



National Veterinary Care Ltd.
ABN 17 166 200 059

Annual Report | 2017



National Veterinary Care Ltd

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Annual Financial Report - 30 June 2017

National Veterinary Care Ltd

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30 June 2017



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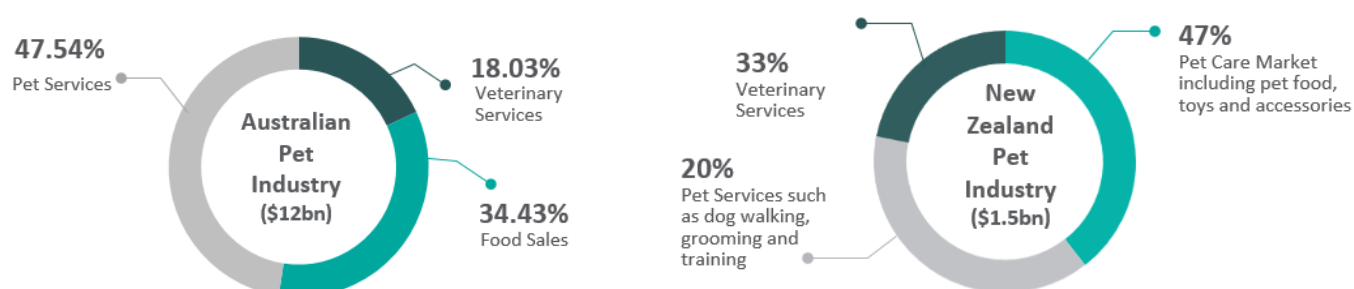
Directors	Susan Forrester Tomas Steenackers Dr Stephen Coles Kaylene Gaffney
Company secretaries	Laura Fanning / Janita Robba
Notice of annual general meeting	The Annual General Meeting will be held on Friday 20 October 2017 at 11.00am at: The Brisbane Club 241 Adelaide Street Brisbane QLD 4000
Registered office	Unit 1 28 Burnside Road Ormeau QLD 4208 Phone: 1300 NVC VET (1300 682 838)
Share register	Link Market Services Limited Level 15 324 Queen Street Brisbane QLD 4000 Phone: 1300 554 474
Auditor	HLB Mann Judd (SE Qld Partnership) Level 15 Central Plaza Two 66 Eagle Street Brisbane QLD 4000
Solicitors	Minter Ellison 165 Varsity Parade Varsity Lakes QLD 4227
Stock exchange listing	National Veterinary Care Ltd shares are listed on the Australian Securities Exchange (ASX code: NVL)
Website	www.nvcltd.com.au
Corporate Governance Statement	<p>The Company's directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (3rd Edition) ('Recommendations') to the extent appropriate to the size and nature of the Group's operations.</p> <p>The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations.</p> <p>The Company's Corporate Governance Statement and policies can be found on its website: http://www.nvcltd.com.au/Investors/Corporate-Governance/</p>

On behalf of the Board of National Veterinary Care Limited (NVL), it is with great pleasure that we present this report for the year ended 30 June 2017.

This has been an exciting year for NVL — a period of significant improvement that generated strong growth through organic expansion, acquisitions and development of the management services. NVL has invested significantly in its people and systems to more efficiently integrate, expand and support our veterinary services businesses.

This year, NVL acquired, settled and integrated 14 veterinary services businesses across New Zealand and Australia. Combined, the acquired clinics have delivered historical annualised revenue of A\$20.3 million and a historical annualised EBIT of A\$4.6 million. The new acquisitions in New Zealand provided NVL with a strong entry into a very promising market. The pet care industry in New Zealand is estimated to be worth approximately NZ\$1.5 billion, comprising pet food, veterinary services, healthcare products and other products and services. At the same time, the size of NVL's addressable market within Australia and New Zealand increased from A\$2.4 billion to over A\$3 billion.⁴

Veterinary Industry – Australia & New Zealand



Source: Animal Medicines Australia. Pet Ownership Australia 2016

NVL is positioned as a partner of choice for independent quality practices that wish to work with a leading, innovative and supportive organisation. NVL has attracted quality practices and developed a strong and healthy acquisition pipeline. The practices joining NVL are focused on delivering high standards of care, strong financial performance and exceptional customer service across Australia and New Zealand.

On 16 June 2017, a share placement raised approximately A\$14.6 million through the issue of 6.5 million new fully paid ordinary shares in NVL. These shares were issued to sophisticated, professional and institutional investors at an issue price of A\$2.25, representing a 2.6% discount to NVL's share price at market close on 13 June 2017. The placement was oversubscribed and well supported by existing and new investors. The placement raised additional capital to support the NVL's strong acquisition pipeline and to strengthen the balance sheet. Since the start of FY18, 3 new clinics have been settled and a further 4 clinics will be joining the group to continue delivering the growth strategy. Combined, the 7 new clinics are expected to generate revenue of approximately A\$10.3 million and an EBIT of A\$2.4 million.

In this second year of reporting, the group produced revenue of A\$66.9 million, exceeding the 2016 revenue of A\$44.2 million by 51%. Underlying EBITDA margin remained strong at 18%; and Net Profit After Tax has grown from AUD\$3.9m to AUD\$5.9m and achieving an increase of 53%.

Table 1: Underlying Performance Highlights

Underlying Performance ¹	2017 \$'000	2016 \$000's	% Variance
Revenue	66,841	44,265	51.0%
EBITDA ²	12,065	7,684	57.0%
EBITDA %	18.05%	17.35%	0.7%
Net Profit After Tax ³	5,912	3,867	52.8%
Net Profit After Tax %	8.84%	8.73%	0.09%

¹ Underlying performance excludes the impact of acquisition, integration, restructuring, capital raising and other one-off costs

² EBITDA - Earnings before interest, tax, depreciation and amortisation. Includes both controlling and non-controlling interest.

³ Attributable to shareholders after deducting non-controlling interests

⁴ NVL's addressable market includes veterinary services and a component of food sales

Significant work was undertaken to integrate the newly acquired clinics and to refine the integration of the initial portfolio. Bringing independent clinics together can be challenging, but thanks to the efforts of the management team and NVL staff our systems and operational structure have progressed significantly, from which we can expect to generate synergies in the near future.

Operations

NVL's business plan was reviewed to ensure the growth strategy was still effective, durable and relevant to the industry. Core to the NVL business model are the NVL General Practice clinics, complimented by NVL Cremation Services, the Centre of Excellence Training Academy and the Management Services and Procurement Group.

At the end of FY17 NVL had the opportunity to divest its B2B clinics providing emergency and specialty services, which operates on lower margins than a typical general practice (GP) clinic. This opportunity gives NVL the ability to reinvest the proceeds into businesses with stronger EBIT performance, similar to NVL's current GP clinics, and to continue focusing on its core competencies. The divestment was completed during August 2017. NVL intends to develop a national strategic partnership to provide emergency and specialist services for NVL's clients and clinics.

When a clinic joins the NVL network it retains its local branding and relationship with the surrounding community, which is important for the clinic's ongoing growth. The practice benefits from access to market-leading IT systems to handle administrative tasks such as bookkeeping, marketing and HR. The clinic also has access to volume-based group buying discounts, which help improve gross margins, as well as other marketing initiatives to increase customer retention.

A key marketing and revenue generating initiative is the Best for Pet wellness program that was introduced in late 2015 and has quickly grown from 4,300 to 10,600 members across the NVL network in 2017. The annual membership program offers significant incentives for pet owners to undertake preventative healthcare for their animals, which in turn increases engagement with their local vet practice and improves patronage levels. The program is now offered in 43 clinics and it is expected to be implemented in an additional 15 clinics in FY18.

A major highlight for the year was the development and improvement of the NVL Centre of Excellence Training Academy which is now offering professional training courses to the entire veterinary industry. One of the keys to growing a successful practice is the ongoing professional development of veterinarians and vet nurses. The development of the Centre of Excellence Training Academy means vets can undertake career-long learning to build their skills and offer enhanced services to clients. The courses at the Training Academy are available to any veterinary practice, whether or not they are an NVL clinic. In the last 12 months, the Centre has hosted more than 40 professional workshops for more than 600 veterinarians and vet nurses, an increase of 160%.

Membership of the Management Services and Procurement Group grew after the successful acquisition of Complete Vet Systems (CVS) in the previous reporting period and the subsequent acquisition of United Vets Group (UVG) in July 2016. The Management Services and Procurement Group offers three levels of engagement to clinics.

The first level is membership of UVG, a procurement business that has been operating since 2008. UVG offers its now 337 member clinics significant savings and rebates on the purchase of medications, consumables and other services. Through the acquisition of UVG the NVL network has even broader scale, providing superior buying power for existing NVL clinics. In addition, all members of the Management Service and Procurement Group receive preferential access to workshops offered through the Centre of Excellence Training Academy.

The second level of engagement includes CVS, which offers specialised whole-of-clinic business consulting services, combining technology, business processes and training to provide benchmarking and practice performance reviews.

The third level of engagement offers access to all of NVL's market-leading systems.

Growth Strategy

NVL will continue to develop its three-tiered approach to growth: organic, acquisition and management services. Further investments have been made in the business to continue developing and refining the growth strategy to ensure sustainable growth for staff and shareholders.

Organic

Organic growth from existing clinics will be driven by benchmarking and rolling-out best practices across the group. The revenue potential from the Best for Pet program is already being realised, with considerable scope for growth as the program is offered through more clinics. Also, more complex and higher-yielding care options will become available through more practices as vets acquire greater skills through the ongoing training programs offered by the Centre of Excellence Training Academy.

Acquisition

The fragmented nature of the Australian and New Zealand veterinary industry means there is still considerable opportunity for consolidation. NVL will continue to target acquisitions in attractive geographic clusters to build on the existing network of clinics.

Management Services and Procurement Group

There is also significant scope to grow the Management Services and Procurement Group by leveraging NVL's growing buying power, the offerings from the Centre of Excellence Training Academy, and the NVL administrative systems and management support to both Australia and New Zealand's 1,500 smaller independent clinics.

Outlook for 2018

We continue to believe there are significant organic and acquisition growth opportunities for the Group. Our growth strategy contains the following key elements:

- Driving organic growth in existing clinics through development of a differentiated offer focused on the customer experience and providing value for families.
- Continuing to grow our network of clinics through acquisitions of high quality clinics which complement our portfolio
- Growing management services and procurement group and
- Engaging and developing all of our people through a series of initiatives such as team development, management and leadership training.

With our clear growth strategy that is supported by a passionate and capable team, we believe we are well placed to deliver sustainable value to our clients and our shareholders in the years ahead.

Finally, our thanks to our Board of Directors and Management Team for their tireless professional commitment during only our second year of trading.



Susan Forrester
Chair



Tomas Steenackers
Chief Executive Officer

28 August 2017
Brisbane

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'NVL') consisting of National Veterinary Care Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

The following persons were directors of National Veterinary Care Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Susan Forrester	
Tomas Steenackers	
Dr Stephen Coles	
Kaylene Gaffney	(Appointed 27 February 2017)
Wesley Coote	(Resigned 1 March 2017)
Alison Sherry	(Resigned 30 June 2017)

Principal activities

During the financial year the principal continuing activities consisted of the operation of veterinary services businesses throughout Australia and New Zealand.

Dividends

To owners of the Company:

No dividends were declared and paid by the Company during the year ended 30 June 2017.

After 30 June 2017, the following dividends were declared:

	Consolidated 2017	2016
Final dividend – 100% franked – amount (\$'000)	1,768	-
Final dividend – 100% franked – cents per share	3.0	-
2017 final dividend dates:		
Ex dividend date	8 September 2017	
Record date	11 September 2017	
Payment date	4 October 2017	

The financial effect of these dividends has not been brought to account in the consolidated financial statements for the year ended 30 June 2017 and will be recognised in subsequent financial reports.

Generally, the Board intends to pay regular franked dividends on a 6 monthly basis, with consideration given to acquisition activity and the desired capital structure.

To minority equity holders of subsidiary entities:

Dividends declared and paid during the financial year were as follows:

	Consolidated 2017 \$'000	2016 \$'000
Dividends paid to non-controlling interests in the underlying entities	562	248

Dividends totalling \$562,000 were paid to non-controlling interests in respect to their interests in their underlying entities during the year ended 30 June 2017. There are further dividends of \$78,750 (2016: \$135,000) declared and paid subsequent to 30 June 2017 for non-controlling interests.

Review of operations

The Group owns and operates a portfolio of veterinary services businesses in Australia and New Zealand.

The Group's focus is the empowerment of veterinary excellence in the provision of services to companion animals via its:

- 50 general practice clinics
- 5 business to business operations, which service both Group owned and independent clinics.

The net profit for the Group after income tax and non-controlling interest amounted to \$4.395 million (2016: \$1.155 million).

