Transforming lives. That's our vision.

Vision Eye Institute Limited
ANNUAL REPORT 2014

Chairman's Letter

On behalf of the Board of Directors of Vision Eye Institute Limited (VEI), I am pleased to present to you our 2014 Annual Report.

Highlights of VEI's consolidated results for the year ended 30 June 2014 include:

- EBITDA $26.0 million representing a 23.5% margin on revenue
- Profit after tax increased 40% to $13.2m reflecting significantly lower interest expense and $1.9m one off insurance proceeds
- Bank debt reduced from $47.5 million to $38.5 million

Most pleasing was the return to dividends with a fully franked final dividend of 1.25 cents per ordinary share declared for the year ended 30 June 2014.

Our day surgery revenue base increased due to volume growth in Victoria from new partner doctors as well as improvements in existing doctor capacity, and in Queensland due to additional surgical volumes in Brisbane from visiting surgeons and after a doctor absence in FY13.

As noted previously a key focus is to grow our day surgery business even further, both organically through improving the utilisation of our existing sites, and externally looking at new sites. Lease terms have been agreed on a greenfield day surgery site in Melbourne's northern suburbs, this is currently in the planning and design phase and operations are expected to commence July 2016. We are also looking at opportunities to expand our footprint of Ophthalmic day surgeries with co-located or closely located clinics. As a result we believe we are in a strong position to meet the increasing demand for ophthalmic procedures.

Further increases in doctor contract payments will continue to place pressure on costs, however we believe this is an essential step to ensuring we retain existing doctors and attract new doctors in order to grow our business.

We are actively exploring opportunities to continue a day surgery and consulting presence on the Gold Coast as the Gold Coast Theatre agreement with Ramsay Healthcare will cease on 31 December 2015.

Demand for ophthalmic services continues to increase in Australia and VEI's financial performance in terms of operating margins and cash flows remains healthy. However, we currently are investigating a number of opportunities that will bring a new alternate revenue stream to the company.

I would also like to take this opportunity to thank our team of doctors and clinic staff for their dedication and commitment to their patients and VEI over the past year. I would also like to thank Brett Coverdale and his management team for their efforts over the past year.

On behalf of the Board, I would like to thank you for your support as a shareholder as we continue our journey and look forward to speaking with you at the AGM on 21 November 2014.

Shane Tanner
Chairman

Directors' Report

Your Directors submit their report on the consolidated entity (referred to herein after as the Group) consisting of Vision Eye Institute Limited (the Company or Vision Eye Institute) and the entities it controlled at the end of, or during the year ended 30 June 2014.

DIRECTORS

The names of the Directors of the Company in office during the year ended 30 June 2014 and until the date of this report are as follows. All Directors, unless otherwise indicated were in office from the beginning of the financial period until the date of this report.

Mr Shane Tanner FCPA, ACIS
(Non-Executive Chairman)

Mr Tanner has been Chairman since the Group formed in December 2001. Mr Tanner has extensive commercial and financial experience in a number of industries including health. Presently he is the Vision Eye Institute Chairman and Chairman of the Nomination & Governance Committee. He also serves on the Audit & Risk Management Committee. During the past three years he has also served as a Director of the following other listed companies:

- Paragon Care Limited
(Appointed December 2005) – Chairman
- Funtastic Limited
(Appointed March 2009) – Chairman
- IPB Petroleum Limited (Resigned May 2014)

Mr Iain Kirkwood MA(Hons)(Oxon), FCPA, CA, MAICD
(Non-Executive Director)

Mr Kirkwood joined the Board in November 2004, immediately prior to the Company joining the ASX. He brings extensive financial experience gained from a range of healthcare businesses during his career. He is presently Chairman of the Audit & Risk Management Committee and serves on the Remuneration Committee. During the past three years he has also served as a Director of the following other listed companies:

- Avexa Limited
(Appointed August 2010) – Chairman
- Bluechiip Limited
(Appointed November 2007) – Chairman
- MHM Metals Limited
(Appointed February 2013) – Chairman
- Medical Developments International Limited
(Resigned February 2013)

Ms Zita Peach BSC, FAMI, GAICD
(Non-Executive Director)

Ms Peach joined the Board in October 2011. Ms Peach has had a long career in the healthcare industry having held a number of key management, business development, strategic planning and marketing roles. She is currently Managing Director/Executive Vice President of Fresenius Kabi Australia and New Zealand. Prior to that, she was Vice-President/Director, Business Development at CSL Limited. Ms Peach was a former director of not-for-profit organisation, BioMelbourne Network. She is presently Chairman of the Remuneration Committee and serves on the Audit & Risk Management Committee. During the past three years she has also served as a Director of the following other listed company:

- Starpharma Holdings Limited
(Appointed October 2011)

Dr Michael Wooldridge BSc, MBBS, MBA, LLD
(Non-Executive Director)

Dr Wooldridge joined the Board in July 2012. He was Australia's Federal Minister for Health from 1996 to 2001, during which time he was widely acknowledged for his commitment to public health, community pharmacy, and biomedical research. Dr Wooldridge is Chairman of the Mental Health Cooperative Research Centre and Deputy Chairman of Aspen Medical. Dr Wooldridge is also an Adjunct Professor at Monash University. He is currently a member of the Nomination & Governance and Remuneration Committees. During the past three years he has also served as a Director of the following other listed companies:

- Australian Pharmaceutical Industries Limited
(Appointed February 2006)

Mr Brett Coverdale BBus, CA

Mr Coverdale was appointed CEO and Managing Director on 31 August 2012. He joined the Company as Chief Financial Officer (CFO) in February 2011. Mr Coverdale has extensive senior executive experience having previously held the roles of CEO and Managing Director at SteriHealth Limited, Chief Operating Officer at Nylex Limited and CFO at Mayne Express. He is a Chartered Accountant and spent the first 12 years of his career with KPMG.

Dr Michael Lawless MBBS, FRANZCO, FRACS, GAICD (Medical Director)

Dr Lawless is an experienced ophthalmologist and administrator having performed in excess of 25,000 LASIK, cataract and corneal transplant operations.

Dr Lawless is a Clinical Associate Professor to the Sydney Medical School (University of Sydney), a Fellow of the Royal Australian and New Zealand College of Ophthalmologists, a Fellow of the Royal Australian College of Surgeons and a graduate of the Australian Institute of Company Directors. He served as Chairman of the Department of Ophthalmology at Royal North Shore Hospital in Sydney from 2000 to 2006 and is past president of the International Society of Refractive Surgery. Dr Lawless is convener of the cataract programme for the Asia Pacific Academy of Ophthalmology and in 2012 received the Senior Achievement Award from the American Academy of Ophthalmology for services to ophthalmic education.

Dr Joseph Reich MBBS, DO (Melbourne), FRACS, FRANZCO, MAICD (Executive Director)

Dr Reich is a specialist cataract and refractive surgeon and a founding partner of the Camberwell Eye Clinic. He is a former Head of Clinic and Chairman of the Senior Medical Staff at the Royal Victorian Eye and Ear Hospital.

He has held the posts of Chairman of the Qualification and Education Committee (Victoria) and Federal Councillor for the Royal Australian and New Zealand College of Ophthalmologists. His teaching experience includes the Undergraduate Lectures in Ophthalmology at the Royal Victorian Eye and Ear Hospital (Melbourne), lecturer at the Lincoln Institute School of Orthoptics and editorial board member for the American Academy of Ophthalmology textbook on Lens and Cataract. He is in active practice and lectures in his areas of specialty both in Australia and overseas.

Dr Reich is also currently the Regional Director in Victoria.

Dr Christopher Rogers MBBS, FRANZCO (Executive Director)

Dr Rogers is recognised both in Australia and overseas for his work in the field of refractive surgery. He brought the first excimer laser to the country. He has served on the medical advisory board of various international ophthalmic companies and has been actively involved in the development of new laser technology. He has published and lectured widely on the subject of refractive surgery and laser vision correction. He is an emeritus consultant in ophthalmology at Royal North Shore Hospital in Sydney. Dr Rogers is a member of the Nomination & Governance Committee.

Directors' interests in the shares of the Company

As at the date of this report, the interests of the Directors in the shares of the Company were:

Director	No. of Ordinary Shares
Mr Shane Tanner	150,000
Mr Iain Kirkwood	36,310
Ms Zita Peach	16,666
Dr Michael Wooldridge	25,000
Dr Michael Lawless	2,139,704
Dr Joseph Reich	2,738,301
Dr Christopher Rogers	996,704
Mr Brett Coverdale	328,256

COMPANY SECRETARIES

Ms Anne McGrath BCom, CA

Ms McGrath was appointed Company Secretary on 31 August 2012. She is a Chartered Accountant and has previously held senior finance roles with Symbion Health Limited, Mayne Group Limited and Pacific Dunlop Limited.

Ms Karen Lopreiato BCom, FCIS, DipAppCorpGov

Ms Lopreiato was appointed Company Secretary in November 2011. She has many years of company secretarial experience with listed companies including Symbion Health Limited, Mayne Pharma Limited, Mayne Group Limited and Colonial Limited.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

During the financial period the Company was the ultimate holding company for a number of subsidiaries. The Group provides private ophthalmic services. There were no significant changes in the nature of these activities during the year.

GROUP OVERVIEW

Vision Eye Institute Limited provides ophthalmic services through the ownership and management of eighteen consulting clinics, eight day surgeries, and seven refractive surgery facilities in Victoria, New South Wales and Queensland.

The Group derives its revenue from:

- Consultation fees for patient examinations, investigative and diagnostic tests
- Surgical fees for ophthalmic procedures
- Day surgery theatre fees
- Refractive surgery fees

This revenue is sourced from a combination of Medicare rebates, Department of Veterans Affairs contributions, private health insurer contributions and from patients directly.

The following table outlines the Group's operations by location:

Location	Consulting	Day Surgery	Laser Refractive
Victoria			
Camberwell	✓	✓	
Blackburn South	✓		
Coburg	✓		
Footscray	✓	✓	
St Kilda Road	✓		✓
Box Hill	✓	✓	
New South Wales			
Bondi Junction	✓		✓
Chatswood	✓	✓	✓
Mosman	✓		
Drummoyne	✓		
Hurstville	✓	✓	✓
Queensland			
Southport	✓	✓	✓
Varsity Lakes	✓		
Coolangatta	✓		
Upper Mt Gravatt	✓		
Brisbane	✓	✓	✓
Townsville	✓	✓	✓
Mackay	✓		

OPERATING RESULTS FOR THE YEAR ENDED 30 JUNE 2014

Overview of Results

Operating revenues for the Group were $110.6 million, an increase of $3.5 million (3.3%) on FY13. The increase was due to:

- An increase in theatre procedures, with day surgery revenue increasing $2.4 million (6.7%); and
- An increase in consulting and surgical revenue $1.3 million (2.1%).

Industry data indicates that demand for ophthalmic procedures continues to increase. This was reflected by the increase in procedures at our day surgery facilities. The consulting and surgical revenue growth was mainly due to the introduction of additional doctors in Victoria who were able to meet further demand and improve utilisation of our facilities. Pressure on fees continues due to the current freeze on Medicare rebates.

Gross profit was $47.6 million (43% margin), a decline on FY13 of $48.4 million (45% margin) due to an increase in the cost of services. Contract doctor payments at $21.3 million were $2.6 million above FY13 ($18.7 million), arising from additional doctors and the continuing rebalance of clinic profit share with doctors.

EBITDA excluding other income was $24.1 million (FY13 $25.3 million before goodwill impairment) with indirect costs being impacted by legal costs of $2.0 million (FY13 $0.7 million) related to the current litigation matters.

As reported at the half year, the Group benefited from one off proceeds from an insurance claim of $1.9 million. As a consequence, EBITDA after other income was $26.0 million (FY13: $25.3 million before goodwill impairment).

EBIT was $20.9 million (FY13: $19.7 million before goodwill impairment). The increase is due to the insurance claim proceeds and a reduction in depreciation expense with low capital expenditure required in recent years.

Net finance costs for the year decreased 66% to $2.0 million (FY13: $6.0 million), with the $4.0 million decrease due to the reduction of bank debt, and the benefit of lower interest rates and margins.

Due to the significant decline in finance costs and the benefit of the insurance proceeds, Profit before tax was $18.9 million (FY13 $13.7 million before goodwill impairment) and Profit after tax was $13.2 million (FY13 $9.4 million before goodwill impairment).

Regional Performance

Revenue for New South Wales was slightly down on FY13, with a decline in consulting and surgical revenue due to a reduction in doctor work hours. Refractive revenue was maintained in line with FY13. The EBIT margin fell from 21% to 20% year on year (prior to goodwill impairment) due to the increase in contract doctor payments.

In Victoria, revenue increased $3.0 million (9.4%), due mainly to the introduction of new doctor partners and an increase in surgical volumes. The EBIT margin for FY14 declined to 27% (2013 29%) due to an increase in contract doctor payments.

Revenue for Queensland increased $0.6 million (1.5%), primarily due to an increase in surgical volumes. Refractive revenue was slightly lower than 2013. EBIT margin increased from 25% to 27%, due to lower depreciation as a number of assets were fully depreciated during 2014 (which are being replaced during 2015), a $260k profit on sale of business assets of the Hyde Park clinic in Townsville, and lower insurance costs.

