly to the Audit and Risk Management Committee. The Group does not tolerate incidents of fraud, corrupt conduct, adverse behaviour, legal or regulatory noncompliance, or questionable accounting and auditing matters by its employees. Accordingly, there are established procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters.

Employees are also encouraged to escalate any issues they believe could have a material impact on the Group's profitability, reputation, governance or compliance.

It is a responsibility of the Audit and Risk Management Committee to ensure that employees can make confidential, anonymous submissions regarding such matters. The Group will take all reasonable steps to protect a person who comes forward to disclose unacceptable or undesirable conduct, including disciplinary action (potentially resulting in dismissal) of any person taking reprisals against them.

6.3 Restrictions on dealing in securities

Directors, officers and employees are subject to the Corporations Act 2001 restrictions on applying for, acquiring and disposing of securities in, or other relevant financial products of, the Company (or procuring another person to do so) if they are in possession of inside information. Inside information is information which is not generally available, and which if it were generally available a reasonable person would expect it to have a material effect on the price or value of the securities of the Company. There are also legal restrictions on insider trading imposed by the law that apply to the Group and its Directors, officers and employees.

The Group has an established policy relating to trading in the Group's securities by Directors, officers and certain other employees of the Group. These Directors, officers and employees are prohibited from trading in the Group's securities during prescribed prohibited periods (blackout periods) which include the period prior to the release of the Group's annual and half-yearly results announcements. The Securities Trading Policy does allow for Directors, officers and other restricted employees to trade in Company securities during these

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blackout periods in some very limited circumstances. Such limited circumstances include where the trading in Company securities occurs as a result of the exercise of options or rights under employee incentive schemes, accepting a takeover offer and the transfer of securities into a superannuation fund of the Director or restricted employee. There is also provision for trading to occur during blackout periods where there are found to be exceptional circumstances which justify the trading of Company securities during such periods.

Directors, officers and certain employees are further required to notify their intention to trade in the Group's securities prior to conducting any such trading.

7.0 Diversity

ASX Recommendation 1.5

7.1 Diversity Objectives

The Company holds its people in the highest esteem. The Company recognises that a diverse and inclusive workforce is good for its employees and its business. It helps the Group attract and retain talented people, create more innovative solutions, and be more flexible and responsive to our clients' and shareholders' needs. Diversity enables people from different backgrounds to bring fresh ideas and perceptions to the Company which promote efficiency and add value to the Group's business.

The Group is committed to:

- gender diversity;
- ensuring that the composition of its Board of Directors continues to be appropriate. The Board Charter clearly states that it should comprise Directors with a broad range of skills, experience, and diversity;
- providing a workplace that embraces diversity in relation to gender and age, as well as provide greater work and career flexibility;
- seeking to ensure women have appropriate opportunities to take leadership roles in the organization and
- being a diversity leader in Australia with regards to the Pet Retail and Veterinary Service industry by:
 - providing a diversity inclusive workplace in which everyone has the opportunity to fully participate and is valued for their distinctive skills, experiences and perspectives; and
 - incorporating diversity into its business practices through its corporate social responsibility initiatives that aim to improve the quality of life for its workforce, their families, communities and society at large.

Accordingly the Group has developed a Diversity Policy which outlines the Group's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the Board to establish measureable objectives for achieving diversity, and for the Board to assess annually both the objectives and the Group's progress in achieving them, including by benchmarking against other comparable businesses.

7.2 Diversity Policy

The Diversity Policy sets out the following strategies that the Group strives to achieve in promoting a corporate culture which embraces diversity:

- promoting the principles of merit and fairness when making decisions about recruitment, development, promotion, remuneration and flexible work arrangements;
- having an overall transparent process for the review and appointment of senior management positions and Board members;
- recruiting from a diverse pool of qualified candidates, where appropriate engaging a professional search / recruitment firm, advertising vacancies widely, making efforts to identify prospective employees who have diversity attributes and ensuring diversity of members on the selection / interview panel when selecting and appointing new employees (including senior management) and new Board members;
- embedding the importance of diversity within the Group's culture by encouraging and fostering a commitment to diversity by leaders at all levels whilst recognising that diversity is the responsibility of all employees;
- reinforcing with our people that in order to have a properly functioning and diverse workplace, discrimination, harassment, vilification and victimisation will not be tolerated within the Group; and
- continuing to review and develop policies and procedures to ensure diversity within the organisation, including with the adoption of key performance indicators for senior executives to measure the achievement of diversity objectives under the Group's diversity policy.

A copy of the Diversity Policy is available on the Company's website.

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7.3 Diversity Achievements

The Board has an objective of employing a high proportion of women in the Group distributed evenly across all levels of management. The Group has maintained this objective throughout FY17.

Information on the actual number and proportion of women employed by the Group is set out below:

	FY17 Actual		FY16 Actual	
	No.	%	No.	%
Number of male employees in the whole organisation	1,173	24%	1,109	24%
Number of female employees in the whole organisation	3,779	76%	3,440	76%
Number of males in senior management ¹ positions	29	60%	30	58%
Number of females in senior management ¹ positions	19	40%	22	42%
Number of males in executive ² positions	5	71%	7	100%
Number of females in executive ² positions	2	29%	0	0%
Number of male non-executive directors on the Board	6	75%	6	75%
Number of female non-executive directors on the Board	2	25%	2	25%

¹Senior Managers are managers who hold roles designated as senior, and includes non-executive roles that report directly to the Chief Executive Officer or his direct reports.

²Executives are employees in roles designated as executive and who report directly to the Chief Executive Officer.

Board Composition

In 2016, the Company made a commitment to the Australian Institute of Company Directors to work towards a minimum of 30% of females on the Board by 2018. In 2015, 14% percent of non-executive directors were female, with the appointment of Rebekah Horne, this ratio moved to 25%. As a result of the decision by Andrew Geddes to retire from the Board at the 2017 AGM and the Board's decision not to appoint a new Director to fill the resulting vacancy, 33% of non-executive directors will be female and 66% male immediately post the 2017 AGM.

Employee Engagement

In a Company wide employee engagement survey conducted in May/June 2017, employees were asked a number of questions relating to diversity. The respondents consisted of 65% female and 35% male respondents and a total of 63% of all employees completed the survey. The responses to those questions were favourable and are set out immediately below:

- The organisation fosters a multicultural and diverse workplace – 83% of respondents agreed
- Discrimination on the basis of age is prevented and discouraged - 83% of respondents agreed
- Discrimination on the basis of religion or ethnicity is prevented and discouraged – 90% of respondents agreed
- Discrimination on the basis of gender is prevented and discouraged – 85% of respondents agreed
- My manager genuinely supports equality between men and women – 89% of respondents agreed

Key data in the Workplace Gender Equality Agency Report (completed May 2017) - Note: Data is for Financial Year 16

Each year the Company is required to file a prescribed report with the Workplace Gender Equality Agency.

The following tables highlight key data with respect to gender diversity in the Company for FY 2016, as the report filed in FY 2017 relates to FY 2016.

% of employees who returned from parental leave

	No. who went on leave	No. who returned	% who returned from leave
Retail	42	37	88%
Vet	73	68	93%
Total	115	105	91%

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% of promotions awarded to men and women

	% of promotions awarded to women	% of promotions awarded to men
Retail	66%	34%
Vet	86%	14%
Total	69%	31%

The Company notes the promotional outcomes for women and men in Vet and will continue to monitor these metrics and seek to ensure that it provides appropriate development opportunities for both women and men in this area. The Company notes that the Chief Veterinarian is female.

Average Gross Annual Base Salary for Senior Managers (as defined by WGEA)

	WGEA report from May 2016	WGEA report from May 2017	% increase
Female	\$108,950	\$124,900	15%
Male	\$121,000	\$136,700	13%

The above shows that the average salary for women in Senior Manager positions (as defined by WGEA) increased at a slightly higher rate than the increase for men over the two reporting periods.

Other initiatives relating to diversity

In FY2017, the Company established a Prayer and Mediation room in the Sydney Support Office, supporting ethnic and religious diversity; and updated its recruitment policies and procedures to strengthen the execution of its Diversity Policy. In FY 2018, the Company plans to introduce a paid parental leave scheme across the business; and more flexible and part-time work arrangements for working parents and parents wishing to return to the workforce after career breaks.

8.0 A checklist, cross referencing the ASX Recommendations to the relevant sections of this statement and the remuneration report

Principle	ASX Corporate governance Principles and Best Practice Recommendations	CGCS Reference	Compliance
1.0	Lay solid foundations for management and oversight		
	A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.		
1.1	A listed entity should disclose:		
	a) The respective roles and responsibilities of its board and management; and	2.1, 2.2, 2.3, 2.4, 2.5, 2.14	Comply
	b) Those matters expressly reserved to the board and those delegated to management.	2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.14	Comply
1.2	A listed entity should:		
	a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a director; and	2.10	Comply
	b) Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	2.10	Comply
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	2.10	Comply

Corporate Governance Statement

For the period ended 2 July 2017

Principle	ASX Corporate governance Principles and Best Practice Recommendations	CGCS Reference	Compliance
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	2.6	Comply
1.5	A listed entity should: <ul style="list-style-type: none"> a) Have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; b) Disclose that policy or a summary of it; and c) Disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either: <ul style="list-style-type: none"> 1) The respective proportions of men and women on the board in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or 2) If the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act. 	7.0 7.0 7.0	Comply Comply Comply
1.6	A listed entity should: <ul style="list-style-type: none"> a) Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. 	2.3, 2.12 2.3, 2.12	Comply Comply
1.7	A listed entity should: <ul style="list-style-type: none"> a) Have and disclose a process for periodically evaluating the performance of its senior executives; and b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. 	2.17 2.17	Comply Comply
2.0	Structure the board to add value A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.		
2.1	The board of a listed entity should: <ul style="list-style-type: none"> a) Have a nomination committee which: <ul style="list-style-type: none"> 1) Has at least three members, a majority of whom are independent directors; and 2) Is chaired by an independent director, and disclose: 	3.1, 3.5 3.1, 3.5 3.1, 3.5	Comply Comply Comply

Corporate Governance Statement

For the period ended 2 July 2017

Principle	ASX Corporate governance Principles and Best Practice Recommendations	CGCS Reference	Compliance
	1) The charter of the committee;	3.1, 3.5	Comply
	2) The members of the committee; and	3.1, 3.5	Comply
	3) As at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	3.1, 3.5	Comply
	b) If it does not have a nomination committee disclose that fact and processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	N/A	The Company does have a nomination committee.
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	2.9	Comply
2.3	A listed entity should disclose:		
	a) The names of the directors considered by the board to be independent directors;	2.8	Comply
	b) If a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and	N/A	Comply
	c) The length of service of each director.	2.7	Comply
2.4	A majority of the board of a listed entity should be independent directors.	2.7, 2.8	Comply
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	2.5	Comply
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	3.5.5	Comply
3.0	A listed entity should act ethically and responsibly		
	A listed entity should act ethically and responsibly.		
3.1	A listed entity should:		
	a) Have a code of conduct for its directors, senior executives and employees; and	6.1	Comply
	b) Disclose that code or a summary of it.	6.1	Comply
4.0	Safeguard integrity in corporate reporting		
	A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.		
4.1	The board of a listed entity should:		
	a) Have an audit committee which:	3.4	Comply

Corporate Governance Statement

For the period ended 2 July 2017

Principle	ASX Corporate governance Principles and Best Practice Recommendations	CGCS Reference	Compliance
	1) Has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and	3.4.3	Comply
	2) Is chaired by an independent director, who is not the chair of the board	3.4.3	Comply
	And disclose:		
	3) The charter of the committee	3.4	Comply
	4) The relevant qualifications and experience of the members of the committee; and	3.4	Comply
	5) In relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	3.1	Comply
	b) If it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	N/A	The Company does have an audit committee.
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	4.3	Comply
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	3.4.5	Comply
5.0	Make timely and balanced disclosure		
	A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.		
5.1	A listed entity should:	5.4	Comply
	a) Have a written policy for complying with its continuous disclosure obligations under Listing Rules; and		
	b) Disclose that policy or a summary of it.		
6.0	Respect the rights of security holders		
	A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.		
6.1	A listed entity should provide information about itself and its governance to investors via its website	5.1	Comply
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	5.1	Comply

For the period ended 2 July 2017

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For the period ended 2 July 2017

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Auditor's Independence Declaration

As lead auditor for the audit of Greencross Limited for the period ended 2 July 2017, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Greencross Limited and the entities it controlled during the period.