Results Highlights

The directors are pleased to report the following results for FY2017 in the second year of trading for the group:

- Growth in Revenue of 51% to \$66.841 million (2016: \$44.265 million)
- Organic revenue growth of 4.2%⁷ in general practice clinics and 1.4%⁸ for the total initial portfolio of businesses.
- Underlying EBITDA^{1,4} for the Group amounted to \$12.065 million (2016: \$7.684 million).
- 280% increase in net profit after income tax and non-controlling interest to \$4.395 million (2016: \$1.155 million).
- Settled 14 acquisitions, including the UVG buying group and expansion into the New Zealand market.
- 337 independent clinics utilising the Group's Management Services and Procurements Services offering.
- In excess of 40 training clinics delivered
- Announcement of 3.0 cents per share fully franked final dividend in relation to FY2017

The following table highlights the key performance measures for the Group. In addition to the statutory results, information about the underlying performance of the Group is presented, which excludes the impact of one-off acquisition, integration, restructuring and other one-off costs. The underlying performance information is provided on an unaudited basis and a reconciliation between the statutory and underlying performance information provided further below.

Table 1: Key Performance Measures

	2017 \$'000	2016 \$'000
Statutory Performance		
Revenue	66,841	44,265
Gross Margin	50,433	33,519
Gross Margin %	75.5%	75.7%
EBITDA ^{1,2}	10,088	4,083
EBITDA margin ³	15.1%	9.2%
Net Profit after Tax ⁵	4,395	1,155
Cash Flows from Operating Activities (ungeared, pre-tax)	12,945	8,391
Cash conversion ratio ⁶	128%	206%
Basic Earnings per Share (cents)	8.46	2.51
Underlying Performance		
Revenue	66,841	44,265
Gross Margin	50,433	33,519
Gross Margin %	75.5%	75.7%
EBITDA ^{1,4}	12,065	7,684
EBITDA margin	18.1%	17.4%
Net Profit after Tax ⁵	5,912	3,867
Cash Flows from Operating Activities (ungeared, pre-tax)	14,593	11,992
Cash conversion ratio	121%	156%
Basic Earnings per Share (cents)	11.38	8.41

1 EBITDA – Earnings before interest, tax depreciation and amortisation (Non-IFRS information). Includes non-controlling interest.

2 Includes costs relating to acquisition, integration, restructuring and other one-off costs

3 EBITDA margin – EBITDA as a % of revenue

4 Before the impact of costs relating to acquisition, integration, restructuring and other one-off costs

5 Attributable to shareholders after deducting non-controlling interests

6 Cash conversion ratio = Operating Cash Flows / EBITDA. Statutory conversion ratio impacted by acquisition costs classified as investing activities.

7 Like for like sales growth reflects General Practice clinics' performance, excluding strategic divestment, held for 10 months (1 September 2016 to 30 June 2017 vs 1 September 2015 to 30 June 2016).

8 Like for like sales growth reflects initial portfolio performance, excluding strategic divestment, held for 10 months (1 September 2016 to 30 June 2017 vs 1 September 2015 to 30 June 2016).

Table 2: Reconciliation of Statutory Performance to Underlying Performance

	Operating Cash Flows (ungeared, pre-tax)		EBITDA ¹		NPAT ²	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Statutory Performance	12,945	8,391	10,088	4,083	4,395	1,155
<i>Adjustments:</i>						
Acquisition and other transaction costs	825	2,462	825	2,462	825	2,462
Restructuring and Integration costs	316	1,139	316	1,139	316	1,139
Loss on disposal of business	-	-	329	-	329	-
Trading loss of disposed business	171	-	171	-	171	-
Other one-off ⁵	336	-	336	-	336	-
Effective tax rate ⁴	-	-	-	-	(460)	(889)
Total adjustments	1,648	3,601	1,977	3,601	1,517	2,712
Underlying Performance³	14,593	11,992	12,065	7,684	5,912	3,867

1 EBITDA - Earnings before interest, tax, depreciation and amortisation (Non-IFRS information). Includes non-controlling interest.

2 NPAT – Net profit after tax attributable to shareholders after allowing for non-controlling interests

3 After excluding the impact of acquisition, integration, restructuring and other one-off costs

4 Effective tax rate used on adjustments (excluding non-deductible stamp duty from acquisitions, and capital loss on disposal of business) is 30%

5 Predominantly consulting fees, professional fees, and employee costs in relation to internal projects associated with the growth phase of the business and that are not capable of capitalisation under accounting standards

Financial and Operating Results

Revenue

The increase in revenue was primarily driven by acquisitions and organic growth in the existing portfolio.

During the year, the Group expanded its network by acquiring 14 veterinary services businesses including ten veterinary clinics in New Zealand, three in Australia and United Veterinary Group (UVG), the largest veterinary services procurement group in Australia. As at 30 June 2017, NVL owned and operated 55 veterinary services businesses.

Organic growth in the Group's general practice clinics of 4.2%⁶ (excluding those sold or held for sale) was achieved, whilst the total portfolio of businesses delivered organic growth of 1.4%⁷. A key driver of organic growth is the Best for Pet wellness program, which at 30 June 2017 had 10,600 members (2016: 4,300). In addition, the training centre delivered over 40 workshops in 2017, training up to 600 veterinary professionals, resulting in improved standards of care and increased revenue streams through the upskilling of veterinary professionals.

Gross margin and gross margin %

Group gross margin of 75.5% (2016: 75.7%), was a strong result considering the dilutionary effect of the different product mix in the acquired veterinary services businesses in New Zealand. On average, New Zealand practices achieve a lower gross margin % than the Australian clinics due to the veterinary product and service mix which results in higher direct costs. However, lower operating expenditure in New Zealand, in particular employment costs, means the Australian and New Zealand clinics have similar results at the EBITDA margin level. Excluding the New Zealand dilutionary effect, the growth in gross margin can be attributed to the organic growth drivers previously outlined and the introduction of UVG into the Group in July 2016 enabled negotiations with suppliers to further reduce direct and other expenses.

The entry into the New Zealand market provides NVL with the platform and scale to review and renegotiate supply agreements in New Zealand with a view to increasing supplier rebates and margins in that market.

6 Like for like sales growth reflects General Practice clinics' performance, excluding strategic divestment, held for 10 months (1 September 2016 to 30 June 2017 vs 1 September 2015 to 30 June 2016).

7 Like for like sales growth reflects initial portfolio performance, excluding strategic divestment, held for 10 months (1 September 2016 to 30 June 2017 vs 1 September 2015 to 30 June 2016).

EBITDA & EBITDA Margin %

EBITDA of \$10.088 million (2016: \$4.083 million) and EBITDA margin of 15.1% (2016: 9.2%) were a significant improvement on the prior year. The prior year result was impacted by higher costs associated with the initial public offering, acquisition and integration of the founding portfolio of veterinary businesses. The exclusion of one-off acquisition, integration and restructuring costs results in an underlying EBITDA for the year of \$12.065 million (2016: \$7.684 million) and an underlying EBITDA margin of 18.0% (2016: 17.4%). Growth in the number of clinics as well as management of operating expenditure were the drivers of this result. The support office structure has been utilised to provide a platform for the Group to realise its three-tiered approach to growth. Overhead costs will continue to be monitored and rationalised as required.

Finance costs

Finance costs increased by \$0.672 million to \$1.505 million during the year as a result of increased borrowings which were used to partially fund the settlement of acquired veterinary service businesses. As the Group continues to grow, the preferred funding source for future business acquisitions will be free cash flow and the existing debt facility, which was increased during the year as noted below.

Depreciation

Depreciation costs increased by \$0.376 million to \$0.946 million during the year as a result of the investment in acquired veterinary service businesses in both the current and prior year.

Underlying expenses

During the year, the Group incurred \$1.977 million in pre-tax underlying expenses (2016: \$3.601 million), which include costs related to business acquisition, business restructuring and integration and other one-off costs associated with the business infancy, together with losses relating to business disposed or closed (refer Table 2 for further details). Current period acquisition and integration costs include professional fees and stamp duty, as well as the provision of an integrations team to provide IT support for business acquisitions and an acquisitions team to provide support for due diligence and settlement. In the prior year, costs were higher due to the acquisition and integration of the founding clinic portfolio and the initial public offering.

Financial Position

Key financial information in relation to the Group's financial position at year end is shown below:

Table 3: Snapshot of Financial Position

	30 Jun 2017	30 Jun 2016
Total Assets (\$'000)	109,805	76,159
Net Assets (\$'000)	68,972	48,761
Cash and cash equivalents (\$'000)	13,105	4,301
Debt (\$'000)	24,805	18,572
EBITDA Leverage ratio ¹ (times)	2.04	2.48
Debt to capitalisation ratio ² (%)	27	28
Shares on issue ('000)	58,941	51,184
Dividends per security (cents)	-	-

1 EBITDA leverage ratio, calculated in accordance with the facility documents, equals Debt/EBITDA including pro forma annualised contribution from acquisitions made during the year.

2 Debt to capitalisation ratio, calculated in accordance with the facility documents, equals Debt/(Debt plus Equity).

Significant balance sheet movements during the year were as follows:

- Total assets increased by \$33.7 million, primarily due to the acquisition of veterinary services businesses during the period and the resulting recognition of goodwill and associated business assets. In addition, an Institutional share placement in June 2017 raised \$14.6 million for the settlement of acquisitions in early FY2018, accordingly at balance date these funds were held as cash or on a short term basis against bank borrowings.
- Total liabilities increased by \$13.4 million due to increased borrowings (\$6.2 million) which were used to fund business acquisitions, the contingent consideration relating to these acquisitions (\$2.0 million), recognition of the income tax liability attributable to the profit for the period and an increase in trade payables in line with NVL's working capital management.
- Issued capital increased by \$16.1 million following the issue of 6.5 million new shares pursuant to a capital raising of \$14.6 million in June 2017, the issue of 1.18 million shares during the year as consideration for business acquisitions and the issue of 0.25 million shares (net) pursuant to the executive loan share plan.

Capital Management

Debt & Gearing

The Group's debt facility with Australia and New Zealand Banking Group (ANZ) was renegotiated during the year, resulting in a \$15.00 million increase in the facility limit. At 30 June 2017, the Group's total facility limit was \$44.75 million (June 2016: \$29.75 million), including a core debt facility of \$42.00 million and additional bank guarantee and overdraft facilities totalling \$2.75 million. The increased facility will provide a source of funding for future acquisitions and expansion.

At balance date, \$24.80 million had been drawn against the core debt facility (June 2016: \$18.57 million) and \$0.80 million had been drawn against the bank guarantee facilities (June 2016: \$0.620 million).

During the year and as at 30 June 2017, the Group was compliant with its banking covenants. The debt facility expires in October 2019.

Cash flow highlights

During the year, there was a net increase in the Group's cash and cash equivalents of \$8.804 million (2016: \$4.109 million). Most of the Group's free cashflow from operations was redeployed to fund business acquisitions in line with the Group's investment strategy.

Key cashflow movements during the year were as follows:

- Cash from operations was \$10.441 million (2016: \$7.106 million) reflecting strong gross and EBITDA margins and a full year's trading of clinics acquired in the prior year;
- The Group's underlying business generated an ungeared pre-tax cash flow of \$14.593 million (2016: \$11.992 million) which represents a 121% underlying EBITDA conversion rate.
- Cash used in investing activities was \$21.451 million (2016: \$49.891 million) primarily relating to the acquisition of 14 veterinary services businesses during the year compared with 41 in the previous year. The investing cashflow for the year also includes payments for post-settlement adjustments related to acquisitions made at the end of FY2016 and the acquisition of an additional 13% of Brunswick Central Operations Pty Ltd; and
- Cash from financing activities was \$19.814 million (2016: \$46.894 million), being the capital raising and debt drawn down to fund business acquisitions, less dividends and other payments made to non-controlling interests. The net proceeds of the capital raising and borrowings are lower than the prior year because fewer acquisitions were made in FY2017 given the prior year included the initial public offering.

Group Strategy

NVL has three core growth platforms: organic, acquisition, and development of the Management Services and Procurement Group. The table below outlines the key growth drivers within these platforms.

Growth Platform	Growth Drivers
Organic Growth	<p>Grow Veterinary Services via:</p> <ul style="list-style-type: none"> • Expansion of the Wellness Program – Best for Pet. • Benchmarking of clinical standards across practices via the practice management system (leading to the identification of training opportunities to optimise product/service offer). • Better pet care, leading to increased revenue streams through the upskilling of veterinary professionals through the Centre of Excellence – Training Academy. • In-house provision of more complex services to reduce external referrals outside of NVC.
Acquisition Growth	<p>Significant opportunity for further industry consolidation in the veterinary services sector due to:</p> <ul style="list-style-type: none"> • The fragmented nature of the industry • The changing characteristics of the veterinary workforce.
Develop Management Services and Procurement Group	<p>Significant opportunity to grow the management services and procurement business unit by leveraging</p> <ul style="list-style-type: none"> • NVC's stronger buying power • NVC's Centre of Excellence- Training Academy. • NVC's Systems • Providing support to smaller independent clinics (approx. 1,506 clinics in Australia)

Material business risks

The key risks that have the potential to materially impact the performance of the Group are detailed below. The Group is committed to managing the potential risks it faces in a continuous and proactive manner. To the highest extent possible, NVL intends to mitigate these risks through the three-tiered approach to growth: organic, acquisition, and development of the Management Services and Procurement Group.