Review of financial conditions

Cash generated from operations was $23.4 million. The consolidated cash flow statement illustrates there was an increase in cash and cash equivalents in the year ended 30 June 2014 of $3.7 million (2013: $0.5 million) after debt repayment of $9.0 million and the purchase of freehold property of $6.0 million.

The Group had the following funding facilities available at 30 June 2014:

	Facility	Available
NAB		
Guarantee facility	$1.2 million	$0.7 million
Amortising loan facility	$19.25 million	$nil
ANZ		
Guarantee facility	$0.6 million	$nil
Amortising loan facility	$19.25 million	$nil
Total	**$40.3 million**	**$0.7 million**

In July 2013, an Amendment and Restatement Deed was executed amending the previous debt facility, where Westpac was replaced with the National Australia Bank (NAB). Key terms of the amended facility with ANZ and NAB are as follows:

- A reduction in the facility limit to $42.5 million;
- Extension of the facility to 31 July 2016;
- Principal repayment of $5 million per year; and
- Significantly improved cost of funds.

An amendment to the repayment terms was agreed with both the ANZ and NAB on 21 February 2014 which resulted in a variation of the required payments to $2.5 million for the year ended 30 June 2014 and $5.5 million for the year ended 30 June 2015 following the Company's purchase of the Box Hill freehold property in Victoria which settled on 21 February 2014.

The Guarantee facility exists to provide guarantees over leased premises.

The Group has sufficient funds to finance its operations to service the facilities set out above.

Performance indicators

Management and the Board monitor the Group's overall performance, from its implementation of the strategic plan through to the performance of the Company against operating plans and financial budgets.

The Board, together with management, has identified key performance indicators (KPI's) that are used to monitor performance. Management monitor KPI's on a timely basis. Directors receive various financial KPI's for review prior to each monthly Board meeting allowing all Directors to actively monitor the Group's performance.

Risk management

The Board is actively involved in the risk management process and has delegated responsibility for the development and maintenance of a framework of risk identification, management and control to the Audit and Risk Management Committee. Risk management committees also operate at a state, individual clinic and day surgery level to monitor and respond to issues and risks identified by senior management and the Board.

The Board has a number of quality management mechanisms in place to ensure that management's objectives and activities are aligned with potential business risks and opportunities. These include the following:

- Implementation of Board approved operating plans and monitoring of progress against these budgets, including financial and non-financial key performance indicators;
- The ongoing monitoring by the Audit & Risk Management Committee;
- The establishment of committees at a group, state, local clinic and day surgery level to monitor and report on specific business risks. Committee members include management, doctors, nursing staff, orthoptists and clinical staff. Established committees include clinical care, infection control, health and safety, medical advisory committee, day surgery accreditation.

All of our clinics and day surgeries meet current legislative requirements. Our day surgeries are certified to ISO 9001:2008 and accredited to the National Safety and Quality Health Services Standards.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the 2014 financial year bank debt was reduced by $9.0 million. In November 2013, the Box Hill freehold property in Victoria from which its operations are conducted, was purchased at a cost of $6.0 million.

Other than the above, there were no other changes in the significant state of affairs of the Group that occurred during the financial year.

DIVIDENDS

Subsequent to 30 June 2014, the Company declared a fully franked final dividend of 1.25 cents per ordinary share for the year ended 30 June 2014 (2013: nil) as follows:

Declared after end of year	2014 Final
Per ordinary share	1.25 cents
Total amount	$2.1 million
Franked	30%
Payment date	30 September 2014

The record date for the dividend is 9 September 2014.

EVENTS AFTER BALANCE DATE

Further to existing litigation pending in the Supreme Court of Victoria (refer Note 21), on 18 July 2014, Dr Unger, Ziman Pty Ltd and Norwood Winds Pty Ltd commenced new proceedings in the Supreme Court of Victoria alleging breaches by the Company of its continuous disclosure obligations dating back to 2008. On 28 July 2014, the Supreme Court made orders that the two sets of proceedings be heard together and the Company and its lawyers filed and served the Company's defence on 19 August 2014.

The allegations made in the new proceeding are denied, the Company will continue to defend strongly all allegations made by Dr Unger and has strong defences on which it will rely. Further, the Company will continue to pursue its counterclaim against Dr Unger for the debt owed to it. The trial is likely to occur in 2015.

The Company declared a fully franked final dividend of 1.25 cents per ordinary share.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

During the 2015 financial year the Group will continue to focus on the recruitment of new doctors, re-contract doctors and pursue suitable growth opportunities.

The Company expects to sign a lease to secure a facility in the northern suburbs of Melbourne. The Company intends to build a day surgery at this site and this is currently in the planning and design stage. The expected operational date is July 2015.

As previously disclosed, the Southport day theatre agreement will terminate on 31 December 2015. Further, the lease over space at the Short Street Southport premises will expire on 31 December 2015 and the Group will be required to exit the premises. During this time we will also see some of our Gold Coast doctor partners leave the Group. Management is actively exploring opportunities to continue our day surgery and clinic presence on the Gold Coast.

The Company intends to communicate its earnings guidance for the year ending 30 June 2015 to the market at its Annual General Meeting to be held on Friday 21 November 2014.

UNISSUED SHARES AND INTEREST IN OPTIONS

There were no unissued shares or options issued during or since the end of the financial year and there were no options outstanding at the end of the financial year.

The Company has a Practice Enhancement Fund (PEF) which is a pool of notional (un-issued) shares (refer note 23 for further details).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year the Company continued to insure the Directors, secretaries and senior officers of the Group. The liabilities insured are losses that may be incurred as the result of civil or criminal proceedings that may be brought against the officer in their capacity as an officer of the Company.

Under the terms of the insurance contracts the premium paid for these policies cannot be disclosed.

DIRECTORS' MEETINGS

The number of meetings of the Board of Directors and of each Board Committee held during the year and each Director's attendance at those meetings are set out in the table below.

Meetings of the Board & Committees

	Directors Meetings	Nomination & Governance	Audit & Risk Management	Remuneration
Number of meetings held	**15**	**2**	**4**	**6**
Number of meetings attended				
S Tanner	14	2	4	–
B Coverdale	15	–	–	–
I Kirkwood	15	–	4	6
Dr M Lawless	13	–	–	–
Dr J Reich	14	–	–	–
Dr C Rogers	11	2	–	–
Z Peach	14	–	2	6
M Wooldridge	15	2	–	5

COMMITTEE MEMBERSHIPS

The Company has a Nomination and Governance Committee, an Audit and Risk Management Committee and a Remuneration Committee of the Board of Directors. At the date of this report, the members of these committees are:

Nomination & Governance	Audit & Risk Management	Remuneration
S Tanner (Chairman)	I Kirkwood (Chairman)	Z Peach (Chairman)
M Wooldridge	S Tanner	I Kirkwood
C Rogers	Z Peach	M Wooldridge

ROUNDING

The amounts contained in this report and in the financial report have, unless otherwise stated, been rounded to the nearest $1,000 under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

During the financial year no non-audit services were provided by Deloitte Touche Tohmatsu, the auditor of the Company.

The Directors have received the Declaration of Independence from the auditor of the Company (refer page 15).

REMUNERATION REPORT (AUDITED)

This Remuneration Report, which forms part of the directors' report, sets out information about the remuneration of the Company and the Group's Key Management Personnel (KMP) for the financial year ended 30 June 2014 in accordance with the requirements of the Corporations Act 2001 and its Regulations. The Remuneration Report has been audited as required by Section 308 (3c) of the Act.

For the purposes of this report, KMP of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company and the Group.

For the purposes of this report, the term 'executive' includes the chief executive officer and senior executives of the Company and the Group.

Details of KMP

S Tanner	Non-Executive Director – Chairman
B Coverdale	Chief Executive Officer and Managing Director (CEO)
I Kirkwood	Non-Executive Director
Z Peach	Non-Executive Director
Dr M Wooldridge	Non-Executive Director
Dr M Lawless	Executive Director
Dr J Reich	Executive Director
Dr C Rogers	Executive Director
A McGrath	CFO & Company Secretary

The named persons held their current position for the whole of the financial year and there were no changes to KMP after reporting date and before the date the financial report was authorised for issue.

Remuneration Philosophy

The ultimate performance of the Group depends on the quality of its Directors and executives to deliver the Group's operational and financial plan. To prosper the Group must attract, motivate and retain appropriately skilled Directors and executives.

The Group incorporates the following principles in its remuneration framework:

- Provision of competitive remuneration and rewards to attract and retain appropriate skilled executives
- Linking of executive rewards to shareholders' returns
- Components of executive remuneration are at risk and dependent upon meeting pre-determined performance benchmarks
- Inclusion of appropriate challenging performance hurdles in relation to variable executive remuneration
- Provision of a Non-Executive Director share ownership scheme providing the ability for Non-Executive Directors to sacrifice a percentage of their annual directors' fees to acquire shares.

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors and CEO and the executives reporting directly to the CEO.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of senior executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality executive team.

Nomination and Governance Committee

The Nomination and Governance Committee is responsible for recommending the appointment and reviewing the performance of Directors and the CEO. The Committee also makes recommendations to the Board in respect of conditions of service for Directors and senior executives.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and executive remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is appropriate for the Company's current size and is acceptable to shareholders.

Structure

The Company's constitution provides that the Non-Executive Directors are entitled to be paid directors' fees in aggregate up to a maximum of $500,000 (FY13: $500,000) per annum or such other amount determined from time to time at a general meeting.

The amount of aggregate remuneration sought is to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually.

The Non-Executive Director share ownership scheme provides the ability for Non-Executive Directors to sacrifice a percentage of their annual Directors fees to acquire shares. No shares have been acquired under this scheme during the year (2013: nil). The Non-Executive Directors do not receive retirement benefits nor do they participate in any incentive programs.

The remuneration of Non-Executive Directors for the years ended 30 June 2014 and 30 June 2013 is detailed in Tables 1 and 2 respectively on pages 12 and 13.

Executive Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group so as to:

- Reward executives for Group and individual performance against targets set by reference to appropriate internal benchmarks;
- Align the interests of executives with those of shareholders; and
- Ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of senior executive remuneration, the Remuneration Committee has sought external advice in respect to market levels of remuneration for comparable executive roles.

Remuneration may consist of the following elements:

- Fixed remuneration (Base salary, superannuation)
- Variable remuneration
  - Short term incentives (STI)
  - Long term incentives (LTI)

The proportion of fixed remuneration and variable remuneration established for each executive by the Remuneration Committee for the years ended 30 June 2014 and 30 June 2013 is set out below in Tables 1 and 2 respectively on pages 12 and 13.

Fixed Remuneration

Objective
The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of Group and individual performance, relevant comparative remuneration in the market and, where appropriate, external advice on policies and practices.

Structure
Executives receive their fixed remuneration in cash.

Variable Remuneration

Short-Term Incentive (STI) and Long-Term Incentive (LTI)
The objective of the variable remuneration plan is to reward executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. Variable remuneration grants are made to senior executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance against relevant performance hurdles, and in the case of other personnel, for their contribution to the achievement of performance targets.

Short-Term Incentive (STI)
The STI component of the variable remuneration for the current CEO is approximately 21% of the total variable remuneration payable in any one year and will be payable in cash, but only upon achievement of a mix of financial and non-financial targets set by the Remuneration Committee at the commencement of each financial year.

The STI is:

(a) Equal to an agreed percentage of the annual fixed remuneration;

(b) Payable when the audited Group EBIT (adjusted for impairment) meets or exceeds the agreed EBIT set by the Board and certain other performance criteria set by the Remuneration Committee at or around the start of the financial year; and

(c) Payable following the release of the Group's audited final result as a cash bonus so long as the executive was an employee of the Group at the time all payments are due.

The maximum potential STI bonus for the 2014 financial year is $155,000 (2013: $150,000). Of this amount $126,335 (82%) has been accrued based on an assessment of the CEO's performance against performance criteria for the year, as determined by the Remuneration Committee.

There have been no alterations to the STI bonus plans since their grant date.

For the 2013 financial year, 100% of the STI bonus as previously accrued in that period vested to executives and has been subsequently paid in full.

Long-Term Incentive (LTI)
There were no LTI arrangements in place during the year ended 30 June 2014.

Executive Share Purchase Plan

In March 2008 the Company introduced an Executive Share Purchase Plan (ESP) for senior executives. The Company offered eligible senior executives an unsecured full recourse loan facility to acquire Vision Eye Institute Limited ordinary shares on-market during a permitted trading window in the Company's shares.

As of 30 June 2014, all loans were settled with the exception of one which is the subject of litigation (refer note 21 to the financial statements).

Hedging of Equity Awards

Employees may not enter into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of shares in the Company which are subject to a restriction on disposal under an employee share or incentive plan; or options or performance rights (or shares in the Company underlying them) granted under an employee share or incentive plan. All employees who are the recipients of equity awards have confirmed that no such transactions have been entered into.

Group Performance

The table below sets out the Group's profitability (Revenue, Results from operating activities (EBIT) and EBIT adjusted for goodwill impairment) for the past five financial years.