Adam Thompson
Partner
PricewaterhouseCoopers

Sydney
22 August 2017

Consolidated statement of profit or loss and other comprehensive income

For the period ended 2 July 2017

		Consolidated	
	Note	2017 53 weeks \$'000	2016 52 weeks \$'000
Revenue	5	817,888	734,009
Expenses			
Cost of sales of goods		(364,509)	(324,949)
Employee benefits expense		(212,926)	(190,442)
Depreciation and amortisation expense	6	(23,140)	(17,821)
Marketing costs		(12,676)	(10,880)
Occupancy costs		(88,782)	(78,121)
Administration costs		(37,073)	(40,128)
Acquisition costs		(1,751)	(2,012)
Finance costs	6	(14,264)	(15,986)
Profit before income tax expense		62,767	53,670
Income tax expense	7	(15,419)	(15,007)
Profit after income tax expense for the period		47,348	38,663
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		904	789
Foreign currency translation		(128)	276
Other comprehensive income for the period, net of tax		776	1,065
Total comprehensive income for the period		48,124	39,728
Profit for the period is attributable to:			
Non-controlling interest		5,293	4,043
Owners of Greencross Limited	26	42,055	34,620
		47,348	38,663
Total comprehensive income for the period is attributable to:			
Non-controlling interest		5,293	4,043
Owners of Greencross Limited		42,831	35,685
		48,124	39,728
		Cents	Cents
Basic earnings per share	43	36.21	30.41
Diluted earnings per share	43	35.92	30.25

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Consolidated statement of financial position

As at 2 July 2017

	Note	Consolidated 2017 \$'000	2016 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	57,683	62,583
Trade and other receivables	9	11,545	8,575
Inventories	10	97,503	92,002
Other	11	2,187	1,672
Total current assets		168,918	164,832
Non-current assets			
Other financial assets	12	785	292
Property, plant and equipment	13	187,783	156,867
Intangibles	14	578,374	553,227
Deferred tax	15	7,296	11,501
Total non-current assets		774,238	721,887
Total assets		943,156	886,719
Liabilities			
Current liabilities			
Trade and other payables	16	100,752	92,732
Borrowings	17	679	4,389
Current tax liabilities	18	6,963	5,601
Provisions	19	21,739	20,990
Total current liabilities		130,133	123,712
Non-current liabilities			
Borrowings	20	292,535	286,159
Derivative financial instruments	21	194	1,601
Provisions	23	21,501	22,249
Total non-current liabilities		314,230	310,009
Total liabilities		444,363	433,721
Net assets		498,793	452,998
Equity			
Contributed equity	24	552,328	530,537
Reserves	25	2,776	2,208
Accumulated losses	26	(79,178)	(99,350)
Equity attributable to the owners of Greencross Limited		475,926	433,395
Non-controlling interest	27	22,867	19,603
Total equity		498,793	452,998

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Consolidated statement of changes in equity

For the period ended 2 July 2017

Consolidated	Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 29 June 2015	520,294	(36)	(113,700)	16,174	422,732
Profit after income tax expense for the period	-	-	34,620	4,043	38,663
Other comprehensive income for the period, net of tax	-	1,065	-	-	1,065
Total comprehensive income for the period	-	1,065	34,620	4,043	39,728
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 24)	10,243	-	-	-	10,243
Share-based payment expense	-	1,179	-	-	1,179
Dividends paid (note 28)	-	-	(20,270)	(614)	(20,884)
Balance at 26 June 2016	530,537	2,208	(99,350)	19,603	452,998
Consolidated	Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 27 June 2016	530,537	2,208	(99,350)	19,603	452,998
Profit after income tax expense for the period	-	-	42,055	5,293	47,348
Other comprehensive income for the period, net of tax	-	776	-	-	776
Total comprehensive income for the period	-	776	42,055	5,293	48,124
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 24)	21,791	-	-	-	21,791
Share-based payment expense	-	(214)	-	-	(214)
Dividends paid (note 28)	-	-	(21,883)	(2,023)	(23,906)
Balance at 2 July 2017	552,328	2,770	(79,178)	22,873	498,793

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

Consolidated statement of cash flows

For the period ended 2 July 2017

		Consolidated	
	Note	2017 53 weeks \$'000	2016 52 weeks \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		899,917	809,595
Payments to suppliers and employees (inclusive of GST) *		(802,303)	(713,874)
		97,614	95,721
Interest received		392	337
Interest and other finance costs paid		(11,027)	(14,284)
Acquisition costs		(1,751)	(2,012)
Income taxes paid		(10,241)	(1,126)
Net cash from operating activities	41	74,987	78,636
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	37	(17,609)	(10,116)
Payments for property, plant and equipment		(45,639)	(43,024)
Payments for intangibles		(13,418)	(7,139)
Net cash used in investing activities		(76,666)	(60,279)
Cash flows from financing activities			
Proceeds from issue of shares	24	-	252
Share issue transaction costs		(98)	-
Proceeds from borrowings		-	27,872
Refinance costs		(41)	(1,262)
Repayment of finance leases		(322)	(218)
Repayment of borrowings		(737)	(1,125)
Dividends paid	28	-	(10,278)
Dividends paid to non-controlling interests in subsidiaries		(2,023)	(614)
Net cash from/(used in) financing activities		(3,221)	14,627
Net increase/(decrease) in cash and cash equivalents		(4,900)	32,984
Cash and cash equivalents at the beginning of the financial period		62,583	29,599
Cash and cash equivalents at the end of the financial period	8	57,683	62,583

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

Notes to the consolidated financial statements

2 July 2017

Note 1. General information

The financial statements cover Greencross Limited as a consolidated entity consisting of Greencross Limited and its subsidiaries. The financial statements are presented in Australian dollars, which is Greencross Limited's functional and presentation currency.

The 2017 Greencross Limited Annual Report reflects the company's financial performance for the 53 week period between 27 June 2016 and 2 July 2017.

Greencross Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

5/28 Balaclava Street
Woolloongabba QLD 4102

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 22 August 2017. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following new or revised Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB2014-1 Amendments to Australian Accounting Standards (including Part A; Annual Improvements 2010-2012 and 2011-2013 Cycles).

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Notes to the consolidated financial statements

2 July 2017

Note 2. Significant accounting policies (continued)

Parent entity information

The financial information for the parent entity, Greencross Limited, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for at cost in the financial statements of the company. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

Tax consolidation legislation

Greencross along with its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

Greencross and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts were measured as if each entity in the tax consolidated group continued to be a stand-alone taxpayer in its own right. In addition to its own current and deferred tax amounts, the company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from entities in the tax consolidated group.

The entities prior to 31 January 2014 entered into a tax funding agreement under which the wholly owned entities of Greencross prior to 31 January 2014 fully compensate Greencross for any current tax payable assumed and are compensated by Greencross for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Greencross under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from Greencross, which was issued as soon as practicable after the end of each financial year. Greencross may also have required payment of interim funding amounts to assist with its obligations to pay tax instalments. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the tax consolidated group.

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 36.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Greencross Limited ('company' or 'parent entity') as at 2 July 2017 and the results of all subsidiaries for the year then ended. Greencross Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity' or 'Group'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

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

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Notes to the consolidated financial statements

2 July 2017

Note 2. Significant accounting policies (continued)

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Greencross Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of profit or loss and other comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets.

Group companies

The results and balance sheet of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each consolidated statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Notes to the consolidated financial statements

2 July 2017

Note 2. Significant accounting policies (continued)

Sale of goods

The consolidated entity operates a chain of retail stores and veterinary clinics selling pet speciality goods. Revenue from the sale of goods is recognised when the consolidated entity sells a product to the customer. Retail sales are usually by credit card or in cash.

It is the consolidated entity's policy to sell its products to the end customer with a right of return within 28 days. Accumulated experience is used to estimate and provide for such returns at the time of sale.

The consolidated entity operates a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. The award points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale such that the award points are recognised at their fair value.

Revenue from the award points is recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points expire 12 months after the initial sale.

Rendering of services

Revenue from pet grooming and veterinary services is recognised in the accounting period in which the services are provided.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Dividends

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Notes to the consolidated financial statements

2 July 2017

Note 2. Significant accounting policies (continued)

Greencross Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Research and development grants

Research and development grants are recognised in the period for which they relate. A credit is recognised as other income in the statement of profit or loss and comprehensive income to match the incremental tax benefit of the credit with the costs for which it is intended to compensate. The remaining tax credits reduce income tax payable and current tax expense. Where research and development expenses are capitalised in accordance with AASB 138 Intangible Assets, the tax benefit is recognised as deferred income and amortised on a systematic basis over the useful life of the equivalent asset (or through adjustment to the carrying value of the asset which is subsequently recognised in the statement of comprehensive income through a reduced amortisation charge over the life of the asset).

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Notes to the consolidated financial statements

2 July 2017

Note 2. Significant accounting policies (continued)

Inventories

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Cash flow hedges

Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives at the rates as follows:

Leasehold improvements	10-15 years
Plant and equipment	4-15 years
Motor vehicles	8 years
Office equipment	5 years

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

Plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Notes to the consolidated financial statements

2 July 2017

Note 2. Significant accounting policies (continued)

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Brand names and customer relationships

Brand and customer relationships acquired in a business combination are amortised on a straight line basis over the period of their expected benefit being their finite useful life of 10 years for brand names and 7 years for customer relationships.

Note 2. Significant accounting policies (continued)

Internally-generated

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Internally generated intangible assets are amortised on a straight line basis over the period of their expected benefit being their finite useful life of 10-15 years.

Investments and other financial assets

Investments and other financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mis-match. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Impairment of non-financial assets

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

Note 2. Significant accounting policies (continued)

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Transaction costs relating to the setup of banking facilities, including facility fees and associated costs have been capitalised. These transaction costs have been offset against the facility in note 21 and are being expensed over the period of the loan.

Borrowings are removed from the consolidated balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

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

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Note 2. Significant accounting policies (continued)

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Business Associate

To incentivise certain employees the consolidated entity has employment agreements under which the employees can become entitled to either short-term or long-term profit-share or bonus payments upon financial contribution for the entry into the program.

The financial contribution made by participants are treated as short term borrowings as they are generally refundable subject to satisfying both the terms of employment agreement and the business associate agreement ('BA Agreement'), less any amounts already paid.

Note 2. Significant accounting policies (continued)

The short-term and long-term employee benefits under the business associate program are recognised as a provision and represent expected future payments to be made in respect of the employee's BA Agreement.

The liability for these business associate short-term and long-term employee benefits are recognised in current and non-current liabilities, depending on the right to defer payment of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of long-term employee benefits. Consideration is given to expected future performance measures and periods of service. Expected future payments are discounted using market yield at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised when declared during the financial period and no longer at the discretion of the company.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Notes to the consolidated financial statements

2 July 2017

Note 2. Significant accounting policies (continued)

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Greencross Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

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

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

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 2 July 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Note 2. Significant accounting policies (continued)

AASB 9 Financial Instruments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB15 Revenue from Contracts with Customers

This standard is expected to be applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

Note 2. Significant accounting policies (continued)

AASB 16 Leases

This lease standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard will result in almost all property (retail and vet leases) leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new leases accounting standard, an asset (the right of use of the underlying asset) and a financial liability to pay rentals are recognised. The standard will affect primarily the accounting for the group's operating leases.