Veterinary services expenditure

Any deterioration in economic conditions, a reduction in pet ownership, or the occurrence of any other event or circumstance with the potential to have a negative impact on the level of veterinary services expenditure in Australia and New Zealand may negatively impact the Group's future financial performance.

Industry competition

Competitive threats such as reduction of competitor pricing for services, entry of new clinics in close proximity to NVL clinics, or increased competition for veterinarians could have a material adverse impact on NVL's operational and financial performance.

Retention of key management personnel and shortages of skilled personnel

The successful execution of NVL's business model depends on a management team with the necessary talent and experience to integrate and manage veterinary clinics. The loss of key management personnel could adversely affect NVL's business, results of operations or financial conditions and performance. In addition, personnel issues may arise at a clinic level including the retention of lead veterinarians or a general shortage of skilled staff. If these issues are not effectively managed, then the business and profitability of these clinics could be adversely affected.

NVL offers market attractive packages including incentive plans to key personnel to encourage retention and attract new talent. Further, NVL's focus on education and training through its Centre of Excellence (Training Academy) is a key point of differentiation to other industry employers, and is an effective element of the Group's recruitment and retention strategy.

Acquisition and Integration Risk

Acquisitions have been a source of growth for NVL. However, NVL may not be successful in identifying, evaluating and finalising future acquisitions on acceptable terms. There is also a risk that increased competition for acquisitions could increase price expectations, lower returns on capital and affect NVL's ability to make acquisitions. Further, there can be no guarantee that NVL will successfully integrate new businesses that it acquires or that the acquisition will perform as expected. There is a risk that the process of integration may take longer or be more expensive than anticipated and this could have a materially adverse impact on NVL's financial performance and position.

The Group intends to continue to pursue growth by acquisition as part of the business strategy. Central to this aspect of the business model is the acquisition integration risk of financial loss due to the benefits the Group planned for, and/or expected from the acquisition, will not be delivered post acquisition. The Group has established an integrations team and a detailed checklist, extensive due diligence and the use of vendor deferred payments all to assist the Group to mitigate this risk.

Significant changes in the state of affairs

There were no other significant changes in the state of affairs of the Group during the financial year other than those addressed in the Director's Report.

Matters subsequent to the end of the financial year

Refer note 34 of the financial report for details of events occurring after the end of the financial year.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The directors and management of the consolidated entity will continue to pursue growth via the three-tiered strategy of organic growth, acquisition growth where investment criteria is met and further development of the Managed Services and Procurement Group.

Environmental regulation

The Group's crematorium business requires an Environmental Protection Act license in relation to incinerator emissions. Other than this, the Group is not subject to any significant environmental regulation under Australian Commonwealth or State law. There were no known breaches of environmental regulation during the period.

Information on directors

Name:	Susan Forrester
Title:	Independent Non-Executive Director
Qualifications:	BA, LLB (Hons), EMBA, FAICD
Experience and expertise:	Susan is an accomplished company director, with significant experience as a non-executive director across a range of listed and unlisted company boards, spanning the legal services, professional services, healthcare and childcare sectors. In particular, she has chaired, or been a member of, various audit, risk management and remuneration committees. In addition to her position of chair for National Veterinary Care, she is a non-executive director for G8 Education Limited (ASX: GEM), Xenith IP Ltd (ASX:XIP) Over the Wire Ltd (ASX: OTW), South Bank Corporation and Uniting Care Qld. Prior to her directorship roles, she garnered a wide range of executive experience, having held various roles for Allens Linklaters, Queensland Treasury Corporation, Arkhefield Architects and Chandler McLeod
Other current directorships:	Non-executive director for G8 Education Limited (ASX: GEM), Xenith IP Ltd (ASX:XIP), Over the Wire Ltd (ASX: OTW)
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Remuneration and Nomination Committee
Interests in shares or options:	667,570 ordinary shares (held indirectly)
Interests in options:	None
Name:	Tomas Steenackers
Title:	Managing Director and Chief Executive Officer
Qualifications:	B.Bus, MBA
Experience and expertise:	Tomas is National Veterinary Care's founding Chief Executive and has many years of executive experience in the veterinary services, pharmaceutical, retail and pathology sectors, including Senior Management roles with Mayne Pharma, Hospira, Covidien, and Terry White Management.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	1,280,000 ordinary shares (including 250,000 Loan Shares)
Interests in options:	None
Name:	Dr Stephen Coles
Title:	Independent Non-Executive Director
Qualifications:	BVSc, MACVSc, DipAVDC
Experience and expertise:	With almost 40 years' experience in the veterinary sector, Stephen is highly respected in the industry as a General Practitioner and Specialist. He is a Senior Fellow of the University of Melbourne and a Scientific Associate of the Zoological Board of Victoria. He is a Life Member of the Australian Veterinary Dental Society. His past roles include co-founder and director of Animal Hospitals of Australia, director at Melbourne Veterinary Specialist Centre and Preceptor University of Alabama.
Other current directorships:	None
Former directorships (last 3 years):	Executive Director and Operations and Acquisitions Manager Specialty and Emergency at Greencross Ltd (ASX: GXL)
Special responsibilities:	Member of the Audit, Compliance and Risk Management Committee.
Interests in shares:	845,808 ordinary shares (held indirectly)
Interests in options:	None
Name:	Kaylene Gaffney (Appointed 28 February 2017)
Title:	Independent Non-Executive Director
Qualifications:	B.Bus (Acc), GradDipBus (ProfAcc), MBA (Int), FCA, GAICD
Experience and expertise:	Kaylene currently holds a senior executive financial role with Super Retail Group Limited. Before that, she held similar roles with Virgin Australia Limited and Xstrata Queensland, and was previously on the Board of online travel company Wotif.com Holdings Ltd from 2010-2014, prior to the company's delisting after being sold to the Expedia Group. In 2016, she served as Queensland State Chair of Chartered Accountants Australia and New Zealand.
Other current directorships:	Non-executive director for MSL Solutions Limited (ASX: MPW)
Former directorships (last 3 years):	Non-executive director for Wotif.com Holdings Limited (ASX: WTF)
Special responsibilities:	Chair of the Audit, Compliance and Risk Management Committee
Interests in shares:	None
Interests in options:	None

Name:	Wesley Coote (Resigned 1 March 2017)
Title:	Independent Non-Executive Director
Qualifications:	B.Com, CA, ACIS
Experience and expertise:	Wesley is an experienced CFO and Executive Manager. He previously worked in Chartered Accounting providing businesses advice to health, property & financial service industries.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Audit, Compliance and Risk Management Committee, member of Remuneration and Nomination Committee
Interests in shares:	700,000 ordinary shares (held indirectly)
Interests in options:	None

Name:	Alison Sherry (Resigned 30 June 2017)
Title:	Independent Non-Executive Director
Qualifications:	B.HSc, MBA, FAHRI, MAICD
Experience and expertise:	Alison is currently the Executive General Manager of People Operations at Ranbury and a Board Director RSPCA Qld.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Remuneration and Nomination Committee, member of the Audit, Compliance and Risk Management Committee
Interests in shares:	None
Interests in options:	None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Janita Robba and Laura Fanning were appointed as interim joint Chief Financial Officer and Company Secretary following the resignation of Katherine Baker on 10 February 2017. Ms Fanning is a Chartered Accountant and Chartered Secretary with significant experience in listed and unlisted companies, including Unity Pacific Group, Betta Stores Limited and Cellnet Group Limited. Ms Robba is a Chartered Accountant with significant experience in listed and unlisted companies and professional services advisory roles, including Unity Pacific Group, Flight Centre Limited and Ernst & Young.

Meetings of directors

The number of meetings of the Company's Board of directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board		Audit, Compliance and Risk Management Committee		Remuneration and Nomination Committee	
	Attended	Held	Attended	Held	Attended	Held
Susan Forrester	14	14	-	-	3	3
Tomas Steenackers	14	14	-	-	-	-
Dr Stephen Coles	14	14	3	3	-	-
Wesley Coote	6	8	1	2	1	1
Alison Sherry	14	14	3	3	3	3
Kaylene Gaffney	6	6	1	1	-	-

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Remuneration and Nomination Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Remuneration and Nomination Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive incentives to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the incentive framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

The Remuneration and Nomination Committee ceased on 30 June 2017, and its responsibilities were assumed by the Board from that date.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairperson's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairperson does not participate in any discussions relating to the determination of their own remuneration. Non-executive directors do not receive share options or other incentives as remuneration.

The maximum aggregate amount which has been approved by the Company's shareholders for payment to the Directors (other than the Managing Director and Executive Directors, if any) is \$500,000 per annum. For the current period, the non-executive Director's fees are \$80,000 per annum for the Chair and \$40,000 per annum for each of the other non-executive Directors exclusive of superannuation. Pursuant to the Remuneration Strategy Review, as outlined further below, the remuneration for the Chair increased to \$120,000 from 1 January 2017. Directors may also be reimbursed for all travelling and other expenses they incur in connection with the Group's business.

Executive remuneration

The Group aims to incentivise executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and incentive framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration and Nomination Committee based on individual and business unit performance, the overall performance of the Group and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's may include profit contribution, customer satisfaction, leadership contribution and product management.

The Group offers long-term incentives ('LTI') to executives in the form of share-based payments. The objective of LTI compensation policy is to align the interests of key management personnel to those of the company and its shareholders. Executive and other senior employees may be eligible to receive share based payments under the terms and conditions contained within the Company's Employee Incentive Plan (Loan Share) Plan, which provides for shares to be awarded provided certain conditions are met over a number of years. Further information on share based payment compensation under the Plan can be found in note 32.

The Remuneration and Nomination Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Voting and comments made at the Company's 2016 Annual General Meeting ('AGM')

Shareholders sought fit to approve the 2016 remuneration report and the Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Remuneration Strategy Review

During the current financial year, the Group engaged Crichton and Associates (remuneration consultants), to review its existing remuneration policies and provide recommendations on how to improve these, including the Total Fixed Remuneration (TFR) component, STI and LTI programs. The Board has adopted the recommendations in relation to the Managing Director/ Chief Executive Officer's TFR, increasing base salary from \$250,000 to \$300,000, which came into effect from 1 January 2017. In addition, and pursuant to the consultant recommendations, the Board has approved an increase in Directors Fees for the Chair from \$80,000 to \$120,000, effective from 1 January 2017. As at 30 June 2017, STI and LTI program reviews are ongoing, however completion is expected circa October 2017. Fees paid to Crichton and Associates during the financial year in relation to this work amounted to \$35,422.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of:

- Susan Forrester - Independent Non-Executive Chairperson
- Tomas Steenackers - Managing Director and Chief Executive Officer
- Dr Stephen Coles - Independent Non-Executive Director
- Kaylene Gaffney- Independent Non-Executive Director (appointed 27 February 2017)
- Wesley Coote - Independent Non-Executive Director (resigned 1 March 2017)
- Alison Sherry - Independent Non-Executive Director (resigned 30 June 2017)
- Laura Fanning / Janita Robba - Joint Interim Chief Financial Officer and Company Secretary (appointed 13 February 2017)
- Katherine Baker - Chief Financial Officer and Company Secretary (resigned 10 February 2017)

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments Equity-settled	Options / Rights**	Total
	Cash salary and fees \$	Cash bonus \$	Termination \$	Super-annuation \$	Long service leave \$	Shares \$		\$
2017								
<i>Non-Executive Directors:</i>								
S Forrester	100,000	-	-	-	-	-	-	100,000
Dr S Coles	40,000	-	-	-	-	-	-	40,000
W Coote*	36,250	-	-	-	-	-	-	36,250
A Sherry*	40,394	-	-	4,067	-	-	-	44,461
K Gaffney*	11,240	-	-	1,068	-	-	-	12,308
<i>Executive Director:</i>								
T Steenackers	289,262	40,000	-	24,883	-	-	122,389	476,534
<i>Other Key Management Personnel:</i>								
L Fanning*	44,945	-	-	2,863	-	-	-	47,808
J Robba*	53,812	-	-	3,303	-	-	-	57,115
K Baker*	121,922	30,000	-	10,821	-	-	-	162,743
	<u>737,825</u>	<u>70,000</u>	<u>-</u>	<u>47,005</u>	<u>-</u>	<u>-</u>	<u>122,389</u>	<u>977,219</u>

* Remuneration disclosed is from 1 July 2016 or date of appointment as a key management personnel, to 30 June 2017 (or date of resignation)

** The share based payment expense relates to the Employee Incentive (Loan Shares) Plan as outlined later in this report. The share based payments expense above relates to Loan shares offered in FY2016 but issued in the current FY2017 period when shareholder approval was received.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments Equity-settled	Equity-settled	Total
	Cash salary and fees \$	Cash bonus \$	Termination \$	Super-annuation \$	Long service leave \$	Shares \$	Options / Rights \$	
2016								
<i>Non-Executive Directors:</i>								
S Forrester	80,000	-	-	-	-	-	-	80,000
Dr S Coles	40,000	-	-	-	-	-	-	40,000
W Coote	45,000	-	-	-	-	-	-	45,000
A Sherry*	34,000	-	-	3,000	-	-	-	37,000
<i>Executive Director:</i>								
T Steenackers	225,001	45,000	-	25,650	5,772	-	-	301,423
<i>Other Key Management Personnel:</i>								
K Baker	154,999	10,000	-	14,579	4,147	-	-	183,725
R Skoda*	120,774	10,000	3,224	11,638	-	-	-	145,636
D Cox*	103,695	-	6,552	9,851	-	-	-	120,098
	<u>803,469</u>	<u>65,000</u>	<u>9,776</u>	<u>64,718</u>	<u>9,919</u>	<u>-</u>	<u>-</u>	<u>952,882</u>

* Remuneration disclosed is from 1 July 2015 or date of appointment as a key management personnel, to 30 June 2016 (or date of resignation). D Cox and R Skoda resigned on 19 February 2016 and 1 May 2016, respectively. A Sherry was appointed on 31 August 2015.