$'000	2014	2013	2012	2011	2010
Revenue	110,587	107,056	111,220	107,277	108,069
EBIT	20,917	(6,607)	21,785	(10,189)	(45,898)
Goodwill impairment	–	(26,300)	–	(27,681)	(66,014)
EBIT (adjusted for impairment)	20,917	19,693	21,785	17,492	20,116

The Group performance is also reflected in the movement of the Group's earnings per share (EPS) over time. The table below sets out the Group's EPS history for the past five years (including the current year).

Cents per share	2014	2013	2012	2011	2010
EPS – basic and diluted	7.9	(11.4)	10.2	(28.1)	(71.9)

The Group used EBIT and other non-financial and operational measures to drive STI payments for the CEO during the year ended 30 June 2014. The EBIT (adjusted for goodwill impairment) over the 5 year period from 1 July 2009 to 30 June 2014 is set out in the table above.

No dividends were paid during the current financial year (2013: nil).

Employment contracts

Chief Executive Officer and Managing Director (CEO)

Mr Coverdale (appointed 31 August 2012)

Mr Coverdale, is employed as CEO under a rolling contract. The current employment contract commenced 31 August 2012. Under the terms of the contract:

- Mr Coverdale receives a fixed remuneration of $570,000 per annum inclusive of superannuation.
- For the year ended 30 June 2014, Mr Coverdale was eligible to participate in the Company's STI plan up to $155,000 subject to meeting specified financial and operational criteria. The Remuneration Committee in consideration of Mr Coverdale's performance against the specified performance criteria has determined that his actual STI bonus will be 82% of the maximum STI for the year 30 June 2014. There was no LTI component of remuneration for the year.
- Mr Coverdale may resign from his position and thus terminate his contract by giving three months written notice. The Company may terminate Mr Coverdale's contract by giving 12 months written notice or providing payment in lieu of the notice period (based on the fixed component of Mr Coverdale's remuneration).

Doctor Directors

Doctor Directors are engaged by the Group under contractor arrangements. Refer note 26 for details of related party payments made to certain doctor directors in respect of their share of ophthalmic clinic profitability.

Other Executives (standard contracts)

All executives and KMP have rolling contracts. The Group may terminate an executive's employment by providing written notice for periods between 1 and 3 months or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). The Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed and only up to the date of termination.

Directors' Report

REMUNERATION REPORT (AUDITED) *continued*

Table 1: Remuneration for the year ended 30 June 2014

	Short term	Short term	Short term	Post employment	Long term	Termination	Share based payments		
	Salary, contractor payments & fees	Bonus granted (payable in cash)	Non-monetary	Superannuation	Long service leave (accrued)		Options/ Tenure Rights	Total	Performance related
	$	$	$	$	$	$	$	$	%
Non-Executive Directors									
S Tanner – Chairman	131,808	–	–	12,192	–	–	–	144,000	–
I Kirkwood	65,904	–	–	6,096	–	–	–	72,000	–
Z Peach	65,904	–	–	6,096	–	–	–	72,000	–
M Wooldridge	65,904	–	–	6,096	–	–	–	72,000	–
Sub-total Non-Executive directors	**329,520**	**–**	**–**	**30,480**	**–**	**–**	**–**	**360,000**	
Executive Directors									
Dr M Lawless – Medical Director (1)	47,140	–	–	4,360	–	–	–	51,500	–
Dr J Reich (2)	–	–	–	–	–	–	–	–	–
Dr C Rogers (3)	176,667	–	–	–	–	–	–	176,667	–
B Coverdale – CEO & Managing Director	545,000	126,335	–	25,000	1,502	–	–	697,837	18.1%
Other key management personnel									
A McGrath – CFO (4)	225,000	20,000	–	25,000	726	–	–	270,726	7.4%
Sub-total executives and other KMP	**993,807**	**146,335**	**–**	**54,360**	**2,228**	**–**	**–**	**1,196,730**	
Total	**1,323,327**	**146,335**	**–**	**84,840**	**2,228**	**–**	**–**	**1,556,730**	

(1) A Medical Director fee of $51,500 inclusive of superannuation was paid. Refer note 26 to fees related to Ophthalmic Services provided under contract. (2) Nil director fees were received. Refer note 26 to fees related to Ophthalmic Services provided under contract. (3) Fee received for Executive services provided under contract. Nil director fees were received. Refer note 26 to fees related to Ophthalmic Services provided under contract. (4) Bonus payment related to FY13 based on achievement of non-financial measures as agreed by the Remuneration Committee.

Table 2: Remuneration for the year ended 30 June 2013

	Short term	Short term	Short term	Post employ-ment	Long term	Term-ination	Share based payments		
	Salary, contractor payments & fees	Bonus granted (payable in cash)	Non-mone-tary	Super-annua-tion	Long service leave (accrued)		Options/ Tenure Rights (5)	Total	Perfor-mance related
Non-Executive Directors	$	$	$	$	$	$	$	$	%
S Tanner – Chairman	128,440	–	–	11,560	–	–	–	140,000	–
I Kirkwood	64,220	–	–	5,780	–	–	–	70,000	–
Z Peach	64,220	–	–	5,780	–	–	–	70,000	
M Wooldridge (1)	64,220	–	–	5,780	–	–	–	70,000	–
Sub-total Non-Executive Directors	**321,100**	–	–	**28,900**	–	–	–	**350,000**	
Executive Directors									
Dr M Lawless – Medical Director (2)	45,872	–	–	4,128	–	–	–	50,000	–
Dr J Reich (3)	–	–	–	–	–	–	–	–	–
Dr C Rogers (4)	175,000	–	–	–	–	–	–	175,000	–
B Coverdale – CEO & Managing Director (5)	491,667	133,500	–	25,000	–	–	–	650,167	20.5 %
G Thompson – CEO & Managing Director (6)	80,588	–		4,118	(3,191)	–	–	81,515	–
Other key management personnel									
A McGrath – CFO (7)	160,828	–	–	23,886	–	–	–	184,714	–
Sub-total executives and other KMP	**953,955**	**133,500**	–	**57,132**	**(3,191)**	–	–	**1,141,396**	
Total	**1,275,055**	**133,500**	–	**86,032**	**(3,191)**	–	–	**1,491,396**	

(1) Appointed Non-executive Director 1 July 2012 (2) A Medical Director fee of $50,000 inclusive of superannuation was paid. Refer note 26 to fees related to Ophthalmic Services provided under contract. (3) Nil director fees were received. Refer note 22 to fees related to Ophthalmic Services provided under contract. (4) Fee received for Executive services provided under contract. Nil director fees were received. Refer note 26 to fees related to Ophthalmic Services provided under contract. (5) Mr Coverdale resigned as CFO on 31 August 2012 and was appointed CEO & Managing Director on 31 August 2012. (6) Mr Thompson resigned as CEO & Managing Director on 31 August 2012. (7) Ms McGrath was appointed CFO on 31 August 2012

Options and rights over equity instruments granted as compensation

No performance options or tenure rights were granted as compensation during the reporting period. There were nil options and tenure rights outstanding at 30 June 2014 and 2013.

There were no alterations to the terms and conditions of equity instruments awarded as remuneration since their award date.

Directors' Report

REMUNERATION REPORT (AUDITED) *continued*

Exercise of equity instruments granted as compensation

No shares were issued on the exercise of performance options and vesting of tenure rights during the reporting period.

No performance options were exercised during the reporting period (2013: nil). There were no amounts unpaid on the shares issued as a result of the exercise and issue of the performance options and tenure rights.

Shares held by KMP in Vision Eye Institute Limited (number)

Fully paid ordinary shares held by KMP in the Company are set out below:

Year ended 30 June 2014	Opening Balance 30 June 2013	On exercise of options/tenure rights	Net change other	Closing Balance 30 June 2014
S Tanner	150,000	–	–	50,000
I Kirkwood	36,310	–	–	36,310
Z Peach	16,666	–	–	16,666
Dr M Lawless	2,139,704	–	–	2,139,704
Dr J Reich	2,738,301	–	–	2,738,301
Dr C Rogers	996,704	–	–	996,704
B Coverdale	328,256	–	–	328,256
M Wooldridge	25,000	–	–	25,000
Total	**6,430,941**	**–**	**–**	**6,430,941**

Year ended 30 June 2013	Opening Balance 30 June 2012	On exercise of options/tenure rights	Net change other	Closing Balance 30 June 2013
S Tanner	550,000	–	(400,000)	150,000
I Kirkwood	43,232	–	(6,922)	36,310
Z Peach	–	–	16,666	16,666
G Thompson (1)	528,226	–	(528,226)	
Dr M Lawless	1,481,823	–	657,881	2,139,704
Dr J Reich	1,642,981	–	1,095,320	2,738,301
Dr C Rogers	808,023	–	188,681	996,704
B Coverdale	10,000	–	318,256	328,256
M Wooldridge	–	–	25,000	25,000
Total	**5,064,285**	**–**	**1,366,656**	**6,430,941**

(1) Resigned during the year ended 30 June 2013. The 'Net change other' column reflects his non KMP status at 30 June 2013.

This Directors' Report is signed in accordance with a resolution of directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the board

S F Tanner

Chairman

Melbourne, 26 August 2014

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Vision Eye Institute Limited
Level 5, 390 St Kilda Road
MELBOURNE VIC 3004

26 August 2014

Dear Board Members,

Vision Eye Institute Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Vision Eye Institute Limited.

As lead audit partner for the audit of the financial statements of Vision Eye Institute Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountant

Corporate Governance Statement

The Board of Directors of Vision Eye Institute Limited (the 'Company') is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

Corporate governance of the Company is guided by the ASX Corporate Governance Council's (the Council) Corporate Governance Principles and Recommendations. The Council released the 3rd edition of the Corporate Governance Principles and Recommendations (3rd edition Recommendations) in March 2014 however, this only takes effect for the financial year ended 30 June 2015. For the 2014 Annual Report, the Board has agreed the Company should report against the 2nd edition published in August 2007, including the 2010 amendments (2nd edition Recommendations). Where appropriate, the Corporate Governance Statement makes reference to compliance with the 3rd edition Recommendations.

This Corporate Governance Statement, which was approved by the Board on 25 August 2014, is available in the Corporate Governance section of the Company's investor website (www.investor.visioneyeinstitute.com.au).

The Company's corporate governance statement provides specific information and disclosure of the extent to which the Company follows the 2nd edition Recommendations. Where a 2nd edition Recommendation has not been followed, the fact is disclosed, together with the reasons for the departure.

The following table is a summary of the Recommendations and the Company's compliance with these.

	ASX PRINCIPLE	COMPLIANCE
Principle 1	**Lay solid foundations for management & oversight**	
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Yes
Principle 2	**Structure the Board to add value**	
2.1	A majority of the board should be independent directors.	No – the Board comprises 4 independent directors (including the Chairman), 3 doctor directors and the CEO. In the unlikely event that there is a split in the Board along the lines of independent versus non-independent directors, because of the Chairman's casting vote, independent directors would prevail. In addition, all Board Committees comprise a majority of independent directors. Finally, given the unique nature of the Company's business, the Board is strongly of the view that one of the strengths of the Company is the skill set brought to the Board by the Doctor Partners who are Directors.
2.2	The chair should be an independent director.	Yes

	ASX PRINCIPLE	COMPLIANCE
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes
2.4	The board should establish a nomination committee.	Yes
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Yes
Principle 3	**Promote ethical and responsible decision-making**	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	No – in view of the high female representation in the Company, particularly in senior management and professional roles, the Directors do not consider it necessary to set a formalised diversity policy.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress toward achieving them.	No – see above.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior positions and women on the board.	Yes
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes
Principle 4	**Safeguarding integrity in financial reporting**	
4.1	The board should establish an audit committee.	Yes
4.2	The audit committee should be structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members	Yes
4.3	The audit committee should have a formal charter	Yes
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes

	ASX PRINCIPLE	COMPLIANCE
Principle 5	**Make timely and balanced disclosure**	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes
Principle 6	**Respect the rights of shareholders**	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Yes
Principle 7	**Recognise and manage risk**	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes
7.3	The board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes
Principle 8	**Remunerate fairly and responsibly**	
8.1	The board should establish a remuneration committee	Yes
8.2	The remuneration committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members	Yes
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board has adopted a formal Board Charter which outlines the Board's key roles and responsibilities, which include but are not limited to:

- monitoring the strategic and financial objectives of the Company;
- monitoring and assessing management's performance in achieving any strategies and budgets approved by the Board;
- monitoring the financial performance and other required reporting;
- the appointment and removal of the Chief Executive Officer (CEO) and roles reporting directly to the CEO, determining their conditions of service, reviewing their performance and approving their remuneration (including financial incentives);
- delegating an appropriate level of authority to management and in particular the CEO;
- appointing the members of the Remuneration Committee, Audit and Risk Management Committee and Nomination and Governance Committee;
- monitoring compliance with regulatory requirements and ethical standards;
- recommending the appointment, and reviewing the performance, of directors;
- overseeing the risk management strategy and monitoring business risks;
- ensuring effective internal control systems;
- effectively communicating the Company's financial position, trading performance and prospects to all stakeholders, in particular, shareholders, clients and staff; and
- approving annual accounts, reports and other public documents.