As at the reporting date, the group has operating lease commitments of \$348,608,000. The group continues to determine the extent to which these commitments will result in the recognition of an asset and a liability for future payments.

The lease liability will be measured at the present value of the remaining lease payments (less incentives received) through the application of an appropriate discount rate. The discount rate used will be the incremental cost of borrowing and the group continues to assess the use of an adjusted-WACC approach to meet the requirements of the new leases standard.

Lease liabilities will be measured with reference to an estimate of the lease term, which includes optional lease periods when an entity is reasonably certain to exercise an option to extend a lease. The group will include optional periods where there is reasonable certainty that an option to extend will be exercised. However the contemplation of the lease term is being considered in more detail.

Contingent rentals or variable lease payments will be included in the measurement of lease assets and liabilities. Variable payments linked to an index at the spot rate (e.g. CPI) will be included in the re-measurement of the lease liability at each reporting period.

The method to re-estimate the liability and asset is covered in earlier paragraphs.

The consolidated entity is expected to adopt this lease standard and the amendments from 1 July 2019 and the group continues to assess the most appropriate transition method to apply. The group expects to apply a modified retrospective approach, whereby comparative information is not restated, however the cumulative effect will be adjusted through the opening balance of equity in the annual reporting period in which the new lease standard is first applied.

Both the Company's banks NAB and CBA have confirmed that the new lease standard will not impact on any financial ratios for banking covenants purposes. Existing clauses in the current syndicated banking facilities are already in place that cater for changes to accounting standards that facilitate a 'look through' basis.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Recoverable amount of inventory (note 10)

Management has assessed the value of inventory that is likely to be sold below cost using past experience and judgement on the likely sell through rates of various items of inventory, and booked a provision for this amount. To the extent that these judgments and assumptions prove incorrect, the Group may be exposed to potential additional inventory write-downs in future periods

Goodwill and other indefinite life intangible assets (note 14)

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Impairment of property, plant and equipment (note 13)

Management assess whether any indicators of impairment of property, plant and equipment exist, to ensure no assets are held at more than their recoverable amounts. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates and future estimated future cash flows.

Internally generated software - capitalisation and amortization period (note 14)

Management capitalise internally generated software when it meets the criteria as set out in Australian Accounting Standards. There is judgement involved in assessing whether the capitalisation criteria have been met, particularly around the the likelihood of the project delivering sufficient future economic benefits and the ability to reliably measure the costs directly attributable to the intangible asset. In addition there is judgement involved in determining the appropriate useful life over which to depreciate capitalised intangible assets.

Note 4. Operating segments

Identification of reportable operating segments

The consolidated entity's Chief Executive Officer and Chief Financial Officer examined the group's performance from both a product and geographical perspective and have identified two reportable segments of its business, being retail and veterinary. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews underlying EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

EBITDA is a financial measure which is not prescribed by Australian Accounting Standards and represents the profit adjusted for specific non-cash and significant items. The directors consider EBITDA to reflect the core earnings of the consolidated entity.

The information reported to the CODM is on a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Retail	Sale of specialty pet care products and services in Australia and New Zealand
Veterinary	Provision of veterinary services and sale of pet care products in Australia

Notes to the consolidated financial statements

2 July 2017

Note 4. Operating segments (continued)

Operating segment information

Consolidated - 2017	53 weeks	Retail \$'000	Veterinary \$'000	Other segments \$'000	Total \$'000
Revenue					
Revenue from external customers		603,119	214,377	-	817,496
Interest income		284	108	-	392
Total revenue		603,403	214,485	-	817,888
EBITDA *					
Depreciation and amortisation		73,787	25,992	-	99,779
Interest income		(18,849)	(4,291)	-	(23,140)
Finance costs		-	-	392	392
Profit/(loss) before income tax expense		54,938	21,701	(13,872)	62,767
Income tax expense					(15,419)
Profit after income tax expense					47,348
Assets					
Segment assets		573,620	304,557	-	878,177
<i>Unallocated assets:</i>					
Cash and cash equivalents					57,683
Deferred tax asset					7,296
Total assets					943,156
<i>Total assets includes:</i>					
Acquisition of non-current assets		699	5,623	-	6,322
Liabilities					
Segment liabilities		109,429	34,757	-	144,186
<i>Unallocated liabilities:</i>					
Provision for income tax					6,963
Borrowings					293,214
Total liabilities					444,363

* including \$4,452,000 of acquisition, defence, integration and restructuring costs split between Retail (\$3,651,000) and Veterinary (\$801,000).

Notes to the consolidated financial statements

2 July 2017

Note 4. Operating segments (continued)

Consolidated - 2016	52 weeks	Retail \$'000	Veterinary \$'000	Other segments \$'000	Total \$'000
Revenue					
Revenue from external customers		539,238	194,434	-	733,672
Interest income		250	87	-	337
Total revenue		539,488	194,521	-	734,009
EBITDA *					
Depreciation and amortisation		(15,093)	(2,728)	-	(17,821)
Interest income		-	-	337	337
Finance costs		-	-	(15,986)	(15,986)
Profit/(loss) before income tax expense		48,742	20,577	(15,649)	53,670
Income tax expense					(15,007)
Profit after income tax expense					38,663
Assets					
Segment assets		529,559	283,076	-	812,635
<i>Unallocated assets:</i>					
Cash and cash equivalents					62,583
Deferred tax asset					11,501
Total assets					886,719
<i>Total assets includes:</i>					
Acquisition of non-current assets		13,928	6,429	-	20,357
Liabilities					
Segment liabilities		107,292	30,280	-	137,572
<i>Unallocated liabilities:</i>					
Provision for income tax					5,601
Borrowings					290,548
Total liabilities					433,721

* including \$10,374,000 of acquisition, integration and restructuring costs split between Retail (\$8,596,000) and Veterinary (\$1,778,000).

Geographical information

	Sales to external customers		Geographical non-current assets	
	2017 53 weeks \$'000	2016 52 weeks \$'000	2017 \$'000	2016 \$'000
Australia	719,536	652,552	741,379	698,314
New Zealand	97,960	81,120	38,684	28,801
	817,496	733,672	780,063	727,115

The geographical non-current assets above are exclusive of, where applicable, financial instruments and deferred tax assets.

Notes to the consolidated financial statements

2 July 2017

Note 4. Operating segments (continued)

Earnings before interest, tax, depreciation and amortisation ('EBITDA')

	Consolidated	
	2017	2016
	53 weeks	52 weeks
	\$'000	\$'000
Profit/(loss) for the period	47,348	38,663
Less: Interest received	(392)	(337)
Add: Interest expense	14,264	15,986
Add: Income tax expense	15,419	15,007
Add: Depreciation and amortisation expense	23,140	17,821
EBITDA	99,779	87,140

Note 5. Revenue

	Consolidated	
	2017	2016
	53 weeks	52 weeks
	\$'000	\$'000
Sale of goods	632,510	574,161
Rendering of services	183,983	153,980
Other sales revenue	1,003	2,031
Other revenue	-	3,500
Interest	392	337
Revenue	817,888	734,009

Notes to the consolidated financial statements

2 July 2017

Note 6. Expenses

	Consolidated	
	2017	2016
	53 weeks	52 weeks
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	5,868	4,477
Plant and equipment	15,004	11,882
Motor vehicles	384	346
Office equipment	103	137
Total depreciation	21,359	16,842
<i>Amortisation</i>		
Brand names	160	159
Customer relationships	208	207
Internally generated software	1,413	613
Total amortisation	1,781	979
Total depreciation and amortisation	23,140	17,821
<i>Finance costs</i>		
Interest and finance charges paid/payable	13,169	14,825
Amortisation of borrowing costs	1,245	1,453
	14,414	16,278
Amount capitalised	(150)	(292)
Finance costs expensed	14,264	15,986
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	69,365	63,459
<i>Superannuation expense</i>		
Defined contribution superannuation expense	15,806	13,727
<i>Share-based payments expense</i>		
Share-based payments expense	(214)	1,179

Notes to the consolidated financial statements

2 July 2017

Note 7. Income tax expense

	Consolidated	
	2017	2016
	53 weeks	52 weeks
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	12,237	10,623
Deferred tax - origination and reversal of temporary differences	5,766	5,619
Adjustment recognised for prior periods	(708)	(1,235)
Recognition of previously unrecognised losses	(1,876)	-
Aggregate income tax expense	<u>15,419</u>	<u>15,007</u>
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets (note 15)	<u>5,766</u>	<u>5,619</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	<u>62,767</u>	<u>53,670</u>
Tax at the statutory tax rate of 30%	18,830	16,101
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	69	67
Share-based payments	-	354
Acquisition costs	208	-
Recognition of previously unrecognised losses	(1,876)	-
Sundry items	(911)	(145)
	<u>16,320</u>	<u>16,377</u>
Adjustment recognised for prior periods	(708)	(1,235)
Difference in overseas tax rates	<u>(193)</u>	<u>(135)</u>
Income tax expense	<u>15,419</u>	<u>15,007</u>
	Consolidated	
	2017	2016
	53 weeks	52 weeks
	\$'000	\$'000
<i>Amounts charged directly to equity</i>		
Deferred tax assets (note 15)	<u>440</u>	<u>-</u>
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	<u>-</u>	<u>6,253</u>
Potential tax benefit @ 30%	<u>-</u>	<u>1,876</u>

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Notes to the consolidated financial statements

2 July 2017

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2017	2016
	\$'000	\$'000
Cash on hand	440	423
Cash at bank	57,243	62,160
	<u>57,683</u>	<u>62,583</u>

Note 9. Current assets - trade and other receivables

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade and other receivables	12,333	9,481
Less: Provision for impairment of receivables	(788)	(906)
	<u>11,545</u>	<u>8,575</u>

Trade and other receivables is predominately comprised of rebates and promotional claims from current suppliers.

Impairment of receivables

The consolidated entity has recognised a loss of \$233,000 (2016: loss of \$436,000) in profit or loss in respect of impairment of receivables for the period ended 2 July 2017.

The ageing of the impaired receivables provided for above are as follows:

	Consolidated	
	2017	2016
	\$'000	\$'000
3 to 6 months overdue	674	772
Over 6 months overdue	114	134
	<u>788</u>	<u>906</u>

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

	Consolidated	
	2017	2016
	\$'000	\$'000
Opening balance	906	2,468
Additional provisions recognised	233	436
Receivables written off during the year as uncollectable	(351)	(1,998)
Closing balance	<u>788</u>	<u>906</u>

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$2,574,000 as at 2 July 2017 (\$1,380,000 as at 26 June 2016).

Notes to the consolidated financial statements

2 July 2017

Note 9. Current assets - trade and other receivables (continued)

The ageing of the past due but not impaired receivables are as follows:

	Consolidated	
	2017	2016
	\$'000	\$'000
0 to 3 months overdue	2,017	942
3 to 6 months overdue	514	229
Over 6 months overdue	43	209
	<u>2,574</u>	<u>1,380</u>

Note 10. Current assets - inventories

	Consolidated	
	2017	2016
	\$'000	\$'000
Stock in transit	1,729	1,229
Stock on hand	95,774	90,773
	<u>97,503</u>	<u>92,002</u>

Write-downs of inventories to net realisable value is primarily related to slow moving stock which will be required to be discounted in the future to below cost to clear existing quantities on hand. The expense recognised during the period ended 2 July 2017 amounted to \$10,095,000 or 1.2% of revenue (2016: \$8,306,000 or 1.1% of revenue). The expense has been included in 'Cost of sales of goods' in the income statement of profit or loss and other comprehensive income.