Relationship between Remuneration and Performance

	2017 \$	2016 \$
Revenue from continuing operations	66,841,000	44,265,000
Profit attributable to equity owners	4,395,000	1,155,000
Underlying profit attributable to equity owners	5,912,000	3,867,000
Dividends paid or provided for	-	-
KMP remuneration	977,219	952,882
Total KMP remuneration as percentage of underlying profit for the year	16.5%	24.6%

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2017	2016	2017	2016	2017	2016
<i>Non-Executive Directors:</i>						
S Forrester	100%	100%	-	-	-	-
Dr S Coles	100%	100%	-	-	-	-
W Coote	100%	100%	-	-	-	-
A Sherry	100%	100%	-	-	-	-
K Gaffney	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
T Steenackers	66%	85%	8%	15%	26%	-
<i>Other Key Management Personnel:</i>						
K Baker	95%	95%	5%	5%	-	-
L Fanning	100%	-	-	-	-	-
J Robba	100%	-	-	-	-	-

Service agreements

Key contractual arrangements for KMP Executives:

Name:	Tomas Steenackers
Contract Duration:	No fixed term
Details:	Termination notice period for Company - 6 months Termination notice period for employee - 6 months Annual Base Salary - \$300,000 (from 1 January 2017, previously \$250,000) Superannuation – \$28,500 Annual Car Allowance - \$15,000
Name:	Janita Robba / Laura Fanning
Contract Duration:	No fixed term (pursuant to interim appointment)
Details:	Termination notice period for Company – 1 month Termination notice period for contractor - 1 month Annual Service Fee - \$220,000 (combined)

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Employee Incentive (Loan Shares) Plan

The Company's Employee Incentive Plan was approved by shareholders July 2015. Full details of the Plan can be found on the Company's website under the ASX Announcement of 13 August 2015.

A summary of the key terms and conditions of the plan are:

- Loan shares are shares in the company, each carrying the same dividend rights and otherwise ranking pari passu in all respects with the ordinary issued shares of the company, where the subscription price is funded by way of loan from the company;
- Offers under the plan are the absolute discretion of the Board
- The subscription price will be equal to the volume weighted average price of the company's shares in the week preceding issue (except initial offers issued at IPO price);
- Financial assistance is provided to participants by way of a limited recourse interest free loan to acquire the shares;
- The Company retains security over the Loan Shares whilst ever there is an amount outstanding under the loan;
- Loans shares that have not vested and /or are subject to loan repayment will be restricted from trading;
- The loan shares will vest subject to meeting certain conditions including Total Shareholder Return performance hurdles relative to the company's listed peers (benchmark group). Vesting periods are determined by the Board and are generally 3 years in duration.
- Under the Plan rules, the Company may issue shares to a maximum of 5% of the shares on issue at the time of the offer.

Issue of Loan Shares

The following Loans Shares were issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017.

Name	Date	No. of Shares	Issue Price	\$
T Steenackers	21 October 2016	250,000	\$1.00	250,000

There were no other issue of ordinary shares issued to directors and other key management personnel as part of compensation during the year ending 30 June 2017.

Details of Loan Shareholdings during the period and at balance date are as follows:

Name	Opening Balance	Issued	Cancelled	Closing Balance
T Steenackers	-	250,000	-	250,000
K Baker	225,000	-	(225,000)	-

Under the applicable Accounting Standards, the Loan Shares and related limited recourse loan are accounted for as options, which gives rise to a share based payment expense. The 'options' value is measured using an options pricing model with reference to fair value of the shares as at issue date. The Group has recognised an after tax, non-cash share-based payment of \$125,000 during the financial year with a corresponding credit to Shareholders' Equity in the form of a Share Option Reserve. The treatment of the Loan Shares under the applicable Accounting Standards as options requires that the value of the loans and issue price of the shares are not recorded as Loans Receivables or Share Capital of the Group until repayment or part repayment of the loans occurs. The Loan Shares are entitled to dividends. Any dividends paid in respect of the Loan shares will be applied to reduce the loans and increase Share Capital in accordance with both the Plan rules and applicable Accounting Standards.

Options

As noted above Loan Shares are classified as options for financial reporting purposes. There were no other options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2017.

There were no options over ordinary shares granted to or vested in directors and other key management personnel as part of compensation during the year ended 30 June 2017.

Performance rights

There were no performance rights over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2017. There were no performance right over ordinary shares granted to or vested in directors and other key management personnel as part of compensation during the year ended 30 June 2017.

Additional information

The earnings of the Group for the three years to 30 June 2017 are summarised below:

	2017 \$'000	2016 \$'000	2015 \$'000
Sales revenue	66,841	44,138	-
EBITDA	10,088	4,083	(1,217)
EBIT	9,142	3,513	(1,217)
Profit/(loss) after income tax attributable to National Veterinary Care Ltd	4,395	1,155	(856)

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2017	2016	2015
Share price at financial year end (\$)	2.36	1.30	-
Basic earnings per share (cents per share)	8.46	2.51	(8.14)
Diluted earnings per share (cents per share)	8.41	2.50	(8.14)

Additional disclosures relating to key management personnel

Shareholding

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

	Balance at the start of the year	Additions	Disposals	Received / Forfeited as part of Remuneration **	Other*	Balance at the end of the year
<i>Ordinary shares</i>						
Susan Forrester	600,000	67,570	-	-	-	667,570
Tomas Steenackers	1,000,000	30,000	-	250,000	-	1,280,000
Dr Stephen Coles	795,848	50,000	-	-	-	845,848
Wesley Coote*	700,000	-	-	-	(700,000)	-
Alison Sherry*	50,000	-	-	-	(50,000)	-
Kaylene Gaffney	-	-	-	-	-	-
Katherine Baker*	250,000	-	-	(225,000)	(25,000)	-
Laura Fanning	-	-	-	-	-	-
Janita Robba	-	-	-	-	-	-
	<u>3,395,848</u>	<u>147,570</u>	<u>-</u>	<u>25,000</u>	<u>(775,000)</u>	<u>2,793,418</u>

*Resigned during the period, hence closing balances are shown as nil.

** Shares received as part of remuneration refers to the Loan Shares previously detailed in this report.

This concludes the remuneration report, which has been audited.

Shares under option

There were no unissued ordinary shares of National Veterinary Care Ltd under option outstanding at the date of this report.

Shares under performance rights

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of National Veterinary Care Ltd issued on the exercise of options during the year ended 30 June 2017 and up to the date of this report.

Shares issued on the exercise of performance rights

There were no ordinary shares of National Veterinary Care Ltd issued on the exercise of performance rights during the year ended 30 June 2017 and up to the date of this report.

Indemnity and insurance of officers

The Group has indemnified the directors and executives of the Group for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Group paid a premium in respect of a contract to insure the directors and executives of the Group against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group or any related entity.

Proceedings on behalf of the Company

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

Non-audit services

There were no non-audit services provided during the financial year by the auditor.

Officers of the Company who are former partners of HLB Mann Judd (SE Qld Partnership)

There are no officers of the Group who are former partners of HLB Mann Judd (SE Qld Partnership).

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) 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 the Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

HLB Mann Judd (SE Qld Partnership) continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Susan Forrester
Director



Tomas Steenackers
Director

28 August 2017
Brisbane

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of National Veterinary Care Ltd for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

This declaration is in relation to the National Veterinary Care Ltd and the entities it controlled during the period.



A B Narayanan
Partner

Brisbane, Queensland
28 August 2017

HLB Mann Judd (SE Qld Partnership) ABN 68 920 406 716

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Liability limited by a scheme approved under Professional Standards Legislation.

National Veterinary Care Ltd
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2017



	Note	Consolidated 2017 \$'000	2016 \$'000
Revenue	5	66,841	44,265
Expenses			
Direct expenses of providing services		(16,408)	(10,746)
Employee benefits expense		(28,795)	(19,561)
Consulting and professional fees		(866)	(164)
Depreciation expense		(946)	(570)
Advertising expense		(457)	(360)
Administration expense		(2,117)	(1,240)
Information technology and communications expense		(1,107)	(720)
Insurance expense		(149)	(312)
Occupancy expense	6	(4,707)	(3,246)
Travel and accommodation expense		(552)	(232)
Share based payment	19	(125)	-
Acquisition costs		(825)	(2,462)
Restructuring and integrations		(316)	(1,139)
Loss on disposal of business	28	(329)	-
Finance costs		(1,505)	(833)
Profit before income tax expense		7,637	2,680
Income tax expense	7	(2,611)	(995)
Profit after income tax expense for the year		5,026	1,685
Profit for the year is attributable to:			
Non-controlling interest		631	530
Owners of National Veterinary Care Ltd		4,395	1,155
		<u>5,026</u>	<u>1,685</u>
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	19	(85)	-
Other comprehensive income for the year, net of tax		(85)	-
Total comprehensive income for the year		<u>4,941</u>	<u>1,685</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		631	530
Owners of National Veterinary Care Ltd		4,310	1,155
		<u>4,941</u>	<u>1,685</u>
		Cents	Cents
Basic earnings per share	31	8.46	2.51
Diluted earnings per share	31	8.41	2.50

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

National Veterinary Care Ltd
Statement of financial position
As at 30 June 2017



	Note	Consolidated 2017 \$'000	2016 \$'000
Assets			
Current assets			
Cash and cash equivalents		13,105	4,301
Trade and other receivables	8	3,075	2,116
Inventories		2,576	2,156
Assets held for sale	9	2,572	-
Other	10	116	165
Total current assets		<u>21,444</u>	<u>8,738</u>
Non-current assets			
Other financial assets	11	14	-
Property, plant and equipment	12	4,893	4,057
Intangibles	13	81,875	62,088
Deferred tax	7	1,579	1,276
Total non-current assets		<u>88,361</u>	<u>67,421</u>
Total assets		<u>109,805</u>	<u>76,159</u>
Liabilities			
Current liabilities			
Trade and other payables	14	7,786	4,874
Income tax	7	2,287	762
Employee benefits	15	1,851	1,624
Other	16	1,412	-
Revenue received in advance		579	511
Total current liabilities		<u>13,915</u>	<u>7,771</u>
Non-current liabilities			
Borrowings	17	24,805	18,572
Employee benefits	15	521	145
Other	16	1,592	910
Total non-current liabilities		<u>26,918</u>	<u>19,627</u>
Total liabilities		<u>40,833</u>	<u>27,398</u>
Net assets		<u>68,972</u>	<u>48,761</u>
Equity			
Issued capital	18	58,048	41,858
Retained profits		4,490	114
Reserves	19	40	-
Equity attributable to the owners of National Veterinary Care Ltd		<u>62,578</u>	<u>41,972</u>
Non-controlling interest		<u>6,394</u>	<u>6,789</u>
Total equity		<u>68,972</u>	<u>48,761</u>

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

National Veterinary Care Ltd
Statement of changes in equity
For the year ended 30 June 2017