The Board retains ultimate authority over management, however has delegated authority for the day-to-day management of the Company to the CEO and in turn to the management team. The Board approves any matters in excess of the discretion that it delegates to the CEO and management in relation to business transactions, credit transactions, risk limits and expenditure.

As proposed by the 3rd edition Recommendations, the Company has written agreements with each director and senior executive setting out the terms of their appointment. The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

The Board has a Remuneration Committee, a Nomination & Governance Committee, and an Audit & Risk Management Committee to assist in the discharge of its responsibilities. The Board directly and through its committees, monitors compliance with regulatory requirements and ethical standards, risk management strategy and internal control systems.

The Company's Board and committee charters are available in the Corporate Governance section of the Company's investor website.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the Annual Report is included in the Directors' Report on pages 4 to 5. Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

The 3rd edition Recommendations lists several factors (in addition to those outlined in the 2nd edition Recommendations) that may be relevant to assessing the independence of a director including; if the Director has been employed in an executive capacity by the Company (or any of its child entities) in the past 3 years; is directly or indirectly a substantial shareholding in the Company; has been previously employed or been a principal of a material professional adviser or consultant to the Company (or any of its child entities) in the past three years; is or has been in a material business relationship or has a material contractual relationship with the Company (or any of its child entities) in the past three years (other than as a director) or has close family ties with any person described above.

In the context of director independence, 'materiality' is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE *continued*

in question to operational decisions and shape the direction of the Company's loyalty to external service providers.

In accordance with the definition of independence above, and materiality thresholds set, the following Directors of the Company are considered to be independent:

Name	Position
Mr S Tanner	Non-Executive Chairman
Mr I Kirkwood	Non-Executive Director
Ms Z Peach	Non-Executive Director
Dr M Wooldridge	Non-Executive Director

The Board recognises that length of tenure is considered to be a factor that may influence the independence of a director. The Board notes that Mr Tanner has been a member of the Board for over 12 years however, the Board are unanimously of the view that this length of tenure does not compromise Mr Tanner's independence but instead allows him to bring to the Board a deep understanding of the Company and the complexities of its business.

The Company has a New Director Induction Policy that outlines procedures and processes established to support new directors in performing their role effectively. There are also procedures in place to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in Office
Mr S Tanner	12.5 years
Mr I Kirkwood	9.5 years
Dr C Rogers	2.5 years(1)
Dr M Lawless	7.5 years
Dr J Reich	4.5 years (2)
Ms Z Peach	3 years
Dr M Wooldridge	2.2 years
Mr B Coverdale	2 years

(1) Dr Rogers served for 6 years as an Alternate Director prior to being appointed a Director. (2) Dr Reich served for 3 years as an Alternate Director prior to being appointed a Director.

The Company's Board comprises eight Directors, four of whom are executives of the Company.

The Council's Recommendation 2.1 is that 'a majority of the board should be independent directors'. The Company has not adopted this recommendation. The Board considers that a fundamental aspect of the Company's business model is the development of its ophthalmologist's medical and surgical practices and the "medical sovereignty" of its ophthalmologist's. The Board strongly believes these aspects are both best promoted and safeguarded by a strong representation of 'doctors' on the Board. As a consequence four current Board members are Executive Directors (3 doctors and the CEO); however all Board Committees are comprised of a majority of independent Directors.

The Board has a Nomination & Governance Committee, which is required to meet at least annually to ensure that the Board continues to operate within established guidelines, including, when necessary, selecting candidates for the position of Director. The Nomination & Governance Committee is responsible for recommending the appointment, and reviewing the performance, of Directors and the CEO. The Committee also makes recommendations to the Board in respect to conditions of service for Directors, senior management and employees.

The Nomination & Governance Committee comprises a majority of independent Non-Executive Directors and the members as at the date of this report are shown below:

Mr S Tanner (Chairperson)
Dr M Wooldridge
Dr C Rogers

The skills, experience and expertise relevant to each member of the Nomination & Governance Committee is included in the Directors' Report on pages 2 to 3. Details on the number of meetings of the Nomination and Governance Committee held during the year and the attendees at those meeting are available in the Directors' Report.

The Company undertakes a performance evaluation of the Board every two years. The Company has a formal self-assessment process for the evaluation of the Board and Director performance. An evaluation of the Board and Directors was undertaken for the year ended 30 June 2014, and detailed discussion of the results was undertaken by the full Board.

The Nomination & Governance Committee Charter is available in the Corporate Governance section of the Company's investor website.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Code of conduct

The Company and its Board are committed to the highest ethical standards and promote an environment in which its ophthalmologists can practice with medical sovereignty and all practitioners and executives are accountable for responsible decision-making. The Company's Code of Conduct is available in the Corporate Governance section of the Company's investor website.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING *continued*

Diversity Policy

The Company is committed to providing the highest calibre of care to its patients by ensuring all of its employees are appropriately qualified, trained and competent to carry out their duties. Employees are engaged on the basis of qualifications, skills and personal attributes however the Company is also mindful of the benefits to be derived from having a diverse workforce. The Council recommends ASX listed companies disclose measurable objectives for achieving gender diversity. Females represent 87% of total Vision Eye Institute's employees and are in the majority of senior management and professional roles. The Directors do not consider it necessary to set a formalised policy.

The Company has received confirmation from the Workplace Gender Equality Agency (Agency) that it is compliant with the Workplace Gender Equality Act 2012 for the 2013/14 year. A copy of the Company's annual compliance report to the Agency is available in the Corporate Governance section of the Company's investor website.

The gender balance of Vision Eye Institute employees (as at 31 March 2014, the date used for reporting to the Agency) is as follows:

Vision Eye Institute Employees	**Male**	**Female**	**Total**
Directors	7	1	8
Other Key Management Personnel(2)	–	1	1
Senior Executives (3)	1	7	8
Senior Managers	2	30	32
Professional(4)	20	110	130
Technicians and trade(5)	22	80	102
Clerical and administrative	3	169	172
Others	7	19	26
Total Employees(1)	**62**	**417**	**479**
	13%	87%	100%

(1) Including full, part time and casual staff – head count numbers (2) Chief Financial Officer (3) Senior Executives – CEO direct reports (other than CFO) (4) Professional Staff – Doctors, optometrists and nurses (employee only) (5) Orthoptists

Trading in the Company's Securities

The Company's Securities Trading Policy distinguishes between Key Management Personnel (KMP) and other employees and contractors. KMP, include Directors, officers and senior executives of the Company. Persons, other than KMP, are free to deal in the Company's securities at any time, upon the proviso that they are not in possession of price sensitive information. KMP may also deal at any time other than in "Blackout Periods" and if not in possession of any information that may have a material effect upon the price or value of the Company's securities. Blackout Periods are the period between the end of the Company's financial year and the preliminary announcement of the full year results and the period between the end of the Company's half year and the announcement of the half year results. KMP must comply with reporting and approval requirements before dealing with the Company's securities at any time and are permitted to deal in Blackout Periods only in defined exceptional circumstances.

The Company's Securities Trading Policy is available in the Corporate Governance section of the Company's investor website.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Board has an Audit & Risk Management Committee which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the Audit & Risk Management Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the Committee are independent Non-Executive Directors and the members at the date of this report are shown below:

Mr I Kirkwood (Chairperson)
Mr S Tanner
Ms Z Peach

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING *continued*

The skills, experience and expertise relevant to the each member of the Audit & Risk Management Committee is included in the Directors' Report on pages 2 to 3. Details on the number of meetings of the Committee held during the year and the attendees at those meetings are available in the Directors' Report.

The Audit & Risk Management Committee Charter is available in the Corporate Governance section of the Company's investor website.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

The Company is committed to the provision of timely, full and accurate disclosure to the market such that all investors have equal and timely access to market sensitive information concerning the Company and announcements are factual and presented in a clear and balanced way. The Board has implemented processes to ensure that:

- Directors and other company officers are fully aware of the Company's Continuous Disclosure Policy and the Company's obligations for continuous disclosure under the ASX Listing Rules;
- processes are in place to identify market sensitive information and if any Director or officer becomes aware of any fact or circumstance which may be market sensitive information, they will immediately inform, in the first instance, the Chief Executive Officer and Managing Director (CEO & MD) or, if unavailable, either the Chairman, Chief Financial Officer or Company Secretary;
- all market sensitive information is to be fully and accurately disclosed to the market in a timely manner; and
- procedures for preparing and authorising the release of market sensitive information are to be effective.

The Company adheres to the ASX Continuous Disclosure requirements by announcing any information it may have or be aware of that could have a material effect on the price of the Company's securities to the ASX and providing all other information as required under the ASX Listing Rules. These announcements are also made available on the Company's investor website.

The Company's Continuous Disclosure Policy is available in the Corporate Governance section of the Company's investor website.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

The Company communicates with its shareholders through its periodic reporting, its Annual Report and at its Annual General Meeting. All announcements lodged with the ASX are available on the Company's investor website, along with the Company's main corporate governance policies and its Board and committee charters. Investors are also able to subscribe to email alerts to be notified of any price sensitive announcements made by the Company to the ASX.

Shareholders are encouraged to attend the Company's Annual General Meeting where they have an opportunity to express their views, ask questions and vote on Board proposals. The Company's external auditor Deloitte, are present at every Annual General Meeting and available to answer any questions relating to the conduct of the audit or the content of the Auditor's Report.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

The Board is actively involved in the risk management process and has delegated responsibility for the development and maintenance of a framework of risk identification, management and control to the Audit & Risk Management Committee. Risk management committees also operate at a state and individual clinic level to monitor and respond to issues and risks identified by senior management and the Board.

As outlined in the Directors' Report, the Board has a mechanisms in place to ensure that management's objectives and activities are aligned with potential business risks and opportunities including:

- Implementation of Board approved operating plans and budgets, which are monitored on a regular basis.
- The establishment of committees at a group, state and local clinic level to monitor and report on specific business risks. Committee members include management, doctors, nursing staff, orthoptists and clinical staff. Established committees include infection control, health and safety, medical advisory committee, day surgery accreditation.

Prior to approving the annual accounts, the Board receives assurance from the CEO and CFO that the directors' declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. To comply with the 3rd edition Recommendations going forward, this assurance will be provided to the Board prior to approving the half year and full year accounts.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK *continued*

The Board does not consider that the Company has any material exposure to economic, environmental and social sustainability risks.

The Audit & Risk Management Committee reviewed the Company's risk management framework in August 2014 and satisfied itself that it continues to be sound. The Company risk management processes and procedures are available to all staff via the Company's intranet facility.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions.

To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive emoluments to the Company's financial and operational performance. The remuneration structure includes:

- Retention and motivation of key executives
- Attraction of quality management to the Company
- Performance incentives which allow executives to share the rewards of the success of the Company

A full disclosure of the Company's remuneration philosophy and framework and remuneration received by Directors and executives in the current period is incorporated in the remuneration report, which is located on pages 8 to 14 of the Annual Report. There is no scheme to provide retirement benefits, other than statutory superannuation to Directors and key executives.

The Board has established a Remuneration Committee, comprising three independent Non-Executive Directors and the members at the date of this report are:

Ms Z Peach (Chairperson)
Dr M Wooldridge
Mr I Kirkwood

The Remuneration Committee is responsible for determining and reviewing compensation arrangements for the Directors, the CEO and the executive team. The Committee also evaluates the performance and remuneration of the direct reports to the CEO. The performance of the Company's key executives is reviewed regularly against both measurable and qualitative indicators.

The skills, experience and expertise relevant to the each member of the Remuneration Committee is included in the Directors' Report on pages 2 to 3. Details of the number of meetings of the Remuneration Committee held during the year and the attendees at those meetings are available in the Directors' Report. The Remuneration Committee Charter is available in the Corporate Governance section of the Company's investor website.