Note 11. Current assets - other

	Consolidated	
	2017	2016
	\$'000	\$'000
Accrued revenue	20	425
Prepayments	1,978	1,054
Security deposits	189	193
	<u>2,187</u>	<u>1,672</u>

Note 12. Non-current assets - other financial assets

	Consolidated	
	2017	2016
	\$'000	\$'000
Shares in unlisted entities - at cost	<u>785</u>	<u>292</u>

Notes to the consolidated financial statements

2 July 2017

Note 13. Non-current assets - property, plant and equipment

	Consolidated	
	2017	2016
	\$'000	\$'000
Land and buildings - at cost	2,530	-
Leasehold improvements - at cost	100,786	73,222
Less: Accumulated depreciation	(20,008)	(14,056)
	80,778	59,166
Plant and equipment - at cost	174,973	152,193
Less: Accumulated depreciation	(71,177)	(55,617)
	103,796	96,576
Motor vehicles - at cost	1,822	1,869
Less: Accumulated depreciation	(1,438)	(1,069)
	384	800
Office equipment - at cost	3,087	3,045
Less: Accumulated depreciation	(2,792)	(2,720)
	295	325
	187,783	156,867

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below:

Consolidated	Leasehold improvements	Plant and equipment	Motor vehicles	Office equipment	Property	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 29 June 2015	47,013	82,936	1,021	444	-	131,414
Additions	16,202	26,579	235	8	-	43,024
Additions through business combinations (note 37)	530	483	3	1	-	1,017
Disposals	(865)	(221)	(117)	(23)	-	(1,226)
Exchange differences	763	564	4	32	-	1,363
Write off of assets	-	(1,883)	-	-	-	(1,883)
Depreciation expense	(4,477)	(11,882)	(346)	(137)	-	(16,842)
Balance at 26 June 2016	59,166	96,576	800	325	-	156,867
Additions	25,530	20,035	1	73	-	45,639
Additions through business combinations (note 37)	1,643	2,035	-	-	2,530	6,208
Disposals	(135)	(150)	(38)	(1)	-	(324)
Exchange differences	442	304	5	1	-	752
Depreciation expense	(5,868)	(15,004)	(384)	(103)	-	(21,359)
Balance at 2 July 2017	80,778	103,796	384	295	2,530	187,783

Property, plant and equipment secured under finance leases

Refer to note 34 for further information on property, plant and equipment secured under finance leases.

Notes to the consolidated financial statements

2 July 2017

Note 14. Non-current assets - intangibles

	Consolidated	
	2017	2016
	\$'000	\$'000
Goodwill	548,497	534,203
Brand names	1,304	1,304
Less: Accumulated amortisation	(472)	(312)
	832	992
Internally generated software	30,254	17,570
Less: Accumulated amortisation	(2,076)	(613)
	28,178	16,957
Customer relationships	1,454	1,454
Less: Accumulated amortisation	(587)	(379)
	867	1,075
	<u>578,374</u>	<u>553,227</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below:

	Goodwill	Brand names	Internally generated software	Customer relationships	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 29 June 2015	518,563	1,151	10,431	1,282	531,427
Additions	15,640	-	7,139	-	22,779
Amortisation expense	-	(159)	(613)	(207)	(979)
Balance at 26 June 2016	534,203	992	16,957	1,075	553,227
Additions	14,294	-	12,634	-	26,928
Amortisation expense	-	(160)	(1,413)	(208)	(1,781)
Balance at 2 July 2017	<u>548,497</u>	<u>832</u>	<u>28,178</u>	<u>867</u>	<u>578,374</u>

Impairment testing for goodwill

For the purpose of impairment testing, goodwill has been allocated to the CGUs, or groups of CGUs, that are expected to benefit from the synergies of the business combination and which represent the level at which management will monitor and manage the goodwill as follows:

Notes to the consolidated financial statements

2 July 2017

Note 14. Non-current assets - intangibles (continued)

A CGU level summary of the goodwill allocation is presented below:

	Consolidated	
	2017 \$'000	2016 \$'000
Vet	189,509	182,732
Retail - Australia	342,743	338,705
New Zealand	16,245	12,766
	<u>548,497</u>	<u>534,203</u>

Key assumptions used for value-in-use calculations

The group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit ('CGU') is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the long-term average growth rates for the industry in which each CGU operates.

Significant assumptions used for the purposes of the value-in-use calculation include:

Vet

Period of cash flows: 5 years (2016: 5 years)
Average revenue growth rate during the forecast period: 4% (2016: 4%)
Pre-tax discount rate: 11.9% (2016: 11.7%)
Terminal value growth rate of 2.5% (2016: 2.5%)

Retail - Australia

Period of cash flows: 5 years (2016: 5 years)
Average revenue growth rate during the forecast period: 5% (2016: 5%)
Pre-tax discount rate: 11.9% (2016: 11.6%)
Terminal value growth rate of 2.5% (2016: 2.5%)

New Zealand

Period of cash flows: 5 years (2016: 5 years)
Average revenue growth rate during the forecast period: 4% (2016: 4%)
Pre-tax discount rate: 12.3% (2016: 12.5%)
Terminal value growth rate of 2.5% (2016: 2.5%)

These assumptions have been used for the analysis of each CGU within an operating segment. Management determined budgeted EBITDA based on past performance and its expectations for the future. The weighted average growth rates used are consistent with forecasts included in industry reports. The discount rates used reflect specific risks relating to the relevant segments and the countries in which they operate.

Impairment charge

For the period ended 2 July 2017 there has been no impairment charge (2016: \$0).

Notes to the consolidated financial statements

2 July 2017

Note 14. Non-current assets - intangibles (continued)

Impact of possible changes in key assumptions

As disclosed in note 2, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill carrying amount may decrease.

The sensitivities that have been separately modelled are as follows:

- (a) a 2% increase in the pre-tax discount rate; and
- (b) 10% under performance against forecast EBITDA.

The re-testing of value in use using these sensitised assumptions confirmed no impairment charge.

Note 15. Non-current assets - deferred tax

	Consolidated	
	2017 \$'000	2016 \$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Impairment of receivables	236	272
Property, plant and equipment	(6,489)	(6,003)
Employee benefits	4,936	4,217
Provision for lease make good	1,226	1,185
Accrued expenses	2,882	4,950
Provisions	2,230	2,847
Cash flow hedges	(4)	480
Deferred lease incentives	3,320	2,926
Acquisition costs	739	2,050
Losses	4,685	3,094
Set-off of deferred tax liabilities (note 22)	(6,824)	(4,517)
	<u>6,937</u>	<u>11,501</u>
Amounts recognised in equity:		
Transaction costs on share issue	359	-
Deferred tax asset	<u>7,296</u>	<u>11,501</u>
Amount expected to be recovered within 12 months	6,950	11,308
Amount expected to be recovered after more than 12 months	346	193
	<u>7,296</u>	<u>11,501</u>
<i>Movements:</i>		
Opening balance	11,501	18,065
Charged to profit or loss (note 7)	(5,766)	(5,619)
Charged to equity (note 7)	(440)	-
Additions through business combinations (note 37)	114	108
Credited/(charged) to other comprehensive income	58	(356)
Adjustment with respect to prior periods	(47)	(697)
Previously unrecognised losses	1,876	-
Closing balance	<u>7,296</u>	<u>11,501</u>

Notes to the consolidated financial statements

2 July 2017

Note 16. Current liabilities - trade and other payables

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade payables	52,937	53,322
GST and withholding tax payable	3,990	3,512
Accrued expenses	29,149	32,696
Dividend payable to non-controlling interest	1,002	1,002
Unearned income	2,679	2,200
Other payables - supplier finance	10,995	-
	<u>100,752</u>	<u>92,732</u>

Refer to note 29 for further information on financial instruments.

Note 17. Current liabilities - borrowings

	Consolidated	
	2017	2016
	\$'000	\$'000
Bank loans	-	3,287
Business Associate loan	481	731
Lease liability	198	371
	<u>679</u>	<u>4,389</u>

Refer to note 20 for further information on assets pledged as security and financing arrangements.

Refer to note 29 for further information on financial instruments.

Note 18. Current liabilities - current tax liabilities

	Consolidated	
	2017	2016
	\$'000	\$'000
Provision for income tax	<u>6,963</u>	<u>5,601</u>

Note 19. Current liabilities - provisions

	Consolidated	
	2017	2016
	\$'000	\$'000
Employee benefits	14,373	12,708
Deferred lease incentives	2,476	2,260
Lease make good	300	61
Onerous lease	762	1,223
Customer loyalty	3,270	3,844
Business Associate	558	894
	<u>21,739</u>	<u>20,990</u>

Notes to the consolidated financial statements

2 July 2017

Note 19. Current liabilities - provisions (continued)

Employee benefits

The provision for employee benefits relates to the group's liability for long service leave and annual leave.

Amounts not expected to be settled within the next 12 months

The current portion of this liability includes all of the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of \$14,373,000 (2016: \$12,708,000) is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

Deferred lease incentives

The provision represents operating lease incentives received. The incentives are allocated to profit or loss in such a manner that the benefit is recognised on a straight-line basis over the initial lease term.

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Onerous lease

The provision represents the present value of the estimated costs, net of any sub-lease revenue, that will be incurred until the end of the lease terms where the obligation is expected to exceed the economic benefit to be received.

Customer loyalty

The consolidated entity operated a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. The award points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale such that the award points are recognised at their fair value.

Revenue from the award points is recognised when the points are redeemed against the provision. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points expire 12 months after the initial sale.

Business Associate

The Business Associate liability represents the estimated future cash flows to be made within one year of the reporting date in respect of Business Associate liabilities.

Movements in provisions

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

	Deferred lease incentives \$'000	Lease make good \$'000	Onerous lease \$'000	Business Associate \$'000	Customer loyalty \$'000
Consolidated - 2017					
Carrying amount at the start of the period	2,260	61	1,223	894	3,844
Additional provisions recognised	532	-	-	284	3,549
Amounts transferred from non-current	833	241	1,168	87	-
Amounts used	(1,149)	(2)	(1,629)	-	(4,123)
Payments	-	-	-	(707)	-
Carrying amount at the end of the period	<u>2,476</u>	<u>300</u>	<u>762</u>	<u>558</u>	<u>3,270</u>

Notes to the consolidated financial statements

2 July 2017

Note 20. Non-current liabilities - borrowings

	Consolidated	
	2017	2016
	\$'000	\$'000
Bank loans	295,877	291,312
Capitalised borrowing costs	(4,100)	(5,303)
Lease liability	758	150
	<u>292,535</u>	<u>286,159</u>

Refer to note 29 for further information on financial instruments.

The consolidated entity complied with all bank covenant requirements during the period.

Total secured liabilities

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

	Consolidated	
	2017	2016
	\$'000	\$'000
Bank loans	295,877	294,599
Capitalised borrowing costs	(4,100)	(5,303)
Lease liability	956	521
	<u>292,733</u>	<u>289,817</u>

Assets pledged as security

Borrowings are secured by a fixed and floating charge over the assets of the consolidated entity.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2017	2016
	\$'000	\$'000
Total facilities		
Bank loans	<u>365,986</u>	<u>364,285</u>
Used at the reporting date		
Bank loans	<u>295,877</u>	<u>294,599</u>
Unused at the reporting date		
Bank loans	<u>70,109</u>	<u>69,686</u>

Notes to the consolidated financial statements

2 July 2017

Note 21. Non-current liabilities - derivative financial instruments

	Consolidated	
	2017	2016
	\$'000	\$'000
Interest rate swap contracts - cash flow hedges	194	1,601

Refer to note 29 for further information on financial instruments.

Refer to note 30 for further information on fair value measurement.