Consolidated	Issued capital \$'000	Retained profits \$'000	Reserves \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2015	814	(1,041)	-	-	(227)
Profit after income tax expense for the year	-	1,155	-	530	1,685
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	1,155	-	530	1,685
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs	41,044	-	-	-	41,044
Recognition of non-controlling interest	-	-	-	6,507	6,507
Dividends paid (note 20)	-	-	-	(248)	(248)
Balance at 30 June 2016	41,858	114	-	6,789	48,761

Consolidated	Issued capital \$'000	Retained profits \$'000	Reserves \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2016	41,858	114	-	6,789	48,761
Profit after income tax expense for the year	-	4,395	-	631	5,026
Other comprehensive income for the year, net of tax (note 19)	-	-	(85)	-	(85)
Total comprehensive income for the year	-	4,395	(85)	631	4,941
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 18)	16,190	-	-	-	16,190
Equity settled share based payments	-	-	125	-	125
Acquisition of non-controlling interest without change in control (note 28)	-	(19)	-	(464)	(483)
Dividends paid (note 20)	-	-	-	(562)	(562)
Balance at 30 June 2017	58,048	4,490	40	6,394	68,972

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

National Veterinary Care Ltd
Statement of cash flows
For the year ended 30 June 2017



		Consolidated	
	Note	2017 \$'000	2016 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		72,594	48,668
Payments to suppliers and employees (inclusive of GST)		(59,649)	(40,277)
		12,945	8,391
Interest received		34	51
Interest and other finance costs paid		(1,323)	(1,093)
Income taxes paid		(1,215)	(243)
Net cash from operating activities	30	10,441	7,106
Cash flows from investing activities			
Payment for purchase of businesses, net of cash acquired	28	(19,428)	(48,455)
Payment for purchase of non-controlling interests		(483)	-
Payments for property, plant and equipment	12	(1,555)	(1,436)
Proceeds on sale of business		15	-
Net cash used in investing activities		(21,451)	(49,891)
Cash flows from financing activities			
Proceeds from issue of shares	18	14,625	30,085
Share issue transaction costs	18	(515)	(1,383)
Proceeds from borrowings	17	12,851	18,572
Repayment of borrowings	17	(6,618)	-
Loans to non-controlling interests		33	(132)
Dividends paid to non-controlling interests	20	(562)	(248)
Net cash from financing activities		19,814	46,894
Net increase in cash and cash equivalents		8,804	4,109
Cash and cash equivalents at the beginning of the financial year		4,301	192
Cash and cash equivalents at the end of the financial year		13,105	4,301

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

Note 1. General information

The financial statements cover National Veterinary Care Ltd as a Group (referred hereafter as the 'Group') consisting of National Veterinary Care Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is National Veterinary Care Limited's functional and presentation currency.

National Veterinary Care Ltd is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Unit 1
28 Burnside Road
Ormeau QLD 4208

A description of the nature of the Group'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 28 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 years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

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

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').

Except for cash flow information, the financial statements have been prepared on an accrual basis and are based on historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 27.

Note 2. Significant accounting policies (continued)

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of National Veterinary Care Ltd as at 30 June 2017 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 Group. They are de-consolidated from the date that control ceases.

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

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 Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group 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 Group 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.

Revenue recognition

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

Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risk and rewards of ownership of the goods.

Rendering of services

Revenue from the provision of services is recognised by reference to when the services have been provided.

Interest

Interest revenue is recognised as interest accrues using the effective interest method.

Other revenue

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

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.

Note 2. Significant accounting policies (continued)

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 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. 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.

National Veterinary Care Ltd (the 'head entity') and its wholly-owned Australian subsidiaries account for 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.

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. All cash and cash equivalents are unrestricted and remain available for general use.

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 Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 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.

Other receivables are recognised at amortised cost, less any provision for impairment.

Note 2. Significant accounting policies (continued)

Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

Inventories

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.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. They are subsequently 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.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The Group 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.

Note 2. Significant accounting policies (continued)

The amount of the impairment allowance for loans and receivables carried at amortised cost 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. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

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 (excluding land) over their expected useful lives. The depreciation rates are as follows:

General plant and equipment	7 to 20%
Fit out and fixtures	10%
Motor vehicles	20%
Computer equipment	33%
Medical equipment	14%

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Leases

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.

Intangibles

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.

Impairment of non-financial assets

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.

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 Group prior to the end of the financial year 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

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

Finance costs

Finance costs are expensed in the period in which they are incurred.

Note 2. Significant accounting policies (continued)

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries and other employee benefits 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.

Other long-term employee benefits

Employee benefits not expected to be settled wholly within 12 months of the reporting date is 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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 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.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Monte-Carlo 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 Group 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 is 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 Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group 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.

Note 2. Significant accounting policies (continued)

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 year.

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

Where the business combination is achieved in stages, the Group 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.

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.

Note 2. Significant accounting policies (continued)

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 National Veterinary Care Ltd, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

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 ASIC Corporations (Rounding in Financial/Directors' Reports) 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 the Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2. Significant accounting policies (continued)

Assets held for sale

When the Group intends to sell a non-current asset or group of assets (a disposal group), and if sale within twelve months is highly probable, the asset or disposal group is classified as 'held for sale' and presented separately in the statement of financial position. Liabilities classified as 'held for sale' are presented as such in the statement of financial position if they are directly associated with a disposal group. Assets classified as 'held for sale' are measured at the lower of their carrying value and fair value less costs to sell. Once classified as 'held for sale' the assets are no longer subject to depreciation or amortisation.

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 Group for the annual reporting period ended 30 June 2017. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The Group is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. 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 judgements 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 Group is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

Note 2. Significant accounting policies (continued)

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2020 includes:

- There will be a significant increase in lease assets and financial liabilities recognised on the balance sheet.
- EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss.
- Operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

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.

Goodwill

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has 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.

Income tax

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

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

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

Contingent consideration

The contingent consideration liability is the difference between the total purchase consideration, usually on an acquisition of a business combination, and the amounts paid or settled up to the reporting date, discounted to net present value. The Group applies provisional accounting for any business combination. Any reassessment of the liability during the earlier of the finalisation of the provisional accounting or 12 months from acquisition-date is adjusted for retrospectively as part of the provisional accounting rules in accordance with AASB 3 'Business Combinations'. Thereafter, at each reporting date, the contingent consideration liability is reassessed against revised estimates and any increase or decrease in the net present value of the liability will result in a corresponding gain or loss to profit or loss. The increase in the liability resulting from the passage of time is recognised as a finance cost.

Business combinations

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 4. Operating segments

Identification of reportable operating segments

The Group operates in one segment, being the operation of veterinary service businesses across Australia and New Zealand. This is 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.

As a result, the operating segment information is as disclosed in the statements and notes to the financial statements throughout the report.

Note 5. Revenue

	Consolidated	
	2017	2016
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods and rendering of services	66,746	44,138
<i>Other revenue</i>		
Interest	34	51
Gain on foreign exchange	10	-
Other revenue	51	76
	<u>95</u>	<u>127</u>
Revenue	<u>66,841</u>	<u>44,265</u>

Note 6. Expenses

	Consolidated 2017 \$'000	2016 \$'000
Profit/(loss) before income tax includes the following specific expenses:		
<i>Finance Costs</i>		
Interest on borrowings	1,340	833
Interest expense on contingent consideration	145	-
Other	20	-
	<u>1,505</u>	<u>833</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<u>3,541</u>	<u>2,391</u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	<u>2,004</u>	<u>1,499</u>

Note 7. Income tax expense

	Consolidated 2017 \$'000	2016 \$'000
<i>Income tax recognised in profit or loss</i>		
<i>Income tax expense</i>		
Current tax expense	2,812	1,026
Deferred tax - origination and reversal of temporary differences	<u>(201)</u>	<u>(31)</u>
Total income tax expense	<u><u>2,611</u></u>	<u><u>995</u></u>
<i>Reconciliation of income tax expense to prima facie tax payable</i>		
Profit before income tax expense	<u>7,637</u>	<u>2,680</u>
Tax expense at the statutory tax rate of 30%	2,291	804
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Net non-deductible / (non-assessable) items	121	191
Under / (over) provision recognised in prior year	98	-
Effect of different tax rates for subsidiaries operating in other jurisdictions	3	-
Current year tax losses and temporary differences for which no deferred tax asset was recognised	<u>98</u>	<u>-</u>
Total income tax expense	<u><u>2,611</u></u>	<u><u>995</u></u>

Note 7. Income tax expense (continued)

	Consolidated	
	2017	2016
	\$'000	\$'000
Income tax recognised directly in equity		
Current tax		
Share issue costs – current year	(114)	-
Deferred tax		
Share issue expenses deductible over 5 years	(33)	(339)
Total income tax expense / (benefit) recognised directly in equity	<u>(147)</u>	<u>(339)</u>
Current tax liabilities		
Income tax payable	<u>2,287</u>	<u>762</u>
Deferred tax balances		
Deferred tax assets	<u>1,579</u>	<u>1,276</u>
Deferred tax		
Translation of foreign operations	-	-
Total income tax recognised directly in other comprehensive income	<u>-</u>	<u>-</u>

	Opening balance \$'000	Recognised in Profit or loss \$'000	Recognised directly in equity \$'000	Acquisitions / Disposals \$'000	Closing balance \$'000
2017					
Deferred tax assets in relation to:					
Employee benefits	400	126	-	69	595
Share issue costs	339	-	33	-	372
Other	537	75	-	-	612
	<u>1,276</u>	<u>201</u>	<u>33</u>	<u>69</u>	<u>1,579</u>
2016					
Deferred tax assets in relation to:					
Employee benefits	-	(66)	-	466	400
Share issue costs	-	-	339	-	339
Other	440	97	-	-	537
	<u>440</u>	<u>31</u>	<u>339</u>	<u>466</u>	<u>1,276</u>

Note 7. Income tax expense (continued)

	Consolidated	
	2017	2016
	\$'000	\$'000
Net recognised deferred tax assets		
Net deferred tax assets	1,677	1,276
Deferred tax assets not recognised	(98)	-
	<u>1,579</u>	<u>1,276</u>
Unrecognised deferred tax assets		
Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognised are attributable to the following:		
Tax losses – capital in nature (no expiry)	98	-
	<u>98</u>	<u>-</u>

Note 8. Current assets - trade and other receivables

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade receivables	1,950	1,955
Less: Provision for impairment of receivables	(46)	(20)
	<u>1,904</u>	<u>1,935</u>
Accrued income and other receivables	1,026	-
Loan to related parties	145	181
	<u>3,075</u>	<u>2,116</u>

Impairment of receivables

The Group has recognised a loss of \$26,000 (2016: \$20,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2017.

The ageing of the impaired receivables provided for above are as follows:6

	Consolidated	
	2017	2016
	\$'000	\$'000
0 to 3 months overdue	-	16
3 to 6 months overdue	46	4
	<u>46</u>	<u>20</u>

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$785,000 as at 30 June 2017 (\$950,000 as at 30 June 2016).

The Group did not consider there to be a significant credit risk on the aggregate balances after reviewing the credit terms of customers based on recent collection practices.

Note 9. Current assets – Held for sale

	Consolidated	
	2017	2016
	\$'000	\$'000
Assets held for sale	2,572	-

Assets held for sale relate to two clinics providing emergency and specialist services no longer core to the revised portfolio strategy that focusses on general practice clinics. These specialist clinics were disposed subsequent to 30 June 2017, refer note 34.