Consolidated Statement of Profit or Loss and other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014

		Consolidated	
	Note	2014 $'000	2013 $'000
Rendering of services		110,587	107,056
Total revenue		**110,587**	**107,056**
Cost of services	6	(62,994)	(58,614)
Gross profit		**47,593**	**48,442**
Occupancy expenses		(7,732)	(7,996)
Other labour expenses		(5,724)	(5,813)
Practice equipment expenses		(1,960)	(1,954)
Advertising and marketing		(994)	(1,383)
Impairment of goodwill		–	(26,300)
Other expenses	6	(7,113)	(6,039)
Earnings before interest, tax and depreciation excluding other income		**24,070**	**(1,043)**
Other income	7	1,941	–
Earnings before interest, tax and depreciation (EBITDA)		**26,011**	**(1,043)**
Depreciation	12	(5,094)	(5,564)
Earnings before interest and tax (EBIT)		**20,917**	**(6,607)**
Finance income		231	319
Finance costs		(2,238)	(6,318)
Net finance costs		**(2,007)**	**(5,999)**
Profit/(loss) before tax		**18,910**	**(12,606)**
Tax expense	8	(5,699)	(4,254)
Profit/(loss) after tax		**13,211**	**(16,860)**
Other comprehensive income			
Other comprehensive income, net of tax		**–**	**–**
Total comprehensive income/(loss)		**13,211**	**(16,860)**
Basic earnings/(loss)per share (cents per share)	9	7.9	(11.4)
Diluted earnings/(loss) per share (cents per share)	9	7.9	(11.4)

Consolidated Statement of Financial Position

AS AT 30 JUNE 2014

	Note	Consolidated 2014 $'000	2013 $'000
Current assets			
Cash and cash equivalents	19	11,523	7,837
Trade receivables	11	3,722	4,394
Other current assets	11	2,093	2,267
Inventory		907	924
Total current assets		**18,245**	**15,422**
Non-current assets			
Deferred tax assets	8	3,232	2,984
Property, plant and equipment	12	17,777	14,051
Goodwill	13	98,175	98,175
Total non-current assets		**119,184**	**115,210**
Total assets		**137,429**	**130,632**
Current liabilities			
Trade and other payables	14	10,654	8,195
Interest bearing liabilities	15	3,705	2,500
Provisions	17	4,700	4,552
Current tax liability	8	2,816	2,574
Total current liabilities		**21,875**	**17,821**
Non-current liabilities			
Trade and other payables	14	1,035	1,291
Interest bearing liabilities	15	34,500	45,000
Provisions	17	360	344
Total non-current liabilities		**35,895**	**46,635**
Total liabilities		**57,770**	**64,456**
Net assets		**79,659**	**66,176**
Equity attributable to the equity holder			
Contributed equity	18	120,456	120,159
Reserves		1,081	1,106
Accumulated losses		(41,878)	(55,089)
Total equity		**79,659**	**66,176**

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated			
	Contributed equity $'000	Share based payment reserve $'000	Accum-ulated losses $'000	Total $'000
At 1 July 2013	**120,159**	**1,106**	**(55,089)**	**66,176**
Profit after tax	–	–	13,211	13,211
Other comprehensive income	–	–	–	–
Total comprehensive income	**–**	**–**	**13,211**	**13,211**
Share based payments expense	–	272	–	272
Shares released from escrow as contingent consideration	297	(297)	–	–
Balance at 30 June 2014	**120,456**	**1,081**	**(41,878)**	**79,659**
At 1 July 2012	**93,557**	**1,121**	**(38,229)**	**56,449**
Loss after tax	–	–	(16,860)	(16,860)
Other comprehensive income	–	–	–	–
Total comprehensive loss	**–**	**–**	**(16,860)**	**(16,860)**
Share based payments expense	–	391	–	391
Shares released from escrow as contingent consideration	406	(406)	–	–
Issue of ordinary shares (net of costs)	26,196	–	–	26,196
Balance at 30 June 2013	**120,159**	**1,106**	**(55,089)**	**66,176**

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2014

		Consolidated	
	Note	**2014 $'000**	**2013 $'000**
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		114,453	111,047
Payments to suppliers and employees (inclusive of GST)		(87,160)	(85,487)
Proceeds from insurance claim		1,941	–
Income tax paid		(5,792)	(3,729)
Net cash inflows from operating activities	**19**	**23,442**	**21,831**
Cash flows from investing activities			
Purchase of plant and equipment	12	(2,480)	(3,836)
Purchase of property	12	(5,997)	–
Proceeds from sale of plant and equipment		167	304
Proceeds from sale of business assets		380	–
Net cash flows used in investing activities		**(7,930)**	**(3,532)**
Cash flows from financing activities			
Net proceeds from placement		–	25,749
Interest received		329	222
Interest paid		(2,247)	(5,135)
Cost of debt facility		(425)	(800)
Repayment of lease liability		(535)	(369)
Repayment of borrowings		(9,000)	(37,500)
Receipt of settlement funds		52	65
Net cash flows used in financing activities		**(11,826)**	**(17,768)**
Net increase in cash and cash equivalents		**3,686**	**531**
Add cash and cash equivalents at the beginning of the financial year		7,837	7,306
Cash and cash equivalents at end of period	**19**	**11,523**	**7,837**

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 201

1. Corporate information

Vision Eye Institute Limited (the Company) is a company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange. The consolidated financial statements of the Company as at, and for the year ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as the Group).

The Group is a for-profit-entity; the nature of the operations and principal activities of the Group are described in the Directors' Report.

The consolidated financial report of the Company for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 26 August 2014.

2. Summary of significant accounting policies

(a) Statement of compliance and basis of preparation

The consolidated financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The consolidated financial report has been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration which have been measured at fair value, and goodwill which has been recorded at cost less impairment charges. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services.

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial report is presented in Australian dollars which is the Company's functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998, and in accordance with that Class Order, amounts in the financial report are rounded to the nearest thousand dollars unless otherwise indicated.

The consolidated financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) Application of new and revised Accounting Standards

(i) New and revised AASB's affecting amounts reported and/or disclosures in the financial statements

In the current year, the Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are mandatorily effective from 1 July 2013.

- AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'

(b) Application of new and revised Accounting Standards *continued*

(i) New and revised AASB's affecting amounts reported and/or disclosures in the financial statements *continued*

- AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
- AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'
- AASB 2011-4 'Amendments to Australian Accounting Standards – to remove Individual Key Management Personnel Disclosures Requirements'
- AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'
- AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle' and AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'

Adoption of these standards did not have any effect on the financial position or performance of the Group. Additional disclosures resulting from their adoption have been included as appropriate including the movement of Key Management Personnel disclosures from the financial statements to remuneration report.

(ii) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2014 are outlined in the table below. All these standards are applicable for adoption on 1 July 2014 and the Group has either not yet determined the extent of the impact of the requirements under the new standard or it is not expected to have a significant impact on the Group's financial report.

- AASB 1031 'Materiality'
- AASB 2012-3 'Amendments to Australian Accounting Standards Offsetting Financial Assets and Liabilities'
- AASB 2013-3 'Amendments to AASB 136 – Recoverable Amount for Non-Financial Assets
- AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and continuation of Hedge Accounting
- AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities
- AASB 2013-7 'Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interest f policy holders'
- AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'
- AASB 9 'Financial Instruments'

2. Summary of significant accounting policies *continued*

(c) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of Vision Eye Institute Limited and its subsidiaries as at and for the period ended 30 June each year.

Subsidiaries are entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit or losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Vision Eye Institute Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the profit or loss of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the Statement of Profit or Loss and Other Comprehensive Income and are presented within equity in the consolidated Statement of Financial Position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences, recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss, or retained earnings/accumulated losses as appropriate.

(d) Business combinations

A business combination undertaken by the Group represents the purchase of a private individual ophthalmic business. Consideration comprises an issue of equity instruments subject to escrow and a cash component. An acquisition can also incorporate an 'earn out' component which is contingent on the achievement of a pre agreed forecast personal exertion EBIT by the individual Doctor.

No separately identifiable assets or liabilities are recognised at the date of acquisition. Cash consideration paid on acquisition date reflects goodwill acquired. The contingent consideration represents additional cash payments to be made to the Doctors as well as shares to be issued based on the achievement of personal exertion EBIT targets, as defined in the asset purchase agreements.

Other than the contingent consideration arrangements, there were no further adjustments made during the current year to the accounting for separately identifiable assets and liabilities recognised on acquisition.

The Group forecasts each individual Doctor's EBIT and probability weighted each to determine a fair value for the contingent consideration arrangement. The fair value of this contingent consideration has been included in the determination of the consideration to be transferred. Future changes in estimates of this amount are recorded directly in the statement of comprehensive income in the period in which they occur.

Each of the acquired Doctors has entered a service agreement with the Group. All future remuneration is personal services based and is accounted for as remuneration or remuneration equivalent expense. Although the contingent payments are linked to the provision of future services to the Group by the relevant Doctors, the contingent payments are in form of shares held in escrow and not as part of goodwill recognised on acquisition date.

Business combinations entered into from 1 July 2009 are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets 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 as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration on acquisition will be recognised at fair value at the acquisition date. Any changes to the fair value will be recognised in accordance with AASB139 either in the profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Group does not have an overdraft facility.

(f) Trade and other receivables

Trade receivables generally have terms of 30-60 days and are recognised initially at fair value on the date services are provided and subsequently measured at amortised cost less an allowance for any impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an individual clinic and day surgery level.

An allowance for impairment loss is made when there is objective evidence that the debt will not be collectible, including default of payment or where the debtor is experiencing financial difficulties. Individual debts that are known to be uncollectible are written off.

(g) Inventories

Inventory comprises medical supplies used in the ophthalmic procedures performed in the Group's clinic, day surgery and refractive surgery facilities.

Inventories are valued at the lower of cost and net realisable value.

The cost of purchase comprises the purchase price plus other costs directly attributable to the acquisition of the medical supplies. The fee generated by ophthalmic surgical procedures exceeds the cost of medical supplies used in the provision of those procedures.

(h) Derivative financial instruments and hedging

The Company enters into interest rate swaps to manage its exposure to interest rate risk. The interest rate swaps are not hedge accounted and are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value at the end of each reporting period. The resulting gain or loss is recognised in profit and loss immediately.

2. Summary of significant accounting policies *continued*

(i) Operating segments – Refer Note 5

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. (Management will also consider other factors in determining operating segments such as the existence of regional Directors and state operations managers and the level of segment information presented to the Board of Directors).

Operating segments have been identified based on the information provided to the chief operating decision maker – being the Chief Executive Officer (CEO).

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the services;
- nature of the processes involved and methods used to provide the services;
- type or class of customer for the services; and
- nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 *Operating Segments* are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(j) Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the useful life of individual items of property, plant and equipment. Depreciation rates for plant and equipment are over 2 to 10 years. Buildings are depreciated over 20 years. Land is not depreciated.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease (including option periods) or the estimated useful lives of the improvements, whichever is the shorter.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each financial year end.

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(k) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(l) Impairment of non-financial assets other than goodwill

Non-financial assets other than goodwill are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Assets are written down to their recoverable amount when the carrying amount of the asset is greater than the higher of the assets' fair value less costs to sell and value in use. Where a group of assets working together supports the generation of net cash inflows relevant to the determination of recoverable amount, the net cash inflows are estimated for the relevant group of assets (cash generating unit) and the recoverable amount test is applied to the carrying amount of that group of assets.

Non-financial assets other than goodwill that have been previously impaired are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(m) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If this consideration transferred is lower than the fair value of the net identifiable assets of the acquiree the differences are recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset at its current carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGU), or groups of CGU's, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units.

Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with AASB 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash generating unit (group of cash generating units), to which the goodwill relates. CGUs have been determined based on groups of clinics which share resources. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The Group performs its impairment testing as at 30 June each year. Refer Note 13 for further information.

When the recoverable amount of a CGU or group of CGU's is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a CGU and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(n) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Interest bearing loans and borrowing costs

All loans and borrowings are initially recognised at the fair value for the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. The Company does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

Finance costs comprise interest expense on borrowings including borrowing costs.

(p) Contributed equity

Ordinary shares, voting and non-voting are classified as equity. Contributed equity is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of shares are recognised directly in equity as a reduction of the share proceeds received, net of any tax effects.

2. Summary of significant accounting policies *continued*

(q) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Rendering of services

Revenue from the provision of ophthalmic procedures is recognised at the time of completion and billing to the patient or health fund.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate which allocates interest income over the relevant period using an effective interest rate which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Dividend income is recognised in the profit or loss of the parent entity only and is recognised on the date that the right to receive payment is established.

(r) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Wages, salaries and annual leave

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured using remuneration rates which are expected to be paid when the liability is settled.

Sick leave is not accrued and the expense is recognised when the leave is taken and measured at the rates paid.

Long service leave

The liability for long service leave is recognised and measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. In determining the present value of expected future cash outflows, the market yield as at the reporting date on national government bonds which have terms to maturity approximating the terms of the related liability are used.

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal, equitable or constructive) to make a future outflow of economic benefits as a result of past transactions or other past events, it is probable that a future outflow of economic benefits to settle the obligation will be required and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of expenses to be reimbursed under an insurance contract, any provision, is net of any reimbursement due to be received. The expense relating to any such provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(t) Share based payment transactions

The Group no longer provides benefits to its employees (including key management personnel) in the form of share based payments, whereby employees render services in exchange for shares and rights over shares (equity settled transactions).

All outstanding share based transactions relate to the purchase of Doctor partner practices (refer also note 2(d)).

(u) Income tax and other taxes

Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of 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 profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Vision Eye Institute Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The head entity, Vision Eye Institute Limited and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Vision Eye Institute Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entitles in the Group.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the ATO, in which case the GST is recognised as either part of the cost of acquisition of the asset or as part of the expense items applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority, are classified as operating cash flows.

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

2. Summary of significant accounting policies *continued*

(v) Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, gains on hedging instruments that are recognised in the profit or loss, and reclassification of amounts previously recognised in other comprehensive income.

Finance costs comprise interest expense and borrowing costs on borrowings. Refer Note 2(o).

(w) Earnings per share

Basic earnings per share is calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares.

(x) Going concern

The Group has a deficit of current assets to current liabilities of $3.6 million as at 30 June 2014 (2013: $2.4 million). However the directors consider that there are reasonable grounds to believe that the Company will be able to pay its debts as when they become due and payable as a result of its expected profitability, positive cash flows and the secured debt facility.

3. Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its estimates and underlying assumptions in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its estimates and underlying assumptions on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policy for which significant estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions can be found in note 13 to the financial statements.

Significant accounting estimates and assumptions

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, at the higher of value in use or fair value, to which the goodwill is allocated. Using a value in use discounted cash flow methodology, the recoverable amount of the goodwill at 30 June 2014 was determined to be in excess of $98.2 million (2013: $98.2 million). No impairment was recognised during 2014 (2013: $26.3 million). The assumptions used in the estimation of recoverable amount and the carrying amount of goodwill are discussed in Note 13.

4. Financial risk management

(a) Financial risk management objective and policies

Interest, liquidity and credit risk arise in the normal course of the Group's business. The Group's principal financial instruments comprise bank loans, cash, short term deposits and interest rate swaps. Other financial instruments include trade receivables and trade payables.

The Group uses different methods to measure and manage different types of risks to which it is exposed, as further outlined below. The Group's management of financial risk is aimed at supporting the delivery of the Group's financial targets while protecting future financial security.

(b) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates to its floating debt obligations. To manage the exposure to variable rate debt, the Group has entered into interest rate swaps in which the Group has agreed to exchange at specific intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. At 30 June 2014 the notional principal amount applicable is $32.5 million and this contract will expire at 30 September 2014. New swap contracts have been entered into from 30 September 2014 with a notional principal amount of $19.0 million in line with the Group's facility agreement requiring 50% of the loan outstanding to be covered by interest rate swap contracts.

At balance date the Group had the following financial instruments exposed to Australian variable interest rate risk that are not designated in cash flow hedges.

	Consolidated	
	2014 $'000	**2013 $'000**
Financial assets		
Cash and cash equivalents	11,523	7,837
Financial liabilities		
Interest bearing liabilities (16% not hedged in the current year) (2013: 21%)	(6,000)	(10,000)
Net exposure	**5,523**	**(2,163)**

Interest rate swaps with a fair value liability of $168,220 (2013: $291,110) are exposed to fair value movements if interest rates change. Refer Note 16 for further details.

4. Financial risk management *continued*

(b) Interest rate risk *continued*

The following table summarises the sensitivity of the fair value of financial instruments held at balance date to movements in interest rates. At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax profit/(loss) and other comprehensive income would have been affected as follows:

	Profit/(Loss) after tax Higher/(Lower)		Other Comprehensive (loss)/income Higher/(Lower)	
Judgements of reasonably possible movements:	**2014 $'000**	**2013 $'000**	**2014 $'000**	**2013 $'000**
+1% (100 basis points)	39	15	–	–
−0.5% (50 basis points)	(19)	(8)	11,523	7,837

The movements in profit/(loss) are due to higher/lower interest costs from variable rate debt and cash balances.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on a review of the Group's last two year's historical movements and economic forecaster's expectations.
- A price sensitivity of derivatives has been based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.

(c) Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulty in meeting obligations associated with financial liabilities as and when they fall due.

The liquidity position for the Group is managed to ensure financial commitments are met in a timely manner. Forecast cash flows are used to calculate the forecast liquidity position and to maintain suitable liquidity levels.

The following liquidity risk disclosures reflect all contractually fixed repayments and interest resulting from recognised financial liabilities and financial guarantees as of 30 June 2014. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay.

The risk implied from the values shown in the table below, reflects a balanced view of outflows of non-derivative financial instruments. Trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as plant and equipment and investments in working capital (e.g. trade receivables).

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that sufficient liquid assets are available to meet all the required short-term cash payments.

2014	Total $'000	< 1 month $'000	1–2 months $'000	2–12 months $'000	1–2 years $'000
Consolidated					
Trade payables	4,772	4,772	–	–	–
Other payables	5,397	2,786	–	2,611	–
Lease liability (non-interest bearing)	1,520	39	39	407	1,035
Interest bearing liabilities (1)	38,500	–	–	4,000	34,500
Total payables	**50,189**	**7,597**	**39**	**7,018**	**35,535**

2013	Total $'000	< 1 month $'000	1–2 months $'000	2–12 months $'000	1–2 years $'000
Consolidated					
Trade payables	4,138	4,138	–	–	–
Other payables	3,608	620	–	2,988	–
Lease liability (non-interest bearing)	1,740	37	37	375	1,291
Interest bearing liabilities (1)	47,500	–	–	2,500	45,000
Total payables	**56,986**	**4,795**	**37**	**5,863**	**46,291**

(1) Refer to note 2(o) for discussion of classification of interest bearing liabilities as current.

(d) Credit risk

Credit risk is the risk that a contracting party with the Group may not meet its obligations and in turn result in a potential financial loss to the Group.

The carrying amount of financial assets represents the maximum credit exposure. The major trade receivables of the Group are Medicare (government body) and private health funds and large healthcare companies, so credit risk is low for the majority of the balance. For the remaining trade debtor balances the concentration of credit risk is limited due to the consumer base being large and unrelated. The Group holds no collateral on trade receivables. Receivables balances are monitored on an ongoing basis and given the low risk profile of customers, the Group's exposure to bad debts is not significant.

In addition, the Group is exposed to credit risk in relation to financial guarantees given to banks provided by the Group. The Group's maximum exposure in this respect is the maximum amount the Group would have to pay if the guarantee is called of $1,187,000 (2013: $1,150,000). As at 30 June 2014 no amount has been recognised in the consolidated financial position as financial liabilities (2013: $nil).

4. Financial risk management *continued*

(e) Fair value

Due to their short term nature, the fair value of all the financial assets and liabilities held by the Group is assumed to approximate the individual carrying values of those assets and liabilities.

The Group can use various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The interest rate swaps are based on a level 2 method to determine fair value. The fair value has been determined by NAB and ANZ based on Mark to Market principles.

5. Segment reporting

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining allocation of resources.

The operating segments are identified by management based on geographical areas characterised by state (Victoria, New South Wales, Queensland). Each state derives revenue from similar ophthalmic services. 'Other' is the aggregation of the Group's corporate and other activities. Discrete financial performance information about each of these regions is reported to the executive management team on at least a monthly basis.

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered to be part of the core operations of any segment:

- Fair value gains/losses on cash flow hedge
- Interest revenue and expense
- Corporate and other costs
- Income tax expense

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2.

The following table is an analysis of the Group's revenue and result from operating activities by reportable operating segments. The executive management team does not regularly review assets and liabilities of the reportable segments.

	VIC $000	NSW $000	QLD $000	CORP $000	Total $000
Year ended 30 June 2014					
Revenue					
Revenue from rendering services	**34,966**	**32,889**	**42,732**	**–**	**110,587**
Result					
Earnings before interest and tax (EBIT)	**9,423**	**6,520**	**11,589**	**(6,615)**	**20,917**
Net finance costs					(2,007)
Profit before tax					**18,910**
Tax expense					(5,699)
Profit after tax					**13,211**

	VIC $000	NSW $000	QLD $000	CORP $000	Total $000
Year ended 30 June 2013					
Revenue					
Revenue from rendering services	31,970	32,981	42,105	–	107,056
Result					
Earnings before interest tax and goodwill	9,303	6,919	10,606	(7,135)	19,693
Impairment of goodwill	–	(26,300)	–	–	(26,300)
Earnings before interest and tax (EBIT)	**9,303**	**(19,381)**	**10,606**	**(7,135)**	**(6,607)**
Net finance costs					(5,999)
Loss before tax					**(12,606)**
Tax expense					(4,254)
Loss after tax					**(16,860)**

6. Expenses

	Consolidated 2014 $'000	2013 $'000
(a) Cost of services		
Employee benefits expenses		
Wages and salaries	(21,580)	(21,179)
Superannuation contributions	(1,854)	(1,743)
Other employee related expenses	(2,595)	(2,281)
Employee expenses included in cost of services	**(26,029)**	**(25,203)**
Medical supplies expenses	(14,415)	(13,414)
Doctor contract payments	(21,316)	(18,739)
Other contractor expenses	(1,234)	(1,258)
Total Cost of services	**(62,994)**	**(58,614)**
(b) Other expenses		
Clinic management expenses	(2,140)	(1,955)
Administration expenses	(1,682)	(1,765)
Consultancy expenses	(546)	(397)
Travel and conference expenses	(277)	(415)
IT expenses	(698)	(568)
Legal expenses	(1,963)	(659)
Share based payment expense	(272)	(391)
Net profit on sale of plant and equipment	205	111
Net profit on sale of business assets	260	–
Total Other expenses	**(7,113)**	**(6,039)**

7. Other income

	Consolidated 2014 $'000	2013 $'000
Proceeds from insurance claim	1,941	–
	1,941	–

8. Income tax

(a) Tax expense

	Consolidated 2014 $'000	Consolidated 2013 $'000
Major components of tax expense are:		
Consolidated Statement of Profit or Loss and Other Comprehensive Income		
Current income tax		
Current income tax charge	6,102	4,598
Adjustments for current income tax of previous years	1	16
Deferred income tax		
Relating to origination and reversal of temporary differences	(404)	(360)
Tax expense reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**5,699**	**4,254**

(b) Reconciliation of tax expense recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and tax expense calculated at the statutory rate

	Consolidated 2014 $'000	Consolidated 2013 $'000
Accounting profit /(loss) before tax	18,910	(12,606)
Tax at the Australian income tax rate of 30% (2013: 30%)	5,673	(3,782)
Tax effect of items not (assessable)/deductible for income tax purposes:		
Entertainment	11	13
Share based payments expense	82	117
Profit on sale of business assets not taxable	(78)	–
Non-deductible building depreciation	10	–
Impairment of goodwill	–	7,890
Adjustment for current income tax of previous years	1	16
Tax expense reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**5,699**	**4,254**

8. Income tax *continued*

(c) Recognised current/deferred tax assets and liabilities

	Consolidated			
	2014 Current tax liability $'000	**2014 Deferred tax asset $'000**	**2013 Current tax liability $'000**	**2013 Deferred tax asset $'000**
Opening balance	(2,574)	2,984	(1,777)	2,266
Charged to income	(6,102)	404	(4,598)	360
Charged to equity cost of capital raising	89	(89)	88	358
Tax instalment payments (net)	5,792	–	3,729	–
Sale of business assets	–	(88)	–	–
(Under)/over provision previous year	(21)	21	(16)	–
Closing balance	**(2,816)**	**3,232**	**(2,574)**	**2,984**

(d) Recognised deferred tax assets

	Consolidated			
	Statement of financial position		Statement of consolidated profit or loss and other comprehensive income	
	2014 $'000	**2013 $'000**	**2014 $'000**	**2013 $'000**
Accruals	1,215	884	333	25
Provision for employee leave entitlements	1,518	1,469	137	165
Cost of capital raising	269	358	–	–
Other	230	273	(66)	170
Gross deferred income tax assets	**3,232**	**2,984**		
Deferred tax income/(expense)			**404**	**360**

(e) Tax losses

The Group has capital tax losses for which no deferred tax asset is recognised in the Consolidated Statement of Financial Position of $282,880 (2013: $282,880) which are available indefinitely for offset against future capital gains subject to continuing to meet relevant statutory tests.

(f) Tax consolidation

Vision Eye Institute Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2003. Vision Eye Institute Limited is the head entity of the tax consolidated group.

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is discussed further below.

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

Nature of tax funding arrangements and tax sharing arrangements

The head entity Vision Eye Institute Limited, in conjunction with other members of the tax consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

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

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

At 30 June 2014, there is no recognised deferred tax liability (2013: $nil) for taxes that would be payable on the earnings remitted from the Group's subsidiaries to the Parent as the Group has no liability for additional taxation should such amounts be remitted.

9. Earnings per share

The following reflects the income and share data used in the basic and diluted earnings per share computations.

Profit attributable to ordinary shareholders

	2014 $'000	2013 $'000
Net (loss)/profit attributable to ordinary equity holders of the parent	**13,211**	**(16,860)**

Weighted average number of shares

	2014 Thousands	2013 Thousands
Weighted average number of ordinary shares for basic earnings/(loss) per share	167,522	147,809

Earnings per share

	2014 Cents	2013 Cents
Basic earnings /(loss) per share	7.9	(11.4)
Diluted earnings/(loss) per share	7.9	(11.4)

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

10. Dividends paid and proposed

(a) Dividends paid
No dividends were declared or paid during the year (2013: $nil).

(b) Franking credits

	Consolidated	
	2014 $'000	2013 $'000
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2013: 30%)	36,856	31,065
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	1,173	1,067
	38,029	**32,132**
The amount of franking credits available for future reporting periods:		
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	(897)	–
	37,132	**32,132**

(c) Dividends not recognised at year end

Subsequent to 30 June 2014, the Company declared a fully franked final dividend of 1.25 cents per ordinary share for the year ended 30 June 2014 (2013: nil) as follows:

Declared after end of year	2014 Final
Per ordinary share	1.25 cents
Total amount	$2.1 million
Franked	30%
Payment date	30 September 2014

The final dividend has not been included as a liability in these financial statements for the year ended 30 June 2014.