Note 22. Non-current liabilities - deferred tax

	Consolidated	
	2017	2016
	\$'000	\$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Prepayments	46	49
Development costs	495	-
Intangibles	5,283	4,468
Other	1,000	-
Set-off of deferred tax liabilities (note 15)	(6,824)	(4,517)

Note 23. Non-current liabilities - provisions

	Consolidated	
	2017	2016
	\$'000	\$'000
Employee benefits	1,778	2,110
Deferred lease incentives	8,592	7,494
Lease make good	3,788	3,889
Onerous lease	2,991	4,761
Business Associate	4,352	3,995
	21,501	22,249

Employee benefits

The provision for employee benefits relates to the group's liability for long service leave and annual leave.

Deferred lease incentives

The provision represents operating lease incentives received. The incentives are allocated to profit or loss in such a manner that the benefit is recognised on a straight-line basis over the initial lease term.

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Onerous lease

The provision represents the present value of the estimated costs, net of any sub-lease revenue, that will be incurred until the end of the lease terms where the obligation is expected to exceed the economic benefit to be received.

Notes to the consolidated financial statements

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Note 23. Non-current liabilities - provisions (continued)

Business Associate

The Business Associate liability represents the estimated future cash flows to be made within more than one year of the reporting date in respect of Business Associate liabilities.

Movements in provisions

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

	Deferred lease incentives \$'000	Lease make good \$'000	Onerous lease \$'000	Business Associate \$'000
Consolidated - 2017				
Carrying amount at the start of the period	7,494	3,889	4,761	3,995
Additional provisions recognised	1,931	240	(602)	859
Amounts transferred to current	(833)	(241)	(1,168)	(87)
Payments	-	(100)	-	(415)
Carrying amount at the end of the period	<u>8,592</u>	<u>3,788</u>	<u>2,991</u>	<u>4,352</u>

Note 24. Equity - contributed equity

	2017 Shares	Consolidated 2016 Shares	2017 \$'000	2016 \$'000
Ordinary shares - fully paid	<u>117,285,540</u>	<u>113,720,770</u>	<u>552,328</u>	<u>530,537</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2015	111,703,993		520,294
Share issue - Dividend Reinvestment Plan	18 September 2015	1,716,777	\$5.82	9,992
Share issue - Employee Loan Plan	9 June 2016	<u>300,000</u>	<u>\$0.84</u>	<u>251</u>
Balance	26 June 2016	113,720,770		530,537
Share issue - Employee Share Plan	24 August 2016	168,018	\$0.00	-
Share issue - Dividend Reinvestment Plan	23 September 2016	512,119	\$6.05	3,098
Share issue - Dividend Reinvestment Plan	23 September 2016	1,258,519	\$6.17	7,765
Share issue - Employee Share Plan	17 November 2016	17,797	\$0.00	-
Share issue - Dividend Reinvestment Plan	24 March 2017	619,244	\$6.78	4,198
Share issue - Dividend Reinvestment Plan	24 March 2017	989,073	\$6.91	6,834
Share issue transaction costs		<u>-</u>	<u>\$0.00</u>	<u>(104)</u>
Balance	2 July 2017	<u>117,285,540</u>		<u>552,328</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the legal parent company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the legal parent company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Notes to the consolidated financial statements

2 July 2017

Note 24. Equity - contributed equity (continued)

Dividend reinvestment plan

The legal parent company has a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a discount to the market price, as the Directors may determine.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term that require capital to be raised as it continues to integrate and grow its existing businesses in order to maximise synergies.

Note 25. Equity - reserves

	Consolidated	
	2017	2016
	\$'000	\$'000
Foreign currency reserve	(82)	40
Capital profits reserve	(423)	(423)
Hedging reserve - cash flow hedges	(136)	(1,039)
Share-based payments reserve	3,417	3,630
	<u>2,776</u>	<u>2,208</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Capital profits reserve

The reserve was created on the reorganisation of Mammoth Pet Pty Limited on 18 October 2010 when Mammoth Holdings Pty Limited purchased Mammoth Pet Pty Limited and Freddy Holdings Pty Limited, a shareholder of Mammoth Pet Pty Limited.

Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Notes to the consolidated financial statements

2 July 2017

Note 25. Equity - reserves (continued)

Movements in reserves

Movements in each class of reserve during the current and previous financial period are set out below:

Consolidated	Foreign currency \$'000	Capital profits \$'000	Hedging reserve - cash flow hedges \$'000	Share-based payments \$'000	Total \$'000
Balance at 29 June 2015	(236)	(423)	(1,828)	2,451	(36)
Foreign currency translation	276	-	-	-	276
Changes in fair value of cash flow hedges	-	-	1,127	-	1,127
Deferred tax	-	-	(338)	-	(338)
Share-based payment expense	-	-	-	1,179	1,179
Balance at 26 June 2016	40	(423)	(1,039)	3,630	2,208
Foreign currency translation	(121)	-	-	-	(121)
Changes in fair value of cash flow hedges	-	-	903	-	903
Share-based payment expense	-	-	-	(214)	(214)
Balance at 2 July 2017	(81)	(423)	(136)	3,416	2,776

Note 26. Equity - accumulated losses

	Consolidated	
	2017 \$'000	2016 \$'000
Accumulated losses at the beginning of the financial period	(99,350)	(113,700)
Profit after income tax expense for the period	42,055	34,620
Dividends paid (note 28)	(21,883)	(20,270)
Accumulated losses at the end of the financial period	(79,178)	(99,350)

Note 27. Equity - non-controlling interest

	Consolidated	
	2017 \$'000	2016 \$'000
Issued capital	312	312
Reserves	(74)	(74)
Retained profits	22,629	19,365
	22,867	19,603

Notes to the consolidated financial statements

2 July 2017

Note 28. Equity - dividends

Dividends

Dividends paid during the financial period were as follows:

	Consolidated 2017 53 weeks \$'000	2016 52 weeks \$'000
Final dividend for the period ended 26 June 2016 of 9.5 cents per ordinary share	10,849	9,992
Interim dividend for the period ended 2 July 2017 of 9.5 cents per ordinary share	11,034	10,278
	<u>21,883</u>	<u>20,270</u>

The final dividend for the period ended 2 July 2017 will not be subject to the company's Dividend Reinvestment Plan ('DRP').

\$2,023,000 (2016: \$614,000) was paid to non-controlling interest in respect of their dividends in the underlying entities during the period ended 2 July 2017. There are no proposed dividends for non-controlling interest as at signing date.

Franking credits

	Consolidated 2017 \$'000	2016 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>4,458</u>	<u>6,742</u>

The above amounts represent the balance of the franking account as at the end of the financial period, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 29. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Notes to the consolidated financial statements

2 July 2017

Note 29. Financial instruments (continued)

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets		Liabilities	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
New Zealand dollars	56,464	46,824	33,328	30,362

The consolidated entity had net assets denominated in foreign currencies of \$23,136,000 (assets \$56,464,000 less liabilities \$33,328,000) as at 2 July 2017 (2016: net assets of \$16,462,000 (assets \$46,824,000 less liabilities \$30,362,000)). Based on this exposure, with all other variables held constant, the following could have occurred:

Consolidated - 2017	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit	Effect on equity		Effect on profit	Effect on equity
New Zealand dollars	10%	(650)	(734)	10%	793	899

Consolidated - 2016	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit	Effect on equity		Effect on profit	Effect on equity
New Zealand dollars	10%	(437)	(515)	10%	536	631

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings and interest rate swap contracts. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

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

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised. In the period ended 2 July 2017 a gain of \$nil (2016: \$nil) was reclassified into profit or loss and included in finance costs.

Notes to the consolidated financial statements

2 July 2017

Note 29. Financial instruments (continued)

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

Consolidated	2017		2016	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans	4.73%	295,877	4.65%	294,599
Interest rate swaps (notional principal amount)	3.90%	140,000	3.85%	101,250
Net exposure to cash flow interest rate risk		435,877		395,849

An analysis by remaining contractual maturities is shown in 'liquidity risk' management below.

An official increase/decrease in interest rates would have the following effect on profit before tax and equity per annum (note that the impact on interest rate swap contracts is nil as the hedge is effective):

Consolidated - 2017	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Bank loans	100	(1,559)	(1,091)	100	1,559	1,091
Interest rate swap contracts	100	-	-	100	-	-
		(1,559)	(1,091)		1,559	1,091

Consolidated - 2016	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Bank loans	100	(1,933)	(1,353)	100	1,933	1,353
Interest rate swap contracts	100	-	-	100	-	-
		(1,933)	(1,353)		1,933	1,353

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity is not exposed to any significant credit risk given the nature of the consolidated entity's operations generate cash and credit card revenue.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the consolidated financial statements

2 July 2017

Note 29. Financial instruments (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2017 \$'000	2016 \$'000
Bank loans	70,109	69,686

Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time and have an average maturity of 2.94 years (2016: 3.94 years).

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Consolidated - 2017						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	55,437	-	-	-	55,437
BAS payable	-	3,990	-	-	-	3,990
Other payables	-	10,995	-	-	-	10,995
<i>Interest-bearing - variable</i>						
Bank loans	4.73%	17,389	296,607	35,307	-	349,303
Lease liability	5.89%	198,409	212,455	544,703	-	955,567
Total non-derivatives		286,220	509,062	580,010	-	1,375,292
Derivatives						
Interest rate swaps net settled	-	557	557	835	-	1,949
Total derivatives		557	557	835	-	1,949

Notes to the consolidated financial statements

2 July 2017

Note 29. Financial instruments (continued)

Consolidated - 2016	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	53,322	-	-	-	53,322
BAS payable	-	3,512	-	-	-	3,512
Other payables	-	1,061	-	-	-	1,061
<i>Interest-bearing - variable</i>						
Bank loans	4.65%	16,100	17,457	310,854	-	344,411
Lease liability	6.01%	390	123	33	-	546
Total non-derivatives		74,385	17,580	310,887	-	402,852
Derivatives						
Interest rate swaps net settled	-	1,838	1,023	-	-	2,861
Total derivatives		1,838	1,023	-	-	2,861

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 30. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Consolidated - 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Interest rate swap contracts	-	194	-	194
Total assets	-	194	-	194
Consolidated - 2016				
Liabilities				
Interest rate swap contracts	-	1,601	-	1,601
Total liabilities	-	1,601	-	1,601

There were no transfers between levels during the financial year.

Notes to the consolidated financial statements

2 July 2017

Note 30. Fair value measurement (continued)

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature. Bank loans approximate fair value of the carrying amount on the basis of the variable nature of the interest rates associated with the loans.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Bank loans approximate fair value of the carrying amount on the basis of the variable nature of the interest rates associated with the loans.

Valuation techniques for fair value measurements categorised within level 2 and level 3

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Note 31. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2017	2016
	53 weeks	52 weeks
	\$	\$
Short-term employee benefits	3,197,884	3,462,602
Post-employment benefits	84,886	80,301
Share-based payments	127,986	298,181
	<u>3,410,756</u>	<u>3,841,084</u>

Note 32. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the company, and its network firms:

	Consolidated	
	2017	2016
	53 weeks	52 weeks
	\$	\$
<i>Audit services - PricewaterhouseCoopers</i>		
Audit or review of the financial statements	<u>463,000</u>	<u>450,000</u>
<i>Other services - PricewaterhouseCoopers</i>		
Tax advice on research and development	85,148	250,000
Advisory Service	40,000	-
	<u>125,148</u>	<u>250,000</u>
	<u>588,148</u>	<u>700,000</u>
<i>Audit services - network firms</i>		
Audit or review of the financial statements	<u>63,387</u>	<u>57,300</u>

Notes to the consolidated financial statements

2 July 2017

Note 33. Contingent liabilities

The consolidated entity has provided bank guarantees to various landlords in relation to leases of subsidiaries.