Note 10. Current assets - other

	Consolidated	
	2017	2016
	\$'000	\$'000
Prepayments	40	55
Security deposits	1	81
Other deposits	20	20
Other current assets	55	9
	116	165

Note 11. Non-current assets - other financial assets

	Consolidated	
	2017	2016
	\$'000	\$'000
Shares in Wellington After Hours Vet Clinic - at cost	14	-

Note 12. Non-current assets - property, plant and equipment

	Consolidated	
	2017	2016
	\$'000	\$'000
General plant and equipment - at cost	164	85
Less: Accumulated depreciation	(51)	(9)
	113	76
Fit out and fixtures - at cost	1,097	778
Less: Accumulated depreciation	(215)	(48)
	882	730
Motor vehicles - at cost	185	153
Less: Accumulated depreciation	(62)	(27)
	123	126
Computer equipment - at cost	1,222	574
Less: Accumulated depreciation	(409)	(113)
	813	461
Medical equipment - at cost	4,494	3,037
Less: Accumulated depreciation	(1,295)	(373)
	3,199	2,664
Less: reclassification of Assets Held for Sale	(237)	-
	4,893	4,057

Note 12. Non-current assets - property, plant and equipment (continued)

Reconciliations

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

Consolidated	General plant and equipment \$'000	Fit out and fixtures \$'000	Motor vehicles \$'000	Computer equipment \$'000	Medical equipment \$'000	Total \$'000
Balance at 1 July 2015	2	-	-	21	-	23
Additions	51	602	9	549	225	1,436
Additions through business combinations (note 28)	32	176	144	4	2,812	3,168
Depreciation expense	(9)	(48)	(27)	(113)	(373)	(570)
Balance at 30 June 2016	<u>76</u>	<u>730</u>	<u>126</u>	<u>461</u>	<u>2,664</u>	<u>4,057</u>
Balance at 1 July 2016	76	730	126	461	2,664	4,057
Additions	53	219	32	605	646	1,555
Additions through business combinations (note 28)	8	22	-	4	434	468
Disposals	-	-	-	(1)	(3)	(4)
Depreciation expense	(24)	(89)	(35)	(256)	(542)	(946)
Balance at 30 June 2017	<u>113</u>	<u>882</u>	<u>123</u>	<u>813</u>	<u>3,199</u>	<u>5,130</u>
Less: held for sale						(237)
Balance at 30 June 2017						<u>4,893</u>

Note 13. Non-current assets - intangibles

	Consolidated 2017 \$'000	2016 \$'000
Goodwill - at cost	<u>81,875</u>	<u>62,088</u>

Reconciliations

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

Consolidated	Goodwill \$'000	Total \$'000
Balance at 1 July 2015	-	-
Additions through business combinations (note 28)	<u>62,088</u>	<u>62,088</u>
Balance at 30 June 2016	<u>62,088</u>	<u>62,088</u>
Balance at 1 July 2016	62,088	62,088
Disposals	(329)	(329)
Additions through business combinations (note 28)	22,595	22,595
Provisional accounting adjustments to prior year business combinations	(144)	(144)
Reclassified as Assets Held For Sale	<u>(2,335)</u>	<u>(2,335)</u>
Balance at 30 June 2017	<u>81,875</u>	<u>81,875</u>

Note 13. Non-current assets – intangibles (continued)

Impairment testing

NVL has tested goodwill for impairment, in accordance with the accounting policy stated in Note 2. The recoverable amount has been determined based on value-in-use calculation using cash flow projections based on management approved financial budgets and cover a five-year period. Cash flows beyond the 5 year period to the end of the assets useful life are estimated by extrapolating the management projections using a steady growth rate based on long term industry expectations. NVL is identified as one cash generating unit (CGU) for impairment testing.

The key assumptions used for value in use calculations at 30 June 2017 are:

- Period of cash flows covered by management projections: 5 years
- Average revenue growth rate for 5 year management projections: 2.5%
- Terminal growth rate beyond management projections: 2%.
- A pre-tax discount rate applied to cash flow projection of 9.28% based on the Group's specific weighted average cost of capital

As a result of the value in use calculation, it was determined no impairment was identified.

Note 14. Current liabilities - trade and other payables

	Consolidated	
	2017	2016
	\$'000	\$'000
Trade payables	3,445	2,329
Goods and services tax payable	417	496
Other payables and accruals	3,924	2,049
	<u>7,786</u>	<u>4,874</u>

Note 15. Employee benefits

	Consolidated	
	2017	2016
	\$'000	\$'000
Current		
Annual leave	1,269	1,075
Long service leave	339	450
Other	243	99
	<u>1,851</u>	<u>1,624</u>
Non-Current		
Annual Leave	347	-
Long service leave	174	145
	<u>521</u>	<u>145</u>

Note 16. Liabilities - other

	Consolidated	
	2017	2016
	\$'000	\$'000
Current		
Contingent consideration	<u>1,412</u>	<u>-</u>

Note 16. Liabilities – other (continued)

	Consolidated	
	2017	2016
	\$'000	\$'000
Non-Current		
Contingent consideration	1,436	822
Lease liability – straight lining	156	88
	<u>1,592</u>	<u>910</u>

Contingent consideration

As part of the business acquisition agreement with previous owners a portion of the cash consideration was determined to be contingent, based on the EBIT performance of the acquired business over a 24 month period. Fair value of the contingent consideration is determined using the discount cash flow method for amounts payable over 12 months as such the carrying value is equal to fair value. Adjustments to contingent consideration recognised in the statement of profit and loss for the current period were nil (2016: nil).

Note 17. Non-current liabilities - borrowings

	Consolidated	
	2017	2016
	\$'000	\$'000
Bank loans - secured	<u>24,805</u>	<u>18,572</u>

In October 2016, the Group renegotiated its debt facility with Australia and New Zealand Banking Group ('ANZ') resulting in a \$15,000,000 increase in the facility limit. At 30 June 2017, the Group's total debt facilities were \$44,750,000 (June 2016: \$29,750,000), including a term debt facility of \$42,000,000, an overdraft of \$750,000 and a bank guarantee facility of \$2,000,000. The facilities expire in October 2019.

At balance date, \$24,805,000 had been drawn against the core debt facility (June 2016: \$18,572,000) and \$809,000 had been drawn against the bank guarantee facilities (June 2016: \$620,000).

The amount of this facility used in the year relates to:

- Business acquisitions (\$12,851,000); and
- Bank guarantees provided to landlords (\$189,000).

Amounts totalling \$6,618,000 were repaid against the core debt facility, primarily from proceeds of the share placement completed by the Group in June 2017.

The facility contains the following financial covenants:

- Leverage ratio (Debt: EBITDA¹)
- Fixed Charge Cover Ratio (EBITDA + rent expense) / (interest + rent expense); and
- Debt to Capitalisation Ratio (Debt / Debt + book value of equity).

¹ EBITDA for leverage ratio, equals EBITDA adjusted for proforma EBITDA of businesses acquired during the period.

There have been no events of default, including covenant breaches, on the financing arrangements during the year.

Note 17. Non-current liabilities – borrowings (continued)

Assets pledged as security

The facility is secured by a fixed and floating charge over all assets of the consolidated Group.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2017	2016
	\$'000	\$'000
Total facilities		
Bank overdraft	750	750
Bank loans	42,000	27,000
Bank guarantees	2,000	2,000
	<u>44,750</u>	<u>29,750</u>
Used at the reporting date		
Bank overdraft	-	-
Bank loans	24,805	18,572
Bank guarantees	809	620
	<u>25,614</u>	<u>19,192</u>
Unused at the reporting date		
Bank overdraft	750	750
Bank loans	17,195	8,428
Bank guarantees	1,191	1,380
	<u>19,136</u>	<u>10,558</u>

Note 18. Equity - issued capital

	Consolidated			
	2017	2016	2017	2016
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>58,940,699</u>	<u>51,183,602</u>	<u>58,048</u>	<u>41,858</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2016	51,183,602		41,858
Issue of shares on acquisition of business	8 July 2016	453,914	\$1.307	593
Issue of shares on acquisition of business	6 September 2016	120,328	\$1.635	197
Issue of shares on acquisition of business	3 October 2016	224,896	\$1.791	403
Issue of shares per Employee Loan Plan	21 October 2016	250,000	\$1.000	-
Issue of shares per Employee Loan Plan	21 October 2016	50,000	\$2.050	-
Cancellation of shares per Employee Loan Plan	10 February 2017	(225,000)	\$1.00	-
Issue of shares on acquisition of business	20 February 2017	382,959	\$2.089	800
Issue of shares on placement	23 June 2017	6,500,000	\$2.250	14,625
Less: share issue transaction costs				(515)
Tax recognised in equity – current year				147
Tax recognised in equity – prior year adjustment				84
Provisional accounting adjustment for shares issued on acquisition in prior year				(144)
Balance	30 June 2017	<u>58,940,699</u>		<u>58,048</u>

Note 18. Equity - issued capital (continued)

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the 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 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.

Share buy-back

There is no current on-market share buy-back.

Employee Loan Plan

Details of shares issued under the Employee Loan Plan are provided in Note 32.

Capital risk management

The Group's objectives when managing capital is 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. Total capital is regarded as total equity, as recognised in the statement of financial position, plus debt, being total borrowings. The Group is subject to certain financing arrangement covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The Group monitors capital using a debt to capitalisation ratio, calculated in accordance with its banking covenants as Debt / (Debt plus Equity). At balance date the debt to capitalisation ratio was 27% (2016: 28%), the target ratio is below 50%.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group completed a share placement of \$14.625 million in June 2017. Net proceeds of the placement will facilitate funding of the Group's acquisition pipeline in the first half of the 2018 financial year. The Group would look to raise further capital when another opportunity to invest in a business or company is seen to add value relative to the Group's current share price at the time of the investment.

Note 19. Equity - Reserves

	Consolidated	
	2017	2016
	\$'000	\$'000
<u>Share options reserve</u>		
Opening balance	-	-
Share based payments expense	125	-
Closing balance	125	-
<u>Foreign currency translation reserve</u>		
Opening balance	-	-
Foreign exchange gain / (loss) on translation of foreign currency operation	(85)	-
Closing balance	(85)	-
Closing balance – Total Reserves	40	-

The share options reserve is used to recognise the value of equity settled share based payments provided to employees, including key management personnel. Refer note 32 for further information on share based payments.

The foreign currency reserve is used to recognise foreign exchange gains or losses on translation of the Group's New Zealand operations.

Note 20. Equity - dividends

No dividends were declared by the Company during the year ended 30 June 2017. At the date of signing, the company has declared a dividend of 3.0 cents per share, fully franked (2016: nil) in respect of the 2017 financial year with record date of 11 September 2017 and payment date of 4 October 2017.

Dividends totalling \$562,000 (2016: \$248,000) were paid to non-controlling interests in respect to their interests in their underlying entities during the year ended 30 June 2017. There are further dividends of \$78,750 declared and paid subsequent to 30 June 2017 for non-controlling interests.

Franking Credits

Consolidated	
2017	2016
\$'000	\$'000

The amount of the franking credits available for subsequent reporting periods are:

Balance at the end of reporting period	777	130
Franking credits that will arise from the payment of the amount of provision for income tax	1,401	204
	<u>2,178</u>	<u>334</u>

The above amounts represent the balance of the franking account as at the end of the financial year, 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 21. Financial instruments

Financial risk management objectives

The Group'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 Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses 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 analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior executives ('the Executive') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. The Executive identifies, evaluates and manages financial risks. The Executive reports to the Board on a monthly basis.

The Group holds the following financial instruments:

	2017 \$'000	2016 \$'000
Financial Assets		
<i>At Amortised Cost</i>		
Cash and cash equivalents	13,105	4,301
Trade and other receivables	3,075	2,116
Total Financial Assets	16,180	6,417
	2017 \$'000	2016 \$'000
Financial Liabilities		
<i>At Amortised Cost</i>		
Trade and other payables	7,786	4,874
Borrowings	24,805	18,572
Total Financial Liabilities	32,591	23,446

Market risk

Foreign currency risk

The Group is exposed to foreign currency risk predominantly through its New Zealand operations. Further, The Group's borrowings include facilities denominated in New Zealand Dollar (NZD), which as at balance date had been drawn to NZD \$2,836,000. Lastly, the contingent consideration component of New Zealand business combinations is also denominated in NZD, which at balance date had a carrying value of NZD \$1,481,000.

A sensitivity analysis of +/- 3.5% change in the \$AUD/NZD exchange rate would have an (adverse)/favourable effect on profit before tax as follows:

	AUD Strengthen against NZD		AUD weakened against NZD	
	Effect on profit before tax \$'000	Effect on equity \$'000	Effect on profit before tax \$'000	Effect on equity \$'000
30 June 2017	202	202	(202)	(202)
30 June 2016	-	-	-	-

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to interest rate risk.

Note 21. Financial instruments (continued)

As at the reporting date, the Group had the following variable rate borrowings outstanding:

Consolidated	2017		2016	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans	3.91%	24,805	4.27%	18,572
Net exposure to cash flow interest rate risk		<u>24,805</u>		<u>18,572</u>

An analysis by remaining contractual maturities is shown below.

For the Group, the bank loans outstanding, totalling \$24,805,000 (2016: \$18,572,000), are principal and interest payment loans. Monthly cash outlays of approximately \$81,000 per month are required to service the interest payments. The percentage change is based on the expected volatility of interest rates using market data and analysts' forecasts. In addition, minimum principal repayments of \$nil are due during the year ending 30 June 2018. An official increase/decrease in interest rates would have an (adverse)/favourable effect on profit before tax as follows:

	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax \$'000	Effect on equity \$'000	Basis points change	Effect on profit before tax \$'000	Effect on equity \$'000
30 June 2017	100	(247)	(247)	100	247	247
30 June 2016	100	(185)	(185)	100	185	185

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. 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 Group does not hold any collateral. Further details regarding credit risk exposures are included in note 8.

Liquidity risk

Liquidity risk management requires the Group 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.

Financing arrangements

Details of borrowing facilities at the reporting date:

	Drawn		Undrawn		Total	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Bank overdraft	-	-	750	750	750	750
Bank loans	24,805	18,572	17,195	8,428	42,000	27,000
Bank guarantees	809	620	1,191	1,380	2,000	2,000
	<u>25,614</u>	<u>19,192</u>	<u>19,136</u>	<u>10,558</u>	<u>44,750</u>	<u>29,750</u>

The bank overdraft and loan facilities may be drawn at any time and are subject to satisfactory compliance with agreements.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Note 21. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the Group'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.