11. Trade and other receivables (current)

	Consolidated 2014 $'000	Consolidated 2013 $'000
Trade receivables		
Trade receivables	4,051	4,725
Allowance for impairment loss	(329)	(331)
Trade receivables	**3,722**	**4,394**
Other current assets		
Sundry receivables	1,248	1,550
Prepayments	845	717
Total other current assets	**2,093**	**2,267**
Movements in the allowance for impairment losses were as follows:		
As at 1 July	331	363
Amounts written off	(2)	(32)
As at 30 June	**329**	**331**

Trade receivables are non-interest bearing and are expected to settle within 30-60 days. An allowance for impairment loss is made when there is objective evidence that an individual debt will not be recoverable, including default of payment or where the debtor is experiencing financial difficulties.

At 30 June 2014 the average days sales outstanding was 19 days (2013: 21 days). The ageing analysis of trade receivables is as follows:

	Total $'000	0–30 days $'000	Past due not impaired 30–60 days $'000	Past due not impaired + 60 days $'000	Considered impaired + 60 days $'000
2014	4,051	2,632	1,014	76	329
2013	4,725	3,140	1,035	219	331

12. Property, plant and equipment

	Consolidated 2014 $'000	Consolidated 2013 $'000
Carrying amounts of:		
Land & buildings	5,965	–
Plant & equipment	9,990	12,118
Finance lease equipment	1,822	1,933
	17,777	**14,051**

Year ended 30 June 2014	**Land & buildings $'000**	**Plant & equipment $'000**	**Finance lease equipment $'000**	**Total $'000**
At cost	5,997	40,350	3,311	49,658
Accumulated depreciation and impairment	(32)	(30,360)	(1,489)	(31,881)
Net carrying amount	**5,965**	**9,990**	**1,822**	**17,777**

Reconciliation of carrying amounts at beginning and end of the period

Year ended 30 June 2014	**Land & buildings $'000**	**Plant & equipment $'000**	**Finance lease equipment $'000**	**Total $'000**
At 1 July net of accumulated depreciation and impairment	–	12,118	1,933	14,051
Disposals (net)	–	(153)	–	(153)
Additions	5,997	2,480	496	8,973
Depreciation expense	(32)	(4,455)	(607)	(5,094)
Total written down amount	**5,965**	**9,990**	**1,822**	**17,777**

Year ended 30 June 2013	**Plant & equipment $'000**	**Finance lease equipment $'000**	**Total $'000**
At cost	40,347	2,816	43,163
Accumulated depreciation and impairment	(28,229)	(883)	(29,112)
Net carrying amount	**12,118**	**1,933**	**14,051**

Reconciliation of carrying amounts at beginning and end of the period

Year ended 30 June 2013	**Plant & equipment $'000**	**Finance lease equipment $'000**	**Total $'000**
At 1 July net of accumulated depreciation and impairment	13,580	1,104	14,684
Disposals net of accumulated depreciation	(120)	–	(120)
Additions	3,701	1,350	5,051
Depreciation expense	(5,043)	(521)	(5,564)
Total written down amount	**12,118**	**1,933**	**14,051**

The debt facility established by the Group in August 2009 (refer Note 15) is secured by all assets of the Group, including plant and equipment. A mortgage is held jointly by ANZ and NAB over the Box Hill freehold property.

13. Goodwill

	Consolidated	
	2014 $'000	**2013 $'000**
Cost		
At beginning and end of year	218,170	218,170
Accumulated impairment:		
Balance at beginning of year	(119,995)	(93,695)
Impairment recognised in the year	–	(26,300)
Total accumulated impairment	(119,995)	(119,995)
Net book value at end of the year	**98,175**	**98,175**
(a) Reconciliation of movement in goodwill		
At 1 July net of accumulated impairment	98,175	124,475
Impairment recognised in the year	–	(26,300)
At 30 June net of accumulated impairment	**98,175**	**98,175**

(b) Description of the Group's goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment. Goodwill acquired through business combinations has been allocated to and is tested at the level of the respective cash generating units (CGU), each of which is both an operating segment and a reportable segment (refer to Note 5).

(c) Impairment losses recognised

No impairment loss was recognised in the current financial year in the Consolidated Statement of Profit or Loss and Other Comprehensive Income (2013: $26.3 million NSW).

13. Goodwill *continued*

(d) Carrying amount of goodwill allocated to each cash generating unit

	2014 $'000	2013 $'000
Cash generating unit		
Victoria	46,999	46,999
New South Wales	25,816	25,816
Queensland	25,360	25,360
	98,175	**98,175**

(e) Impairment tests for Goodwill

(i) Key assumptions used in value in use calculations

The recoverable amount of the cash generating units has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by the Board covering a one year period and cash flows prepared by senior management for a further four years.

The pre-tax discount rate applied to the cash flow projections was 14.0% (2013: 14.0%). The terminal growth rate used for discounting cash flows post 2019 was 2.5% (2013: 2.5%).

The preparation of the financial budgets and forecast considered all known factors affecting the respective CGU's at this time. Revenue growth rates used for cash flow projections are considered to be conservatively less than the expected growth in the ophthalmic industry based on current industry data. Regional risk factors have been factored into the underlying cash flows of each CGU.

(ii) Sensitivity to changes in assumptions

At this time, the Company believes that there is no reasonable possible change in any of the above key assumptions that would cause the carrying value of the Group's CGUs to fall below their recoverable amount.

14. Trade and other payables

	Consolidated	
	2014 $'000	2013 $'000
Current:		
Trade payables	4,772	4,138
Other payables	5,397	3,608
Lease liability (non-interest bearing)	485	449
	10,654	**8,195**
Non-current:		
Lease liability (non-interest bearing)	1,035	1,291
	1,035	**1,291**

15. Interest bearing liabilities

	Consolidated 2014 $'000	2013 $'000
Current		
Borrowings	4,000	2,500
Establishment fees	(295)	–
	3,705	**2,500**
Non-current		
Borrowings	34,500	45,000
	34,500	**45,000**
Total interest bearing liabilities	**38,205**	**47,500**

On 31 July 2013, an Amendment and Restatement Deed was executed amending the existing debt facility, where Westpac was replaced with the National Australia Bank (NAB). Key terms of the amended facility with ANZ and NAB are as follows:

- A reduction in the facility limit to $42.5 million;
- Extension of the facility to 31 July 2016;
- Principal repayment of $5 million per year ($2.5 million payable in December and June respectively); and
- Significantly improved cost of funding.

On 21 February 2014, the ANZ and NAB agreed to the following amendments to the terms of the debt facility:

- The principal payment of $2.5 million due on 30 June 2014 was deferred until 30 September 2014 and reduced to $1.5 million; and
- The principal payment of $2.5 million due on 31 December 2014 was reduced to $1.5 million.

At 30 June 2014 the Company had prepaid the principal payment of $1.5 million due at 30 September 2014 and the facility limit was $38.5 million.

A requirement of the facility agreement is that a minimum of 50% of the facility is to be covered by interest rate swaps at all times.

16. Derivative financial instruments

At 30 June 2014, the following interest rate swap contracts were outstanding:

Commencement Date	Expiry Date	Notional Principal
2 October 2012	30 September 2014	$32.5 million reducing to $30.0 million
30 September 2014	1 April 2015	$9.4 million reducing to $8.8 million
30 September 2014	31 July 2016	$9.4 million reducing to $6.9 million
1 April 2015	1 October 2015	$9.8 million reducing to $9.1 million

The fair value of the interest rate swaps of $168,220 (2013: $291,110) is recorded in Other Payables in note 14. The interest rate swaps are not hedge accounted.

17. Provisions

	Consolidated	
	2014 $'000	**2013 $'000**
Current		
Employee benefits – Annual leave	2,514	2,581
Employee benefits – Long service leave	2,186	1,971
	4,700	**4,552**
Non-current		
Employee benefits – Long service leave	360	344
	360	**344**
Total provisions	**5,060**	**4,896**

18. Contributed equity

	Consolidated	
	2014 $'000	**2013 $'000**
Ordinary shares, issued and fully paid	113,599	111,017
Ordinary non-voting shares, issued and fully paid	6,857	9,142
	120,456	**120,159**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Movement in ordinary voting shares

	Consolidated	
	Number of shares '000s	**$'000**
At 1 July 2012	**77,379**	**83,147**
Placement	13,111	4,158
Rights issue	67,008	22,038
Contingent consideration escrow release	901	406
Conversion of ordinary non-voting shares to ordinary shares upon lapse of the voluntary escrow arrangements	793	1,268
At 30 June 2013	**159,192**	**111,017**

Movement in ordinary voting shares

	Consolidated	
	Number of shares '000s	$'000
At 30 June 2013	**159,192**	**111,017**
Contingent consideration escrow release	794	297
Conversion of ordinary non-voting shares to ordinary shares upon lapse of the voluntary escrow arrangements	1,031	2,285
At 30 June 2014	**161,017**	**113,599**

When managing capital, the Group's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and be in a position to take advantage of acquisition opportunities as they arise. The Group also aims to maintain a capital structure that ensures the lowest cost of capital is available to the entity.

During the financial year ended 30 June 2014 the Group paid dividends of $nil (2013: $nil). The Company has declared a final dividend for the year ended 30 June 2014 which has not been included as a liability in these financial statements.

The Group's acquisition strategy includes the option of issuing shares as part of the consideration paid to the Doctor vendors of the practices acquired. The Group will continue with this policy as having Doctors Partners holding equity in the company remains an important element of the Group's strategy.

Ordinary non-voting shares

As at the date of this report, the Group, through its voluntary escrow arrangements arising from previous Doctor related acquisitions, currently has a relevant interest in 3.9% (2013: 5.0%) of its total issued share capital. Nil non-voting ordinary shares were issued during the year as part consideration for Doctor related acquisitions (2013: nil). The ordinary non-voting shares will convert into ordinary voting shares when the escrow period lapses.

Movement in Ordinary Non-voting Shares

	Consolidated	
	Number of shares '000s	$'000
At 1 July 2012	**10,024**	**10,410**
Shares released from escrow as contingent consideration	(901)	–
Conversion of ordinary non-voting shares to ordinary shares upon lapse of the voluntary escrow arrangements	(793)	(1,268)
At 30 June 2013	**8,330**	**9,142**
Shares released from escrow as contingent consideration	(794)	–
Conversion of ordinary non-voting shares to ordinary shares upon lapse of the voluntary escrow arrangements	(1,031)	(2,285)
At 30 June 2014	**6,505**	**6,857**

19. Cash flow statement reconciliation

(a) Reconciliation of net profit/(loss) after tax to net cash flows from operations

	Consolidated	
	2014 $'000	**2013 $'000**
Net profit/(loss) after tax	13,211	(16,860)
Adjustments for:		
Depreciation of non-current assets	5,094	5,564
(Gain) on disposal of plant and equipment and business assets	(465)	(111)
Share based payments	272	391
Net finance costs	2,007	5,999
Impairment of goodwill	–	26,300
Changes in assets and liabilities		
(Increase)/decrease in trade receivables	672	637
(Increase)/decrease in other current assets	174	(22)
(Increase)/decrease in inventory	17	(32)
Increase/(decrease) in trade and other payables	2,314	(497)
Increase/(decrease) provision for employee entitlements	164	383
Increase/(decrease) tax liability/deferred tax asset	(18)	79
Net cash flow from operating activities	**23,442**	**21,831**

(b) Reconciliation of cash

	Consolidated	
	2014 $'000	**2013 $'000**
Cash balance comprises:		
Cash at bank and on hand	11,523	7,837
Closing cash balance	**11,523**	**7,837**

20. Expenditure commitments

	Consolidated	
	2014 $'000	**2013 $'000**
Operating property lease commitments (non-cancellable)		
Within one year	5,522	5,125
After one year but not more than five years	12,083	12,064
After more than five years	6,460	–
Total minimum lease payments	**24,065**	**17,189**
Finance lease commitments (non-interest bearing)		
Within one year	485	449
After one year but not more than five years	1,035	1,291
	1,520	**1,740**
Capital commitments		
Plant and equipment commitments contracted for but not recognised as liability at reporting date, payable:		
Within one year	–	42
	–	**42**

21. Contingent assets and liabilities

Dr David Kitchen litigation

On 21 September 2009, the Company commenced action in the Supreme Court of Queensland against Dr Kitchen and others in connection with what the Company contends was Dr Kitchen's wrongful termination of his service agreement with Icon Laser Australia (a subsidiary of the Company). The Company seeks damages from the defendant for breach of contract, and seeks injunctions and declarations enforcing the non-compete provisions in the service agreement and the share purchase agreement.

Dr Kitchen made a counter claim against the Company in respect of this matter.

The trial was held in June 2014 in the Queensland Supreme Court and the Company is now awaiting judgement.

Dr Harry Unger litigation

On 27 June 2013, Dr Harry Unger and Norwood Winds Pty Ltd commenced proceedings against the Company and VEI Services Pty Ltd in the Supreme Court of Victoria in relation to a debt owed by him to the Company as a result of a full recourse loan provided to him in March 2008. In that proceeding, the Company commenced a counterclaim against Dr Unger and Norwood Winds Pty Ltd seeking payment of the debt, interest and costs. That proceeding was due to go to trial in the Supreme Court on 28 July 2014.