	Consolidated	
	2017 \$'000	2016 \$'000
Bank guarantees	8,415	10,050

Note 34. Commitments

	Consolidated	
	2017 \$'000	2016 \$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	2,628	2,691
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	70,979	67,005
One to five years	233,647	223,155
More than five years	35,051	65,565
	339,677	355,725
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	274	389
One to five years	758	157
Total commitment	1,032	546
Less: Future finance charges	(76)	(25)
Net commitment recognised as liabilities	956	521
Representing:		
Lease liability - current (note 17)	198	371
Lease liability - non-current (note 20)	758	150
	956	521

Operating lease commitments includes contracted amounts for leased premises, vehicles and forklift equipment under non-cancellable operating leases expiring within 1 to 10 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$1,665,000 (2016: \$961,000) under finance leases expiring within 1 to 3 years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Notes to the consolidated financial statements

2 July 2017

Note 35. Related party transactions

Parent entity

Greencross Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 38.

Key management personnel

Disclosures relating to key management personnel are set out in note 31 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated 2017 53 weeks \$	2016 52 weeks \$
Payment for other expenses:		
Rent and outgoings paid to Greencross Properties Pty Ltd and KCORM Property Trust, entities controlled by director Dr Glen Richards.	232,597	266,733
Rent paid to AEC Property Trust, a trust associated with director Dr Glen Richards.	-	73,482
Fees paid to Paul Wilson for his role as Chairman of Animates NZ Holdings Limited	26,250	26,250

Receivable from and payable to related parties

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

	Consolidated 2017 \$	2016 \$
Current payables:		
Rent payable to KCORM Property Trust, a trust associated with director Dr Glen Richards.	-	632

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal arms length commercial terms and conditions and at market rates.

Note 36. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent 2017 53 weeks \$'000	2016 52 weeks \$'000
Profit after income tax	25,208	22,321
Total comprehensive income	25,208	22,321

Notes to the consolidated financial statements

2 July 2017

Note 36. Parent entity information (continued)

Statement of financial position

	Parent	
	2017 \$'000	2016 \$'000
Total current assets	4,493	4,141
Total assets	531,226	532,681
Total current liabilities	(1,062)	(416)
Total liabilities	(7,886)	(4,933)
Equity		
Contributed equity	696,678	674,795
Share-based payments reserve	972	1,179
Accumulated losses	(158,538)	(138,360)
Total equity	539,112	537,614

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity has provided financial guarantees in respect of the bank overdraft and the bank loans of the subsidiaries amounting to \$279,862,000 (2016: \$279,862,000), secured by a registered charge over the assets of the parent entity and its subsidiaries.

No liability was recognised by the parent entity in relation to these guarantees as the liability for the bank overdraft and the bank loans are recorded in the relevant subsidiaries of the parent entity.

Contingent liabilities

The parent entity had no contingent liabilities as at 2 July 2017 and 26 June 2016.

The parent entity has and will continue to receive dividends from its subsidiaries in order to have appropriate profit reserves given the accumulated losses to be able to pay dividends to its shareholders. There was and is sufficient retained profits in the subsidiaries in order to satisfy dividend payment obligations during the year as well as at 2 July 2017.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 2 July 2017 and 26 June 2016.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.

Note 37. Business combinations

Business combinations

During the financial year the Group acquired a further 5 veterinary clinics in Australia, 4 veterinary clinics in New Zealand, 1 partial interest in a specialist clinic in Australia and 6 retail stores in Australia via a combination of share and asset purchases for total consideration of \$19,315,000. The acquired businesses contributed revenues of \$9,394,000 and profit before tax of \$1,626,000 to the Group for the period from acquisition 2 July 2017. If the acquisitions occurred on 27 June 2016, the full year contributions would have been revenues of \$21,460,000 and profit before tax of \$3,101,000.

Notes to the consolidated financial statements

2 July 2017

Note 37. Business combinations (continued)

	Fair value \$'000	
Cash and cash equivalents	1,242	
Trade receivables	144	
Inventories	961	
Prepayments	54	
Other current assets	14	
Plant and equipment	6,208	
Deferred tax asset	114	
Trade payables	(193)	
Other payables	(393)	
Employee benefits	(563)	
Customer loyalty	(45)	
Bank loans	(1,765)	
Lease liability	(757)	
Net assets acquired	5,021	
Goodwill	14,294	
Acquisition-date fair value of the total consideration transferred	19,315	
Representing:		
Cash paid or payable to vendor	18,912	
Contingent consideration	403	
	19,315	
Acquisition costs expensed to profit or loss	1,751	
	Consolidated	
	2017 53 weeks \$'000	2016 52 weeks \$'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	18,012	16,396
Add: payments made for prior period acquisition	-	1,057
Less: settlement of receivable	-	(6,500)
Less: contingent consideration	(403)	(837)
Net cash used	17,609	10,116

Notes to the consolidated financial statements

2 July 2017

Note 38. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2017 %	2016 %
Greencross Operations Pty Ltd *	Australia	100.00%	100.00%
Greencross NSW Pty Ltd *	Australia	100.00%	100.00%
Greencross Townsville Pty Ltd *	Australia	100.00%	100.00%
Seabeach Pty Ltd *	Australia	100.00%	100.00%
Gorrie Veterinary Services Pty Ltd *	Australia	100.00%	100.00%
Chermside Veterinary Hospital Pty Ltd *	Australia	100.00%	100.00%
Veterinary Referral Services Pty Ltd *	Australia	70.00%	70.00%
Pet Accident and Emergency Pty Ltd *	Australia	90.00%	90.00%
Gold Coast Animal Referral & Emergency Pty Ltd *	Australia	90.00%	90.00%
Animal Emergency Centre Woolloongabba Pty Ltd *	Australia	100.00%	100.00%
Animal Emergency Centre Pty Ltd *	Australia	75.31%	75.31%
Animal Emergency Centre (Frankston) Pty Ltd *	Australia	75.31%	75.31%
Animal Emergency Centre Hallam Pty Ltd *	Australia	75.31%	75.31%
Williamstown Veterinary Holdings Pty Ltd *	Australia	100.00%	100.00%
Williamstown Veterinary Hospital Pty Ltd *	Australia	100.00%	100.00%
Point Cook Animal Hospital Pty Ltd *	Australia	100.00%	100.00%
Point Cook Unit Trust *	Australia	100.00%	100.00%
Pets First Hoppers Crossing Pty Ltd *	Australia	100.00%	100.00%
Anvet Werribee Pty Ltd *	Australia	100.00%	100.00%
Greencross Vets Toowoomba Pty Ltd *	Australia	100.00%	100.00%
Greencross Vets Southcoast Pty. Ltd. *	Australia	100.00%	100.00%
Vepa Labs Pty Ltd *	Australia	100.00%	100.00%
Vetmax Pty Ltd *	Australia	100.00%	100.00%
Animal Emergency Centre Toowoomba Pty. Ltd. *	Australia	65.00%	65.00%
Animal Emergency Centre Central Coast Pty Ltd *	Australia	38.38%	32.50%
Mammoth Pet Holdings Pty Limited	Australia	100.00%	100.00%
Petbarn Pty Limited	Australia	100.00%	100.00%
Mammoth Pet Pty Limited	Australia	100.00%	100.00%
Petbarn Properties Pty Limited	Australia	100.00%	100.00%
Animates NZ Holdings Limited	New Zealand	50.00%	50.00%
Freddy Holdings Pty Ltd	Australia	100.00%	100.00%
Petwise Pty Ltd	Australia	100.00%	100.00%
CF Group Holdings Pty Ltd	Australia	100.00%	100.00%
City Farmers Investments Pty Ltd	Australia	100.00%	100.00%
City Farmers Holdings Pty Ltd	Australia	100.00%	100.00%
CF Intermediate Holdings Pty Ltd	Australia	100.00%	100.00%
City Farmers Finance Pty Ltd	Australia	100.00%	100.00%
City Farmers Services Pty Ltd	Australia	100.00%	100.00%
City Farmers Retail Pty Ltd	Australia	100.00%	100.00%
City Farmers Been Pty Ltd	Australia	100.00%	100.00%
City Farmers Arun Pty Ltd	Australia	100.00%	100.00%
City Farmers Brwn Pty Ltd	Australia	100.00%	100.00%
City Farmers UNDR Pty Ltd	Australia	100.00%	100.00%
City Farmers MITC Pty Ltd	Australia	100.00%	100.00%
City Farmers Bedf Pty Lt	Australia	100.00%	100.00%
City Farmers MALG Pty Ltd	Australia	100.00%	100.00%
City Farmers MIDL Pty Ltd	Australia	100.00%	100.00%

Notes to the consolidated financial statements

2 July 2017

Note 38. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation	Ownership interest	
		2017 %	2016 %
City Farmers Belm Pty Ltd	Australia	100.00%	100.00%
City Farmers Will Pty Ltd	Australia	100.00%	100.00%
City Farmers Kelm Pty Ltd	Australia	100.00%	100.00%
City Farmers Cval Pty Ltd	Australia	100.00%	100.00%
City Farmers Rock Pty Ltd	Australia	100.00%	100.00%
City Farmers Mand Pty Ltd	Australia	100.00%	100.00%
City Farmers Wemb Pty Ltd	Australia	100.00%	100.00%
City Farmers Joon Pty Ltd	Australia	100.00%	100.00%
City Farmers Balc Pty Ltd	Australia	100.00%	100.00%
City Farmers CURR Pty Ltd	Australia	100.00%	100.00%
City Farmers Whit Pty Ltd	Australia	100.00%	100.00%
Flea Boy and Tick Girl Pty Ltd	Australia	100.00%	100.00%
Veterinary Holdings Pty Limited	Australia	50.10%	50.10%
The Animal Referral Hospital Pty Ltd	Australia	50.10%	50.10%
Animal Emergency Centre Canberra	Australia	30.06%	30.06%
Animal Referral Hospital Canberra	Australia	30.06%	30.06%
HMS Software Pty Limited	Australia	100.00%	100.00%
Melbourne Veterinary Specialist Centre *	Australia	72.00%	72.00%
Southern Animal Referral Centre Pty Ltd *	Australia	100.00%	100.00%
Greencross Pet Friends Pty Ltd	Australia	51.00%	51.00%
Greencross White Hills Pty Ltd	Australia	75.00%	75.00%
Petrest Pty Ltd	Australia	100.00%	100.00%
Greencross Western Australia Pty Ltd	Australia	100.00%	100.00%
Inion Pty Ltd	Australia	100.00%	-
Adelaide Animal Emergency Centre Pty Ltd	Australia	40.80%	-

* Interests in subsidiaries that were acquired as part of the merger with Mammoth.