Consolidated - 2017	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 and other payables	-	7,786	-	-	-	7,786
Contingent consideration	-	1,412	1,436	-	-	2,848
<i>Interest-bearing - variable</i>						
Bank loans	3.91%	-	-	27,564	-	27,564
Total non-derivatives		9,198	1,436	27,564	-	38,198
Consolidated - 2016						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	4,874	-	-	-	4,874
Contingent consideration	-	-	822	-	-	822
<i>Interest-bearing - variable</i>						
Bank loans	4.27%	-	18,731	-	-	18,731
Total non-derivatives		4,874	19,553	-	-	24,427

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 22. Fair value measurement

Fair value hierarchy

The following tables detail the Group'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
Liabilities				
Contingent consideration	-	-	2,848	2,848
Borrowings (NZD)	2,702	-	-	2,702
Total liabilities	2,702	-	2,848	5,550

Note 22. Fair value measurement (continued)

Consolidated - 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Liabilities</i>				
Contingent consideration	-	-	822	822
Total liabilities	-	-	822	822

There were no transfers between levels during the financial year.

The recorded values of the financial assets and liabilities represents their fair values.

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.

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.

Level 1 assets and liabilities

Movements in level 1 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Financial Liabilities		Financial Assets	
	Borrowings (NZD) \$'000	Total \$'000	Ordinary shares \$'000	Total \$'000
Balance at 1 July 2015	-	-	100	100
Acquired as a subsidiary	-	-	(100)	(100)
Balance at 30 June 2016	-	-	-	-
Additions	2,702	2,702	-	-
Balance as at 30 June 2017	2,702	2,702	-	-

Valuation techniques for fair value measurements categorised within level 2 and level 3

The fair value of the contingent consideration has been estimated at the present value of the deferred amount payable under the Business Acquisition Contracts.

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

Consolidated	Deferred consideration \$'000	Total \$'000
Balance at 1 July 2015	-	-
Additions	822	822
Balance at 30 June 2016	822	822
Additions	2,026	2,026
Balance as at 30 June 2017	2,848	2,848

Note 23. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2017	2016
	\$'000	\$'000
Short-term employee benefits	785	868
Post-employment benefits	42	65
Long-term benefits	-	10
Termination benefits	-	10
Share-based payments	122	-
	<u>949</u>	<u>953</u>

Note 24. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by HLB Mann Judd (SE Qld Partnership), the auditor of the Group:

	Consolidated	
	2017	2016
	\$'000	\$'000
<i>Audit services - HLB Mann Judd (SE Qld Partnership)</i>		
Audit or review of the financial statements	<u>69</u>	<u>69</u>

Note 25. Commitments

	Consolidated	
	2017	2016
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	3,100	2,722
One to five years	5,927	5,502
More than five years	492	486
	<u>9,519</u>	<u>8,710</u>

Operating lease commitments includes contracted amounts for veterinary clinic premises, offices and plant and equipment under non-cancellable operating leases expiring within 2 to 15 years with, in some cases, options to extend. On renewal, the terms of the leases are renegotiated.

Note 26. Related party transactions

Subsidiaries

Interests in subsidiaries are set out in note 29.

Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

Note 26. Related party transactions (continued)

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2017	2016
	\$'000	\$'000
Payment for goods and services:		
Payment for HR advisory services from the wife of Tomas Steenackers	-	40

Receivable from and payable to related parties

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

Loans to/from related parties

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

	Consolidated	
	2017	2016
	\$'000	\$'000
Current receivables:		
Loans - non-controlling interests	145	181

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 27. 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	2016
	\$'000	\$'000
Profit/(loss) after income tax	957	84
Total comprehensive income	957	84

Statement of financial position

	Parent	
	2017	2016
	\$'000	\$'000
Total current assets	7,087	33
Total non-current assets	79,712	65,301
Total assets	86,799	65,639
Total non-current liabilities	28,626	24,738
Total liabilities	28,626	24,738

Note 27. Parent entity information (continued)

	Parent	
	2017	2016
	\$'000	\$'000
Equity		
Issued capital	58,048	41,858
Retained earnings / (Accumulated losses)	-	(957)
Reserves	125	-
	<hr/>	<hr/>
Total equity/(deficiency)	<u>58,173</u>	<u>40,901</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017 (30 June 2016: Nil).

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2017 (30 June 2016: Nil).

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 (30 June 2016: Nil).

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 28. Business Combinations

Acquisitions

Veterinary Clinics

During the year ended 30 June 2017 NVL acquired the businesses of three veterinary service clinics in Australia and nine in New Zealand for the total consideration transferred of \$14.411 million including \$11.918 million in cash consideration, \$1.400 million in NVL shares and \$1.093 million in contingent consideration.

UVG Holdings Pty Ltd

On 8 July 2016, NVL acquired 100% of the ordinary shares in UVG Holdings Pty Ltd and its associated entities trading as United Veterinary Group ('UVG'), a leading procurement and management services company in Australia. Total consideration for the acquisition was \$5.899 million including \$5.043 million in cash consideration, \$0.593 million in NVL shares and \$0.263 million in deferred cash.

Lower Hutt Veterinary Services Pty Ltd

On 11 April 2017, NVL acquired 99% of the ordinary shares in Lower Hutt Veterinary Services Pty Ltd, which operates 2 veterinary clinics New Zealand. Total consideration for the acquisition was \$3.013 million including \$2.467 million in cash consideration and \$0.546 million in deferred cash.

Financial contribution

The acquired businesses contributed revenues of \$13.6 million and profit before tax of \$3.9 million to the Group for the period from date of acquisition to 30 June 2017. Had the acquisitions occurred on 1 July 2016, the full year contributions would have been revenues of \$23.5 million and profit before tax of \$6.5 million. The values identified in relation to the acquisitions are provisional at 30 June 2017.

Note 28. Business Combinations (continued)

Details of the acquisitions are as follows:

	Veterinary clinics Fair value \$'000	UVG Holdings Pty Ltd Fair value \$'000	Lower Hutt Veterinary Services Pty Ltd Fair value \$'000	Total Fair value \$'000
Trade receivables	46	308	24	378
Inventories	468	-	135	603
Other current assets	66	2	-	68
Plant and equipment	316	-	144	460
Deferred tax asset	46	-	23	69
Employee benefits	(280)	-	(82)	(362)
Other current liabilities	-	(310)	(178)	(488)
Net assets acquired	662	-	66	728
Goodwill	13,749	5,899	2,947	22,595
Acquisition-date fair value of the total consideration transferred	14,411	5,899	3,013	23,323
	Veterinary clinics Fair value \$'000	UVG Holdings Pty Ltd Fair value \$'000	Lower Hutt Veterinary Services Pty Ltd Fair value \$'000	Total Fair value \$'000
Representing:				
Cash paid or payable to vendor	11,918	5,043	2,467	19,428
National Veterinary Care Ltd shares issued to vendor	1,400	593	-	1,993
Contingent consideration ¹	1,093	263	546	1,902
	14,411	5,899	3,013	23,323
Cash used to acquire business, net of cash acquired:				
Acquisition-date fair value of the total consideration transferred	14,411	5,899	3,013	23,323
Less: contingent consideration ¹	(1,093)	(263)	(546)	(1,902)
Less: shares issued by the Group as part of consideration ²	(1,400)	(593)	-	(1,993)
Net cash used	11,918	5,043	2,467	19,428

¹ Where the Group has contingent consideration in the table above, the Group has a contractual liability to pay the former vendor of the businesses acquired contingent consideration in the event that the business meets its contractual performance hurdles in accordance with their Sale Agreement.

During the period end 30 June 2017, NVL paid an additional \$68,000 in post settlement adjustments for clinics acquired at the end of financial year 2016.

Shares issued by NVL as part of consideration for acquisitions are ordinary shares with rights as outlined in note 18, however, subject to restrictions from trade by virtue of a voluntary escrow deed /holding lock during the earn out period.

Note 28. Business Combinations (continued)

Additional 13% acquisition of Brunswick Central Operations Pty Ltd

During the period end 30 June 2017, NVL acquired an additional 13% share in Brunswick Central Operations Pty Ltd for cash consideration of \$483,000.

Disposal of Veterinary Clinic

During the period NVL disposed of one veterinary clinic, details of the consideration received and carrying value of the net assets at date of disposal are:

	2017 \$'000	2016 \$'000
Cash consideration received	15	-
<i>Carrying value of net assets disposed:</i>		
Goodwill	329	-
Inventory	12	-
Plant & equipment	4	-
Employee leave entitlements	(2)	-
Deferred tax asset	1	-
	<hr/>	<hr/>
Loss on sale	329	-
	<hr/>	<hr/>

Note 29. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries with non-controlling interests in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Parent		Non-controlling interest	
		Ownership interest 2017 %	Ownership interest 2016 %	Ownership interest 2017 %	Ownership interest 2016 %
NVC Operations Pty Ltd	Australia	100%	100%	-	-
NVC Operations NSW Pty Ltd	Australia	100%	100%	-	-
Brunswick Central Operations Pty Ltd	Australia	87%	74%	13%	26%
Fitzroy Operations Pty Ltd	Australia	51%	51%	49%	49%
KEST Pty Ltd	Australia	55%	55%	45%	45%
Albion Vet Surgery Pty Ltd	Australia	100%	100%	-	-
UVG Holdings Pty Ltd	Australia	100%	100%	-	-
UVG (Aust) Pty Ltd	Australia	100%	100%	-	-
UVG (IP) Pty Ltd	Australia	100%	100%	-	-
UVG (USA) Pty Ltd	Australia	100%	100%	-	-
NVC Operations NZ Pty Ltd	New Zealand	100%	-	-	-
Lower Hutt Veterinary Services Ltd	New Zealand	99%	-	1%	-

Note 29. Interests in subsidiaries (continued)

Summarised financial information

Summarised financial information of subsidiaries with non-controlling interests that are material to the Group are set out below:

	Brunswick Central Operations Pty Ltd		Fitzroy Operations Pty Ltd		KEST Pty Ltd	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
<i>Summarised statement of financial position</i>						
Current assets	4,800	4,107	6,048	4,924	7,069	6,131
Non-current assets	3,163	3,181	5,762	5,792	6,621	6,386
Total assets	7,963	7,288	11,810	10,716	13,690	12,517
Current liabilities	4,400	3,828	5,614	4,659	7,155	5,697
Non-current liabilities	2	4	12	10	16	10
Total liabilities	4,402	3,832	5,626	4,669	7,171	5,707
Net assets	3,561	3,456	6,184	6,047	6,519	6,810
<i>Summarised statement of profit or loss and other comprehensive income</i>						
Revenue	2,444	2,147	2,735	2,332	5,253	4,641
Expenses	(1,909)	(1,730)	(2,215)	(1,966)	(4,029)	(3,597)
Profit before income tax expense	535	417	520	366	1,224	1,044
Income tax expense	(160)	(125)	(156)	(110)	(365)	(314)
Profit after income tax expense	375	292	364	256	859	730
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	375	292	364	256	859	730
<i>Other financial information</i>						
Accumulated non-controlling interests - Opening	898	822	2,963	2,838	2,928	2,847
Profit attributable to non-controlling interests	66	76	178	125	387	329
Dividends paid to non-controlling interests	(70)	-	(111)	-	(381)	(248)
Acquisition of non-controlling interest	(464)	-	-	-	-	-
Accumulated non-controlling interests - Closing	430	898	3,030	2,963	2,934	2,928

Note 30. Reconciliation of profit after income tax to net cash from/(used in) operating activities

	Consolidated	
	2017	2016
	\$'000	\$'000
Profit after income tax expense for the year	5,026	1,685
Adjustments for:		
Depreciation and amortisation	946	570
Share based payment expense	125	-
Foreign exchange effect on translation of foreign currency operation	(85)	-
Non-operating loss on disposal of business (classified as investing cash flows)	329	-
Change in operating assets and liabilities*:		
Decrease / (Increase) in trade and other receivables	(844)	(1,495)
Decrease / (Increase) in inventories	171	224
Decrease / (Increase) in prepayments and other assets	66	43
Decrease / (Increase) in deferred tax assets	241	(31)
Increase in trade and other payables	2,972	4,547
Increase in provision for income tax	1,153	762
Increase in employee benefits	27	202
Increase in other provisions	193	910
Increase / (decrease) in other operating liabilities	121	(311)
Net cash from/(used in) operating activities	<u>10,441</u>	<u>7,106</u>

*Excluding those assets and liabilities acquired as part of business combinations

Note 31. Earnings per share

	Consolidated	
	2017	2016
	\$'000	\$'000
Profit/(loss) after income tax	5,026	1,685
Non-controlling interest	(631)	(530)
Profit/(loss) after income tax attributable to the owners of National Veterinary Care Ltd	<u>4,395</u>	<u>1,155</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	51,948,940	45,969,843
Adjustments for calculation of diluted earnings per share:		
Employee Incentive (Share Loan) Plan	300,000	225,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>52,248,940</u>	<u>46,194,843</u>
	Cents	Cents
Basic earnings per share	8.46	2.51
Diluted earnings per share	8.41	2.50

Note 32. Share-based payments

During the period and as at 30 June 2017, the Group maintained one share based payment scheme, being the Employee Incentive (Loans Shares) Plan.