On 18 July 2014, Dr Unger, Ziman Pty Ltd and Norwood Winds Pty Ltd commenced new proceedings in the Supreme Court of Victoria alleging breaches by the Company of its continuous disclosure obligations back in 2008. On 28 July 2014, the Supreme Court made orders that the two sets of proceedings be heard together and the Company and its lawyers filed and served the company's defence on 19 August 2014.

The allegations made in the new proceeding are denied, the Company will continue to defend strongly all allegations made by Dr Unger and has strong defences on which it will rely. Further, the Company will continue to pursue its counterclaim against Dr Unger for the debt owed to it. The trial is likely to occur in 2015.

22. Auditor's remuneration

	Consolidated	
	2014 $	**2013 $**
Amounts received or due and receivable by Deloitte Touche Tohmatsu for:		
Audit or review of the financial report	177,600	173,400
	177,600	**173,400**

23. Share based payments

There were no new share based payment arrangements entered into during the year ended 30 June 2014. Existing share based payments relate solely to Doctor practice related acquisitions in previous years.

There were nil share options outstanding at the beginning and the end of the year.

The share based payments plans are described below. There have been no cancellations or modifications to these plans.

Employee Option Plan
Selected senior executives may be offered options over ordinary shares under the Employee Option Plan. No options were granted during the year and there are no outstanding options at 30 June 2014.

Practice Enhancement Fund
The Company's Practice Enhancement Fund (PEF) is a notional pool of un-issued shares similar to options. A notional amount equivalent to 7.5% of the assessed fair value of individual ophthalmic practice acquisitions was set aside in the PEF at the date of certain acquisitions. This amount is quantified as a number of notional shares, based on the market price of the Company's shares at the time the acquisition is settled.

Issues from the PEF are made at the sole discretion of the Board to promote the long term success of the Group. The PEF served two primary purposes, firstly to attract, maintain, retain and increase the equity participation of certain Doctors, Associates and Visiting Surgeons and secondly under the terms of its employee share scheme.

The benefits of the PEF have been limited due to changes in the tax laws and the last issue from the PEF was during the year ended 30 June 2010. As at 30 June 2014, there were 5,352,987 notional unissued ordinary shares in the PEF.

24. Significant events after balance sheet date

The Company declared a fully franked final dividend of 1.25 cents per ordinary share, which is payable on 30 September 2014 (refer Note 10).

25. Parent entity information

	2014 $'000	2013 $'000
Information relating to the parent entity, Vision Eye Institute Limited:		
Current assets	4,840	4,841
Non-current assets	106,336	106,336
Total assets	111,176	111,177
Current liabilities	6,820	5,077
Non-current liabilities	34,500	45,000
Total liabilities	41,320	50,077
Issued capital	120,456	120,159
Accumulated losses	(51,681)	(60,165)
Share based payment reserve	1,081	1,106
Total shareholders' equity	**69,856**	**61,100**
Loss of the parent entity	(1,405)	(26,413)
Total comprehensive loss of the parent entity	(1,405)	(26,413)

Refer Note 28 for details of the Deed of Cross Guarantee entered by Vision Eye Institute Limited and all of its subsidiaries.
Refer Note 21 for details of contingent liabilities of the parent entity.

26. Related party disclosure

(a) Transactions with related parties in wholly-owned group

Companies within the wholly owned group made a distribution of profits to the ultimate parent entity, Vision Eye Institute Limited, through inter-company accounts.

(b) Transactions with key management personnel

	Consolidated	
Related party	**2014 $'000**	**2013 $'000**
Occuli Service Pty Ltd – lease of premises at Camberwell, Victoria (a company significantly influenced by Dr J Reich)	373	352
Michael Lawless Pty Ltd – provision of profit share of ophthalmic clinics (a company significantly influenced by Dr M Lawless)	1,494	1,051
JAR Consulting Pty Ltd – provision of profit share of ophthalmic clinics (a company significantly influenced by Dr J Reich)	355	421
CM Rogers & CA Norrie Pty Ltd – provision of ophthalmic services under contract (a company significantly influenced by Dr C Rogers)	71	200

(c) Terms and conditions

All above related party transactions were made on normal commercial terms and conditions.

27. Key management personnel (KMP)

The aggregate compensation made to KMP of the Group is set out below:

	Consolidated	
	2014 $	**2013 $**
Short-term employee benefits	1,469,662	1,408,555
Post-employment benefits	84,840	86,032
Long-term employee benefits	2,228	(3,191)
Total KMP compensation	**1,556,730**	**1,491,396**

28. Controlled entities

The consolidated financial statements include the financial statements of Vision Eye Institute Limited and all its controlled entities as listed in the following table. All controlled entities are incorporated in Australia.

	Percentage of equity held by consolidated entity	
	2014	**2013**
VEI Services Pty Ltd	100%	100%
Victorian Optical Supplies Pty Ltd	100%	100%
Macquarie Eye Centre Pty Ltd	100%	100%
Sydney Eastern Eye Centre Pty Ltd	100%	100%
Vision Group Gold Coast Pty Ltd	100%	100%
Total Vision Solutions Pty Ltd	100%	100%
Vision Group North QLD Pty Ltd	100%	100%
The Eye Institute Pty Ltd	100%	100%
Swordfish Nominees Pty Ltd (Central QLD)	100%	100%
P H Hughes Pty Ltd (Hurstville NSW)	100%	100%
Lee Lenton Medical Pty Ltd	100%	100%
The Laservision Centre Pty Ltd	100%	100%
Crystal Clear Nominees Pty Ltd	100%	100%
The Eye Centre Pty Ltd	100%	100%
Outlook Day Theatre Pty Ltd	100%	100%
Icon Laser (Aust) Pty Ltd	100%	100%
J A Noble Pty Ltd	100%	100%
Colin C.K. Chan Pty Ltd	100%	100%
Retina Specialists Pty Ltd	100%	100%
Dr Andre Horak Pty Ltd	100%	100%
Dr Ed Boets Pty Ltd	100%	100%
Mackay Eye Centre Pty Ltd	100%	100%
Dr L Levitz Pty Ltd	100%	100%

Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418, relief has been granted to all controlled entities outlined above from the Corporations Act 2001 requirements for the preparation, audit and lodgement of their financial reports (with exception of Dr L Levitz Pty Ltd). As a condition of the Class Order, Vision Eye Institute Limited and subsidiaries (the Closed Group) entered into a Deed of Cross Guarantee. The effect of the deed is that Vision Eye Institute Limited has guaranteed to pay any deficiency in the event of winding up of a controlled entity or if they do not meet their obligations under the terms of loans, leases or other liabilities subject to guarantee. The controlled entities have also given a similar guarantee in the event that Vision Eye Institute Limited is wound up or if it does not meet its obligations under the terms of loans, leases or other liabilities subject to the guarantee.

A Closed Group statement of financial performance and financial position has not been prepared as the Closed Group is the same as the consolidated entity as presented in this financial report.

Directors' Declaration

In accordance with the resolution of the Directors of Vision Eye Institute Limited, I state that:

1. In the opinion of the Directors:
   (a) The financial statements and notes and additional disclosures included in the Directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
      (i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and the performance for the year ended on that date.
      (ii) Complying with Accounting Standards and the Corporations Regulations 2001.
   (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(a).
   (c) There are reasonable grounds to believe that the Company will be able to pay its debts as when they become due and payable.
   (d) At the date of this declaration there are reasonable grounds to believe that the members of the Closed Group identified in Note 28 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295(5) of the Corporations Act 2001 for the financial year ended 30 June 2014.

On behalf of the board

S F Tanner
Chairman
Melbourne, 26 August 2014

Deloitte.

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Independent Auditor's Report to the Members of Vision Eye Institute Limited

Report on the Financial Report

We have audited the accompanying financial report of Vision Eye Institute Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 24 to 60.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Vision Eye Institute Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Vision Eye Institute Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 14 of the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion the Remuneration Report of Vision Eye Institute Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Chris Biermann
Partner
Chartered Accountants
Melbourne, 26 August 2014

Additional ASX Information

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 8 August 2014.

(a) Distribution of equity securities

	Ordinary Voting Shares		Ordinary Non-Voting Shares	
Investor Range	**Shareholders**	**Issued Capital**	**Shareholders**	**Issued Capital**
1 – 1,000	689	362,130	–	–
1,001 – 5,000	1,078	3,228,310	–	–
5,001 – 10,000	563	4,457,699	–	–
10,001 – 100,000	844	24,873,646	6	379,810
100,001 and over	87	128,640,972	11	5,579,719
	3,261	**161,562,757**	**17**	**5,959,529**

There were 441 holders of less than a marketable parcel of 704 shares.

(b) Substantial shareholders (as notified by shareholder to the ASX)

	Ordinary Voting Shares	
	Number	**Percentage**
Primary Healthcare Limited	35,236,861	21.88%
AMP Limited	12,150,181	7.55%
Adam Smith Asset Management Pty Limited	10,534,389	6.54%
Intelligent Investor Funds Pty Limited	9,284,316	5.77%
National Nominees Limited ACF Australian Ethical Smaller Companies Trust	8,209,176	5.10%
	75,414,923	

Additional ASX Information *continued*

(c) Twenty largest holders of quoted securities

		Ordinary Voting Shares	
Number	**Name**	**Number**	**Percentage**
1	Idameneo (No 123) Pty Ltd	35,753,728	22.13%
2	National Nominees Limited	34,591,028	21.41%
3	Zero Nominees Pty Ltd	5,549,038	3.43%
4	JP Morgan Nominees Australia Limited	5,334,400	3.30%
5	T Batsakis Pty Ltd	4,600,000	2.85%
6	AMP Life Limited	4,283,171	2.65%
7	Citicorp Nominees Pty Ltd	4,090,834	2.53%
8	HSBC Custody Nominees (Australia) Limited	3,968,120	2.46%
9	Bond Street Custodians Limited	3,491,503	2.16%
10	Denmark Hill Investments Pty Ltd	2,769,031	1.71%
11	BNP Parabis Noms Pty Ltd	2,745,221	1.70%
12	BT Portfolio Services Limited	1,140,791	0.71%
13	Kingston Properties Pty Limited	1,122,294	0.69%
14	Mr Bryan F Short	1,046,000	0.65%
15	Alison Watts Investments Pty Ltd	1,020,883	0.63%
16	Sandhurst Trustees Ltd	885,603	0.55%
17	Toonpaint Pty Limited	837,176	0.52%
18	Mrs Christine Ann D'Souza	689,943	0.43%
19	UBS Wealth Management Australia Nominees Pty Ltd	671,704	0.42%
20	Summerview Management Pty Ltd	600,000	0.37%
Total		**115,190,468**	**71.30%**

(d) Securities subject to voluntary escrow provisions

Ordinary Voting Shares

Date escrow ends	Number of securities	Date escrow ends	Number of securities
31 December 2009	300,000	30 November 2010	51,605
30 September 2010	139,446		

Ordinary Non-Voting Shares

Date escrow ends	Number of securities	Date escrow ends	Number of securities
1 April 2010	332,305	6 March 2015	50,675
31 October 2010	18,000	1 April 2015	146,051
1 April 2011	332,308	11 June 2015	190,539
31 October 2011	18,000	1 July 2015	183,754
1 September 2012	82,919	1 August 2015	100,870
30 November 2012	21,420	30 September 2015	230,613
1 April 2013	497,638	31 October 2015	83,912
30 September 2013	15,418	1 February 2016	191,657
31 October 2013	27,000	1 April 2016	558,219
8 January 2014	106,011	1 July 2016	469,149
1 August 2014	127,772	8 July 2016	159,017
31 August 2014	12,070	1 September 2016	123,492
1 September 2014	93,820	11 December 2016	285,811
1 October 2014	243,361	1 September 2017	167,158
30 November 2014	48,610	1 October 2017	365,123
8 January 2015	106,011	1 January 2018	459,389
1 March 2015	111,437		

Shares shown above held in escrow past the due date remain in escrow until contracted conditions for release are fulfilled or until the shares are bought back and cancelled.

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Corporate Information

ABN 21 098 890 816

DIRECTORS

Mr Shane Tanner	Non-Executive Director – Chairman
Mr Iain Kirkwood	Non-Executive Director
Ms Zita Peach	Non-Executive Director
Dr Michael Wooldridge	Non-Executive Director
Mr Brett Coverdale	Chief Executive Officer and Managing Director
Dr Michael Lawless	Medical Director
Dr Joseph Reich	Executive Director
Dr Chris Rogers	Executive Director

COMPANY SECRETARIES

Ms Anne McGrath
Ms Karen Lopreiato

REGISTERED OFFICE

Level 5, 390 St Kilda Road
Melbourne VIC 3004

SHARE REGISTRY

Link Market Services Pty Ltd
Level 4, 333 Collins Street
Melbourne VIC 3000

Vision Eye Institute Limited shares are listed on the Australian Securities Exchange (ASX: VEI).

AUDITOR

Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne VIC 3000

WEBSITE

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www.colliercreative.com.au #VIS0005

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eye institute

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