Notes to the consolidated financial statements

2 July 2017

Note 38. Interests in subsidiaries (continued)

Summarised financial information

Summarised financial information of the subsidiary with non-controlling interests that is material to the consolidated entity are set out below:

	Animates NZ Holdings Limited	
	2017	2016
	\$'000	\$'000
<i>Summarised statement of financial position</i>		
Current assets	17,518	17,761
Non-current assets	38,946	29,063
Total assets	56,464	46,824
Current liabilities	18,915	19,005
Non-current liabilities	14,412	11,357
Total liabilities	33,327	30,362
Net assets	23,137	16,462
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	98,064	81,120
Expenses	(88,629)	(75,018)
Profit before income tax expense	9,435	6,102
Income tax expense	(2,636)	(1,747)
Profit after income tax expense	6,799	4,355
Other comprehensive income	-	-
Total comprehensive income	6,799	4,355
<i>Other financial information</i>		
Profit attributable to non-controlling interests	3,399	2,238

Notes to the consolidated financial statements

2 July 2017

Note 39. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Greencross Limited
Greencross Operations Pty Ltd
Greencross NSW Pty Ltd
Greencross Townsville Pty Ltd
Mammoth Pet Holdings Pty Limited
Petbarn Pty Limited
Mammoth Pet Pty Limited
City Farmers Investments Pty Ltd
City Farmers Holdings Pty Ltd
CF Group Holdings Pty Ltd
CF Intermediate Holdings Pty Ltd
City Farmers Finance Pty Ltd
City Farmers Services Pty Ltd
City Farmers Retail Pty Ltd
City Farmers Been Pty Ltd
City Farmers Arun Pty Ltd
City Farmers Brwn Pty Ltd
City Farmers UNDR Pty Ltd
City Farmers MITC Pty Ltd
City Farmers Bedf Pty Ltd
City Farmers MALG Pty Ltd
City Farmers MIDL Pty Ltd
City Farmers Belm Pty Ltd
City Farmers Will Pty Ltd
City Farmers Kelm Pty Ltd
City Farmers Cval Pty Ltd
City Farmers Rock Pty Ltd
City Farmers Mand Pty Ltd
City Farmers Wemb Pty Ltd
City Farmers Joon Pty Ltd
City Farmers Balc Pty Ltd
City Farmers CURR Pty Ltd
City Farmers Whit Pty Ltd
Flea Boy and Tick Girl Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Greencross Limited, they also represent the 'Extended Closed Group'.

Notes to the consolidated financial statements

2 July 2017

Note 39. Deed of cross guarantee (continued)

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

	2017 53 weeks \$'000	2016 52 weeks \$'000
Statement of profit or loss and other comprehensive income		
Revenue	648,167	594,392
Other income	1,814	2,226
Cost of sales of goods	(297,465)	(274,242)
Employee benefits expense	(160,025)	(142,915)
Depreciation and amortisation expense	(18,579)	(13,946)
Marketing costs	(10,092)	(9,226)
Occupancy costs	(74,318)	(66,060)
Administration costs	(29,336)	(30,810)
Acquisition costs	(1,512)	(1,938)
Finance costs	(13,636)	(15,217)
Profit before income tax expense	45,018	42,264
Income tax expense	(10,005)	(10,855)
Profit after income tax expense	35,013	31,409
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period	35,013	31,409
Equity - retained profits		
Accumulated losses at the beginning of the financial period	(138,261)	(152,781)
Profit after income tax expense	35,013	31,409
Accumulated losses at the end of the financial period	(103,248)	(121,372)

Notes to the consolidated financial statements

2 July 2017

Note 39. Deed of cross guarantee (continued)

Statement of financial position	2017 \$'000	2016 \$'000
Current assets		
Cash and cash equivalents	42,434	45,625
Trade and other receivables	28,126	26,929
Inventories	80,655	80,871
Current tax assets	(1,217)	(7,105)
Prepayments	1,300	1,010
Other	139	558
	<u>151,437</u>	<u>147,888</u>
Non-current assets		
Other financial assets	19,522	12,689
Property, plant and equipment	143,335	134,137
Intangibles	509,721	495,427
Deferred tax	23,822	26,439
	<u>696,400</u>	<u>668,692</u>
Total assets	<u>847,837</u>	<u>816,580</u>
Current liabilities		
Trade and other payables	75,587	83,294
Borrowings	(4,413)	(2,917)
Provisions	18,968	18,212
	<u>90,142</u>	<u>98,589</u>
Non-current liabilities		
Borrowings	280,698	278,209
Derivative financial instruments	194	1,601
Deferred tax	4,591	3,652
Provisions	18,962	21,941
	<u>304,445</u>	<u>305,403</u>
Total liabilities	<u>394,587</u>	<u>403,992</u>
Net assets	<u>453,250</u>	<u>412,588</u>
Equity		
Contributed equity	552,324	530,537
Reserves	4,174	3,423
Accumulated losses	(103,248)	(121,372)
Total equity	<u>453,250</u>	<u>412,588</u>

Note 40. Events after the reporting period

No matter or circumstance has arisen since 2 July 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Notes to the consolidated financial statements

2 July 2017

Note 41. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2017	2016
	53 weeks	52 weeks
	\$'000	\$'000
Profit after income tax expense for the period	47,348	38,663
Adjustments for:		
Depreciation and amortisation	23,140	17,821
Write off of property, plant and equipment	-	1,883
Share-based payments	(214)	1,173
Non-cash finance costs	1,244	1,253
Non-cash movements in reserves	(626)	(57)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(2,406)	(1,019)
Increase in inventories	(4,540)	(5,623)
Decrease in deferred tax assets	3,012	3,472
Decrease/(increase) in prepayments	(866)	97
Increase in trade and other payables	7,024	13,124
Increase in provision for income tax	2,671	10,748
Decrease in other provisions	(800)	(2,899)
Net cash from operating activities	<u>74,987</u>	<u>78,636</u>

Note 42. Non-cash investing and financing activities

	Consolidated	
	2017	2016
	53 weeks	52 weeks
	\$'000	\$'000
Shares issued under dividend reinvestment plan	<u>21,883</u>	<u>9,992</u>

Note 43. Earnings per share

	Consolidated	
	2017	2016
	53 weeks	52 weeks
	\$'000	\$'000
Profit after income tax	47,348	38,663
Non-controlling interest	<u>(5,293)</u>	<u>(4,043)</u>
Profit after income tax attributable to the owners of Greencross Limited	<u>42,055</u>	<u>34,620</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	116,142,197	113,828,575
Adjustments for calculation of diluted earnings per share:		
Performance rights	<u>934,981</u>	<u>610,500</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>117,077,178</u>	<u>114,439,075</u>

Notes to the consolidated financial statements

2 July 2017

Note 43. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	36.21	30.41
Diluted earnings per share	35.92	30.25

Note 44. Share-based payments

Executive Short Term Incentive Plan (FY17 'STIP')

The Group has implemented an "at risk" STIP which rewards executives for meeting or exceeding annual performance thresholds. Part of this reward is delivered as deferred share rights, subject to forfeiture conditions, to align rewards with shareholder interests. The performance rights, granted on 1 September 2016 will vest on 1 July 2017 when they automatically convert into one ordinary share each at an exercise price of nil.

Under the STIP participants are granted performance rights provided certain performance conditions are met in relation to the financial year ended 2 July 2017.

The Board can exercise its discretion to amend any element of the STIP.

At the date of signing this report no performance rights granted to executives have been exercised due to the the security trading blackout period guidelines set forth under ASX Listing Rules 12.9-12.12.

Note 44. Share-based payments (continued)

Executive Long Term Incentive Plan ('LTIP')

FY15 LTIP

The Group has implemented an Executive LTIP for key management personnel executives with performance rights granted over ordinary fully paid shares, subject to forfeiture conditions, which will vest to the extent that the Board determines that:

- the performance condition(s) have been satisfied during the performance period; and
- the participant was continuously employed by the Company until the vesting date of the rights

A 3-year performance period will apply (1 July 2014 to 30 June 2017) with performance conditions tested, and any vesting occurring, following the announcement of the FY17 full year result, on or around September 2017. The scheme employs two performance hurdles: EPS Growth and ROIC, both measured over the 3 year performance period against threshold and maximum hurdles.

The number of performance rights each participant receives is determined by dividing the dollar value of the maximum LTIP award by the allocation price. The allocation price in respect of the rights is calculated as the volume weighted average price of the Company's shares over the five trading days immediately before, and the five trading days immediately following, the announcement of the Company's FY14 results.

FY16 LTIP

The Group has implemented an Executive LTIP for key management personnel executives with performance rights granted over ordinary fully paid shares, subject to forfeiture conditions, which will vest to the extent that the Board determines that:

- the performance condition(s) have been satisfied during the performance period; and
- the participant was continuously employed by the Company until the vesting date of the rights

A 3-year performance period will apply (1 July 2015 to 30 June 2018) with performance conditions tested, and any vesting occurring, following the announcement of the FY18 full year result, on or around September 2018. The scheme employs three performance hurdles: EPS Growth, ROIC and total shareholder return (TSR) . All performance hurdles are measured over the 3 year performance period against threshold and maximum hurdles.

The number of performance rights each participant receives is determined by dividing the dollar value of the maximum LTIP award by the allocation price. The allocation price in respect of the rights is calculated as the volume weighted average price of the Company's shares over the five trading days immediately before, and the five trading days immediately following, the announcement of the Company's FY15 results.

FY17 LTIP

The Group has implemented an Executive LTIP for key management personnel executives with performance rights granted over ordinary fully paid shares, subject to forfeiture conditions, which will vest to the extent that the Board determines that:

- the performance condition(s) have been satisfied during the performance period; and
- the participant was continuously employed by the Company until the vesting date of the rights

A 3-year performance period will apply (1 July 2016 to 30 June 2019) with performance conditions tested, and any vesting occurring, following the announcement of the FY19 full year result, on or around September 2019. The scheme employs three performance hurdles: EPS Growth, ROIC and total shareholder return (TSR) . All performance hurdles are measured over the 3 year performance period against threshold and maximum hurdles.

The number of performance rights each participant receives is determined by dividing the dollar value of the maximum LTIP award by the allocation price. The allocation price in respect of the rights is calculated as the volume weighted average price of the Company's shares over the five trading days immediately before, and the five trading days immediately following, the announcement of the Company's FY16 results.

Notes to the consolidated financial statements

2 July 2017

Note 44. Share-based payments (continued)

Set out below are summaries of performance rights granted under the plan:

2017

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised *	Expired/ forfeited/ other	Balance at the end of the period
30/06/2015	01/09/2017	\$0.00	60,717	-	-	-	60,717
30/06/2016	30/06/2018	\$0.00	129,245	-	-	(43,528)	85,717
30/06/2017	30/06/2019	\$0.00	-	145,721	-	-	145,721
			189,962	145,721	-	(43,528)	292,155

2016

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
30/06/2015	01/09/2017	\$0.00	60,717	-	-	-	60,717
30/06/2016	30/06/2018	\$0.00	-	129,245	-	-	129,245
			60,717	129,245	-	-	189,962

Directors' declaration

2 July 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 2 July 2017 and of its performance for the financial period ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 39 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Martin Nicholas
Director

22 August 2017
Sydney

Independent auditor's report

To the shareholders of Greencross Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Greencross Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 2 July 2017 and of its financial performance for the period from 27 June 2016 to 2 July 2017; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 2 July 2017;
- the consolidated statement of profit or loss and other comprehensive income for the period from 27 June 2016 to 2 July 2017;
- the consolidated statement of changes in equity for the period from 27 June 2016 to 2 July 2017;
- the consolidated statement of cash flows for the period from 27 June 2016 to 2 July 2017;
- the notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the Directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

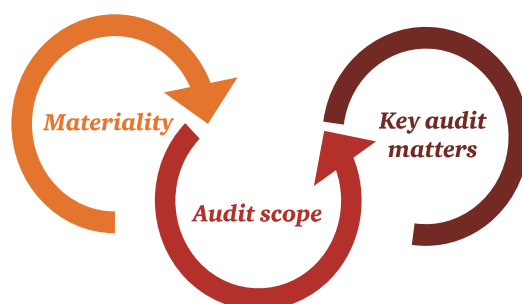
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Greencross Limited is an Australian company listed on the ASX that provides pet retail and veterinary services across Australia and New Zealand, with a finance function in both Sydney and Auckland.