Employee Incentive (Loan Shares) Plan

The Company's Employee Incentive Plan was approved by shareholders July 2015. Full details of the Plan can be found on the Company's website under the ASX Announcement of 13 August 2015.

A summary of the key terms and conditions of the plan are:

- Loan shares are shares in the company, each carrying the same dividend rights and otherwise ranking pari passu in all respects with the ordinary issued shares of the company, were the subscription price is funded by way of loan from the company;
- Offers under the plan are the absolute discretion of the Board
- The subscription price will be equal to the volume weighted average price of the company's shares in the week preceding issue (except initial offers issued at IPO price);
- Financial assistance is provided to participants by way of a limited recourse interest free loan to acquire the shares;
- The Company retains security over the Loan Shares whilst ever there is an amount outstanding under the loan;
- Loans shares that have not vested and /or are subject to loan repayment will be restricted from trading;
- The loan shares will vest subject to meeting certain conditions including Total Shareholder Return performance hurdles relative to the company's listed peers (benchmark group). Vesting periods are determined by the Board and are generally 3 years in duration.
- Under the Plan rules, the Company may issue shares to a maximum of 5% of the shares on issue at the time of the offer.

Under the applicable Accounting Standards, the Loan Shares and related limited recourse loan are accounted for as options, which gives rise to a share based payment expense. The treatment of the Loan Shares under the applicable Accounting Standards as options requires that the value of the loans and issue price of the shares are not recorded as Loans Receivables or Share Capital of the Group until repayment or part repayment of the loans occurs. The Group has recognised an after tax, non-cash share-based payment of \$125,000 during the financial year (2016: nil) with a corresponding credit to Shareholders' Equity in the form of a Share Option Reserve.

Movements in the Loans Shares and during the period were:

	Opening Balance	Issued	Cancelled	Closing Balance
Loan Share Plan	225,000	300,000	(225,000)	300,000

The loan shares are valued using a Monte Carlo options pricing model. The TSR performance hurdle, being a market based condition, has been incorporated in to the measurement by means of actuarial modelling. The key valuation assumptions for the grant of options (loan shares) under the plan during the period are as follows:

Grant Date	21 October 2016	21 October 2016
Vesting period ends	14 August 2018	20 October 2019
Share price at grant date	\$1.99	\$1.99
Volatility	35%	35%
Dividend yield	1.00%	1.00%
Risk free investment rate	1.86%	1.86%
Fair value at grant date	\$1.091	\$0.621
Exercise price at grant date	\$1.00	\$2.05
Exercisable from	14 August 2018	20 October 2019
Exercisable to	14 August 2020	20 October 2021
Weighted average remaining contractual life	3.1 years	4.3 years

The underlying expected volatility was determined by reference to historical data of the Company's shares and those of comparable companies over a period of time.

Note 33. Contingent Assets and Liabilities

Contingent Assets

A contingent asset exists in relation to the potential clawback of contingent consideration paid in respect of acquired businesses. This contingent consideration paid includes amounts currently held as cash deposits on trust by 3rd parties and NVL's ordinary shares issued to vendors which are subject to escrow restrictions. Should clawback occur, the Group would then receive control over these assets. As at 30 June 2017 total contingent assets amounted to:

- \$1.196 million (2016: \$1.196 million) cash deposits on trust held by 3rd parties, and
- 3,847,669 (2016: 2,665,572) NVL ordinary shares.

Contingent liabilities

Cross guarantees of the Group's banking and financing facilities total \$44.75 million (2016: \$29.75 million) of which \$25.61 million (2016: \$19.19 million) was drawn at balance date. Included in the drawn amount above, the Group has bank guarantees outstanding of \$0.81 million (\$2016: \$0.62 million) at balance date.

Note 34. Events after the reporting period

Subsequent to 30 June 2017 and to the date of signing of this report, the following events have occurred:

Disposal of Accident and Emergency Specialty Clinics

The Group has settled the disposal of two Accident and Emergency clinics in August 2017. Total consideration, being upfront cash consideration, received for the disposal was \$2.36 million.

Acquisition of Veterinary Clinics

The Group has settled the acquisition of three clinics in July and August 2017. Total consideration for these acquisitions was \$5.95 million including \$4.76 million in cash consideration and \$1.19 million in deferred cash consideration. The deferred cash consideration is subject to claw back provisions.

In addition, the Group has entered into binding agreements for the acquisition of four clinics. The binding agreements are conditional on final due diligence, board approval and lease assignments. The settlement of these acquisitions is expected to take place by 30 September 2017.

The financial effects of these transaction have not been brought into account at 30 June 2017.

Release of shares of escrow

6,048,501 shares held in escrow during the deferral period for the initial portfolio of clinics were released on 16 August 2017.

Dividend

On 28 August 2017, the company declared a final dividend in respect of the financial year of 3 cents per share payable on 4 October 2017.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

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 Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Susan Forrester
Director



Tomas Steenackers
Director

28 August 2017
Brisbane

Independent Auditor's Report
To the members of National Veterinary Care Ltd

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of National Veterinary Care Ltd ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of 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 30 June 2017 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company.

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

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 of the current period. These 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.

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Key Audit Matter	How our audit addressed the key audit matter
Impairment Assessment of Goodwill Note 13 to the financial statements	
<p>In accordance with Australian Accounting Standards AASB 136 'Impairment of assets', the Group is required to perform an annual impairment assessment of the carrying value of goodwill.</p> <p>The Group comprises one operating segment and one cash generating unit (CGU), being the operation of veterinary clinics. The Group utilises a value-in-use cash flow forecast to determine the recoverable amount of the cash generating unit to which goodwill is allocated being the business as a whole. The cash flow forecast has a number of assumptions in relation to future financial and operating performance. These include estimates and judgements of future revenues, operating costs, profit before interest, tax, depreciation and amortisation, growth rate and discount rate.</p> <p>We consider this to be a key audit matter given the significant balance of goodwill and level of estimation and judgements involved in completing the value-in-use calculation.</p> <p>The Group discloses the impairment assessment of goodwill in note 13 to the financial statements.</p>	<p>We evaluated the Group's identification of the CGU and compared against company policy in respect of segment reporting.</p> <p>We examined the cash flow forecast, compared with historical and current operating results and performed enquiry with management to find corroborative evidence in relation to appropriateness of assumptions used in the forecasts.</p> <p>We evaluated the appropriateness of the discount rate used and performed sensitivity analysis over discount rates and growth rates.</p> <p>We tested the mathematical accuracy of the cash flow forecast.</p> <p>We compared the recoverable amount of the cash generating unit to the carrying value of the constituent assets.</p> <p>We assessed the adequacy of disclosure in note 13 to the financial statements.</p>
Acquisition Accounting Note 28 to the financial statements	
<p>The Group acquired 14 veterinary clinics and United Veterinary Group during the year.</p> <p>In accordance with Australian Accounting Standards – AASB 3 'Business Combinations', the Group is required to identify and assess fair value of the assets and liabilities acquired. There are judgements involved in determining the fair value of the assets and liabilities.</p> <p>Given the Group is in the growth phase and the number of acquisitions during the year, we consider this to be a key audit matter.</p> <p>The Group discloses the acquisition accounting in note 28 to the financial statements.</p>	<p>We evaluated the acquisition prices by comparing to settlement statements and sale agreements.</p> <p>We evaluated management's processes and controls in relation to the acquisitions which occurred during the year.</p> <p>We examined the net assets at acquisition and also the resulting goodwill calculation.</p> <p>We examined the terms and conditions of the sale agreements.</p> <p>We evaluated the methodology applied to identify and value the assets and liabilities acquired.</p> <p>We assessed the amount and accounting treatment of acquisition costs.</p> <p>We considered the allocation of goodwill to the cash generating unit and we assessed the adequacy of disclosure in note 28 to the financial statements.</p>

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 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 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 has 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 20 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of National Veterinary Care Ltd for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

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.



HLB Mann Judd
Chartered Accountants

Brisbane, Queensland
28 August 2017



A B Narayanan
Partner

The shareholder information set out below was applicable as at 18 August 2017.

Equity security holders

The names of the twenty largest holders of quoted tradeable equity securities are listed below:

	Ordinary shares	
	Number of shares held	% of total tradeable shares
JP Morgan Nominees Australia Limited	7,415,900	12.93
BNP Parabis Noms Pty Ltd <DRP>	3,943,719	6.88
Charles Foster Pty Ltd <The Foster Family Superannuation A/C>	3,917,185	6.83
HSBC Custody Nominees (Australia) Limited	2,497,914	4.36
National Nominees Limited	2,349,429	4.10
A.D. Foster Consultants Pty Ltd <The A.D. Foster Family A/C>	2,292,897	4.00
Bamganie Pty Ltd <The Ian Buchanan Family A/C >	1,464,023	2.55
BNP Parabis Nominees Pty Ltd <Agency Lending DRP A/C>	1,308,035	2.28
Tomas Steenackers <The Steenackers Family A/C >	1,000,000	1.74
Citicorp Nominees Pty Limited <Colonial First State INV A/C>	812,546	1.42
Brimolda Pty Ltd	725,000	1.26
Aust Executor Trustees Ltd <Henroth Pty Ltd >	713,462	1.24
IP Evolution Pty Ltd <IP Evolution A/C >	694,650	1.21
Middleton Shores Pty Ltd <McKinnon Family Investment A/C >	675,000	1.18
UBS Nominees Pty Ltd	658,396	1.15
Mr Wesley Coote	600,000	1.05
B&S Forrester Pty Ltd < Forrester Family A/C >	600,000	1.05
Blowing Dust Pty Ltd <C & A McKenzie Super Fund A/C>	575,000	1.00
TB & BB Investments Pty Ltd <Burgess Superfund A/C>	539,069	0.94
Scott Andrew Hall & Fiona Walker <SANDF A/C>	515,000	0.90
Netwealth Investments Limited <Wrap Services A/C>	472,101	0.82
Subtotal	33,769,326	58.90
Balance of register	23,565,996	41.10
Total quoted tradeable equity securities ¹	57,335,322	100.00

¹ excludes quoted escrowed equity securities

Securities subject to restriction, including voluntary escrow

Equity securities subject to restrictions are:

Class	Expiry date	Number of shares
Ordinary shares – voluntary escrow	7 September 2017	5,000
Ordinary shares – voluntary escrow	20 February 2018	382,959
Ordinary shares – voluntary escrow	27 April 2018	118,280
Ordinary shares – voluntary escrow	8 July 2018	453,914
Ordinary shares – voluntary escrow	6 September 2018	345,224
Ordinary shares – employee loans		300,000
Total		1,605,377

Distribution of equity securities

Analysis of the number of equity security holders by size of holding:

	Number of holders	Number of tradeable shares
1 to 1,000	392	225,660
1,001 to 5,000	546	1,624,257
5,001 to 10,000	291	2,458,921
10,001 to 100,000	327	9,662,452
100,001 and over	61	43,364,032
Total	1,617	57,335,322
Holding less than a marketable parcel	54	6,691

Unquoted equity securities

There are no unquoted equity securities.

Substantial holders

The names of substantial holders who have notified the Company in accordance with Part 6C.1 of the *Corporations Act 2001* as at 18 August 2017 are:

	Number held	Percentage
Charles Foster and associated entities	6,209,882	11.65%
IOOF Holdings Limited and associated entities	4,521,585	8.62%
Microequities Asset Management Pty Ltd	3,768,701	7.30%
Washington H. Soul Pattinson and Company Limited ¹	2,993,757	5.71%
Pengana Capital Limited	2,879,352	5.49%

¹ due to holding more than 20% of Pengana Capital Limited

Voting rights

The Company has only ordinary shares on issue. Each ordinary share carries the right to vote at any members' meeting. 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.

On-market buyback

There is no current on-market buyback of the Company's securities.

Registry

Securityholders who have any questions regarding their holding should contact the Company's registrar:

Link Market Services Limited
P: 1300 554 474 (in Australia) or +61 1300 554 474 (from overseas)
F: +61 2 9287 0303
E: registrars@linkmarketservices.com.au
www.investorcentre.linkmarketservices.com.au

Share price

The Company's share price can be obtained at the ASX website www.asx.com.au and using the ASX code NVL.