Materiality

- For the purpose of our audit we used overall Group materiality of \$3.1 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark for profit-orientated entities.
- We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable profit related thresholds.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group consists of two divisions - pet retail and veterinary services, and operates within two geographical locations, being Australia and New Zealand.
- We decided the nature, timing and extent of work that needed to be performed by us and component auditors operating under our instruction. We then structured our approach as follows:
 - We performed audit procedures in relation to the component financial information of the Australian and New Zealand reporting units respectively given their financial significance.
 - We performed further audit procedures at a Group level, including over the consolidation of the Group's reporting units and the preparation of the financial report
- In cases where audit procedures were performed by component auditors in New Zealand, we decided on the level of involvement required from us to be able to conclude whether sufficient and appropriate audit evidence had been obtained. Our involvement with the component auditors included discussions, written instructions and receiving reporting throughout the period.
- Our team included specialists and experts in taxation and valuation respectively.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a

Directors' Report

For the period ended 2 July 2017

particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	How our audit addressed the key audit matter
Intangible assets impairment assessment <i>Refer to Note 14 'Non-current assets – Intangibles' (\$578m) and Note 3 'Critical accounting judgements, estimates and assumptions'</i>	
We focused on the Group's assessment of the recoverability of the intangible assets because of their size and the significant judgements applied by the directors in the assessment of the value in use of the Group's Cash Generating Units (CGUs).	We assessed whether the allocation of the Group's intangible assets into groups of CGUs to assess impairment, was consistent with our knowledge of the Group's operations and internal Group reporting.
Management have prepared a discounted cash flow model which was used to estimate the recoverable amount of the assets (the impairment model). Key judgements made by the directors include the determination of the CGUs, estimating the future cash flows used in the value in use model and determining the appropriate discount rates to be applied to the future cash flow forecasts.	We assessed whether the forecast cash flows used in the impairment model were consistent with the most up to date budgets and business plans formally approved by the Board, and that the cash flows beyond those covered by the formal budgets assumed a steady growth rate for cash flows. In addition we assessed the mathematical accuracy of the impairment model.
Goodwill has been allocated to three groupings of CGUs representing Retail Australia, Vet Australia and New Zealand divisions.	We considered the key assumptions applied in the Group's impairment model. In particular, we performed the following, among other things: <ul style="list-style-type: none">• We considered whether the cash flows for the five year forecast period for each revenue stream were reasonable and based on supported assumptions using our knowledge of the industry, business and the historical performance of the Group.• We compared the long-term growth rates and the terminal growth rate in the model to economic and industry forecasts.• We compared the discount rates used to a range of rates determined by us with assistance from PwC valuation experts.• We performed sensitivity analyses to assess the impact on the outcome of the model if forecasts and discount rates varied from the assumptions used.• We assessed the disclosures in the financial statements in light of the requirements of Australian Accounting Standards.

Property, plant and equipment impairment assessment

Refer to Note 13 'Non-current assets- Property, plant and equipment' (\$188m) and Note 3 'Critical accounting judgements, estimates and assumptions'

The Group prepare discounted cash flow models to test the impairment of property, plant and equipment (PPE) where there are

We evaluated the Group's assessment of whether there were any indicators of PPE impairment by reviewing retail store and vet clinic performance

Directors' Report

For the period ended 2 July 2017

Key audit matter	How our audit addressed the key audit matter
<p>indicators of impairment. In undertaking the impairment testing, the following assumptions in the model were judgemental:</p> <ul style="list-style-type: none">• expected earnings• discount rates• growth rates applied to cash flows <p>The directors considered that each retail store and vet clinic constituted a CGU.</p> <p>We considered this to be a key audit matter because of the size of PPE and the level of judgement applied by the directors in determining the assumptions used to perform impairment testing.</p>	<p>reports.</p> <p>For CGUs where there was an indicator of impairment, we discussed the CGU cash flow forecasts with the relevant commercial managers. We considered whether the estimated future cash flows used in the model were seemed reasonable based on our knowledge of the business and comparing the growth rates used in the model to historical growth achieved.</p> <p>We assessed the Group's ability to forecast cash flows by comparing the budget for 2017 with the actual results for 2017.</p>

Capitalisation and amortisation of internal development costs

Refer to Note 14 'Non-current assets – Intangibles' (\$28m asset) and Note 3 'Critical accounting judgements, estimates and assumptions'

Greencross has developed and continues to develop a significant amount of software used to operate the systems that support the business such as the inventory ordering and management tools, and those which support the Group's business interaction with its customers via the online retail platform.

We focused on this matter due to the size of the capitalised balance, and because there is judgement involved in assessing whether the criteria set out in Australian Accounting Standards for the capitalisation of such costs have been met, particularly around the technical feasibility of the software development project, the likelihood of the project's delivering sufficient future economic benefits and the ability of the Group to reliably measure the costs directly attributable to the intangible asset.

In addition there was judgement involved in determining the appropriate useful life over which to depreciate capitalised intangible assets. For large development projects, the Group engages a third party expert to assist in determining useful lives.

We obtained a breakdown, by value, of all individual development projects capitalised in the period and reconciled this to the amounts recorded in the general ledger.

For all projects where capitalised costs during the period were in excess of \$500k, we considered whether the specific requirements of Australian Accounting Standards were met as follows:

- we obtained an understanding of the nature of the project through discussion with the project sponsor
- we considered if the completion of the project was technically feasible through discussion with the project sponsor and based on our industry knowledge
- we obtained information that supports management's assessment that future economic benefits were attainable.

To determine whether capitalised employee costs were directly attributable to projects, for all projects we obtained a summary of hours worked on individual projects during the period of development during the period, and selected a sample of employees from this list. We met with the selected employees to validate their involvement in the relevant project. For this sample, we agreed the costs capitalised back to the relevant payroll records.

In addition to the above, we also obtained

Directors' Report

For the period ended 2 July 2017

Key audit matter	How our audit addressed the key audit matter
	<p>representations from members of senior management in relation to their time spent on the relevant project(s) during the period.</p> <p>Where third parties were used in the development of software, we selected a sample of capitalised costs relating to them and inspected their invoices to verify the nature of work performed and the accuracy of costs capitalised to projects.</p> <p>To determine whether useful lives assigned to intangible assets was appropriate, we evaluated the competency, qualifications, experience and objectivity of the Group's external expert. For the larger projects, we considered if the estimated useful lives of intangible assets was consistent with our understanding of the nature of the projects and our industry knowledge and experience. For capitalised costs which the Group began to amortise during the period, we verified that the amortisation start date aligned with the availability of the software for use through discussion with commercial managers.</p>
<i>Inventory valuation and existence</i> <i>Refer to Note 10 'Current assets – Inventories' (\$98m asset) and Note 3 'Critical accounting judgements, estimates and assumptions'</i>	
<p>The largest proportion of the Group's inventory at the end of the period related to inventory recognised by the retail division. The Group made provisions against this inventory at the end of the financial period for shrinkage and slow-moving inventory.</p> <p>Retail inventory was counted on a cyclical basis and as a result, the shrinkage provision contained a degree of estimation by the Group based on the historical shrinkage rates for items that were not counted at the period end date.</p> <p>The provision for slow-moving inventory was based on historical data and assumptions about future sales, requiring judgement about the likely sales prices to be achieved for these items in order to determine lower of cost and net realisable value.</p> <p>This was a key audit matter because of the magnitude of the balance and the judgements made by the Group when assessing the recoverability of the inventory.</p>	<p>We attended inventory counts throughout the financial period and at period end, at a sample of the Group's retail stores, veterinary clinics and distribution centres. We further considered and assessed the results of other inventory counts performed throughout the period and assessed the results.</p> <p>We tested the mathematical accuracy of the shrinkage provision calculation. To evaluate the reasonableness of the provision, we checked the input in the calculation for the last count dates back to the cycle count records. We also selected a sample of retail inventory items for which a shrinkage provision was recognised, and compared the shrinkage rates applied in the provision to actual historical rates observed as part of inventory counts attended.</p> <p>For the retail inventory identified by the Group as slow-moving, we had discussions with the management regarding their assessment of the likely sales prices to be achieved for these items and the underlying support for them. We compared the provision to the actual historical rates of inventory write-offs. We also tested the mathematical accuracy of the provision calculation.</p>

Directors' Report

For the period ended 2 July 2017

Other information

The directors are responsible for the other information in the Group's annual report. The other information includes the Charmain's report, CEO's report, Directors' report and Corporate Governance Statement included in the Group's annual report for the period ended 2 July 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 52 to 70 of the Directors' report for the period from 27 June 2016 to 2 July 2017.

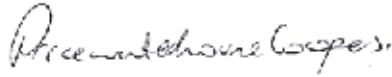
In our opinion, the remuneration report of Greencross Limited, for the period from 27 June 2016 to 2 July 2017 complies with section 300A of the *Corporations Act 2001*.

Directors' Report

For the period ended 2 July 2017

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.



PricewaterhouseCoopers



Adam Thompson

Partner

Sydney

22 August 2017

Shareholder information

2 July 2017

The shareholder information set out below was applicable as at 16 August 2017.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of ordinary shares
1 to 1,000	5,647	2,774,714
1,001 to 5,000	4,741	11,372,770
5,001 to 10,000	748	5,455,147
10,001 to 100,000	373	9,597,847
100,001 and over	53	88,560,062
	<u>11,562</u>	<u>117,760,540</u>
Holding less than a marketable parcel	<u>431</u>	<u>15,254</u>

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	24,016,044	20.48
J P MORGAN NOMINEES AUSTRALIA LIMITED	16,996,238	14.49
NATIONAL NOMINEES LIMITED	6,780,011	5.78
CITICORP NOMINEES PTY LIMITED	4,948,159	4.22
PREBEST PTY LIMITED	3,406,289	2.90
WILLESE PTY LIMITED	3,099,349	2.64
BNP PARIBAS NOMINEES PTY LTD	2,794,935	2.38
RED RUFF INVESTMENT COMPANY	2,768,764	2.36
MR JOHN DAVID ODLUM + MRS ANN ODLUM	2,217,370	1.89
MR STUART BRUCE JAMES + MRS GILLIAN DOREEN JAMES	2,166,004	1.85
JODAV HOLDINGS PTY LTD	1,921,368	1.64
MAXIMUM (NQ) PTY LIMITED	1,896,734	1.62
PAPERBARK PTY LTD	1,473,274	1.26
CS THIRD NOMINEES PTY LIMITED	1,426,049	1.22
BNP PARIBAS NOMS PTY LTD	1,026,961	0.88
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	946,129	0.81
MICHAEL ALAN + JOY LORRAINE HUME	618,377	0.53
BYERA PTY LTD	600,000	0.51
IAHRBF PTY LTD	533,478	0.45
FHHP PTY LTD	523,066	0.45
	<u>80,158,599</u>	<u>68.36</u>

Unquoted equity securities

There are no unquoted equity securities.

Shareholder information

2 July 2017

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
BT Investment Management Limited	6,718,189	5.73

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

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Corporate directory

Directors

Stuart James – Chairman
Martin Nicholas – Chief Executive Officer
Christina Boyce
Andrew Geddes
Rebekah Horne
Chris Knoblanche
Dr Glen Richards
Paul Wilson

Company secretary

Vincent Pollaers

Registered office

5/28 Balaclava Street
Woolloongabba QLD 4102
Telephone: (07) 3435 3535
Facsimile: (07) 3435 3536

Principal place of business

5/28 Balaclava Street
Woolloongabba QLD 4102
Postal address
PO Box 8366
Woolloongabba QLD 4102

Share register

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Australian Telephone: 1300 554 474
International Telephone: +61 1300 554 474
Facsimile: 02 9287 0303

Auditor

PricewaterhouseCoopers
One International Towers
Watermans Quay Barangaroo
Sydney NSW 2000

Solicitors

Clayton Utz
1 Bligh Street
Sydney NSW 2000

Bankers

Commonwealth Bank of Australia
240 Queen Street
Brisbane QLD 4000

National Australia Bank
255 George Street
Sydney NSW 2000

Stock exchange listing

Greencross Limited shares are listed
on the Australian Securities Exchange
(ASX code: GXL)

Website

greencrosslimited.com.au

Greencross Limited
The Pet Company

greencrosslimited.com.au