



ACN 010 126 708

RHS LIMITED

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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## Corporate information

ABN 84 010 126 708

### Directors

Dr David Brookes (Non-Executive Chairman)

Dr Michelle Fraser (Managing Director)

Mr Johnathon Matthews

Dr Colin Matthews (Alternate for Mr Johnathon Matthews)

Ms Sue MacLeman

### Company Secretary

Mr Ray Ridge

### Registered office

BioSA Incubator

40 - 46 West Thebarton Road

THEBARTON SA 5031

### Principal place of business

BioSA Incubator

40 - 46 West Thebarton Road

THEBARTON SA 5031

### Share Register

Link Market Services Limited

Level 12, 680 George Street

Sydney NSW 2000

Phone: 1300 554 474

RHS Limited's shares are listed on the Australian Securities Exchange (ASX) under the stock code 'RHS'.

### Auditors

Ernst & Young

Australia

## Directors' Report

Your directors submit their report for RHS Ltd (“RHS” or the “Company”) for the year ended 31 December 2017.

### Directors

The names of the Company’s directors in office during the year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities:

#### Non-Executive Chairman

**Dr David Brookes** (MBBS, FACRRM, FAICD)

Dr Brookes became involved in the biotechnology sector in the late 1990’s as an analyst and currently works as a medical practitioner and biotechnology consultant. He joined AO Energy Ltd (now RHS Limited) Board of Directors in 2013, and has held the role of Chairman since the completion of the transition to RHS in early 2014. He is an independent director of ASX listed AtCor Medical Holdings Ltd, non-executive chairman of a private health services company and a Fellow of the Australian Institute of Company Directors.

Dr Brookes graduated from Adelaide University in 1983, is a Fellow of the Australian College of Rural and Remote Medicine, and has a Diploma from the Royal Australian College of Obstetricians and Gynaecologists.

#### Managing Director

**Dr Michelle Fraser** (PhD, Grad Dip Sci Tech Comm)

Dr Fraser joined RHS as the inaugural chief executive officer in September 2007 and became a member of the RHS Ltd Board in May 2012. In this role, she was responsible for key achievements including securing venture capital investment and leveraging State and Commonwealth Government Grants, in-licensing and out-licensing activities, intellectual property management and building the RHS commercial and clinical network.

Previously Business Development Manager at Bio Innovation SA, Dr Fraser provided commercialisation advice and assistance to bioscience companies, universities, research institutes and teaching and research hospitals, and was also part of the Bio Innovation SA team responsible for the establishment of venture capital fund Terra Rossa Capital. Dr Fraser has previously held the role of chief executive officer for two biotechnology start-up companies; Viswa Biotechnology Pty Ltd and BenEphex Biotechnologies Pty Ltd.

Dr Fraser has a PhD in molecular biology and a Graduate Diploma of Science and Technology Commercialisation, both from the University of Adelaide. Dr Fraser has graduated from the Australian Institute of Company Directors.

**Non-Executive Directors:**

***Mr Johnathon Matthews*** (BEC, B Comm, LLB)

Until January 2018, Mr Matthews was the General Manager of The Pipette Company Pty Ltd (TPC), an Adelaide based specialist manufacturer and supplier of high quality micropipettes used in IVF procedures. Over the last decade he actively contributed to developing and managing TPC's growth, with its products being supplied to hospitals and IVF clinics in over 40 countries worldwide.

Prior to joining TPC, Mr Matthews worked at the Australian Treasury on microeconomic policy reform, the ASX where he was responsible for the ASX's relationship with over 100 listed companies, and at the Commonwealth Bank as a corporate analyst within its institutional banking division.

Mr Matthews holds a Bachelor of Economics, a Bachelor of Commerce and a Bachelor of Laws from The University of Adelaide and has completed postgraduate diplomas in Applied Finance & Investment and Legal Practice. He is also a graduate member of the Australian Institute of Company Directors (AICD).

***Emeritus Professor Colin Matthews AO*** – (alternate for Johnathon Matthews)

Dr Matthews has been a director and shareholder of RHS since its establishment. He was a founding director of The Pipette Company Pty Ltd and currently a director of Flinders Fertility.

Dr Matthews has also held the roles of founding director of Repromed Pty Ltd, a University owned Adelaide-based IVF clinic, and Chair of the Research Committee and Board Member of the Channel 7 Research Foundation.

Dr Matthews was appointed an Officer of the Order of Australia in 2013 for services to reproductive medicine and is a Distinguished Alumni of The University of Adelaide, and holds Life Memberships for The Fertility Society of Australia and The European Society of Human Reproduction and Embryology.

***Ms Sue MacLeman*** (BPharm, MMktg, MLaw, FACPP, FAICD)

Ms MacLeman has enjoyed a distinguished career in biotechnology, medical technology and pharmaceuticals, having worked initially in hospital pharmacy roles before moving to the pharmaceuticals industry in development and commercialisation roles with Merck, Amgen and Bristol-Myers Squibb. She has also been senior executive, CEO and a Board member of a number of publicly-listed companies in both the United States and Australia.

Ms MacLeman is currently the Managing Director of the Medical Technologies and Pharmaceuticals Industry Innovation Growth Centre (MTPConnect) and also a non-executive director of veski and Oventus Medical Ltd.

## Chief Financial Officer/Company Secretary

**Mr Ray Ridge** (BA (Acc), CA, GIA (cert))

Mr Ridge has held senior management positions in finance, compliance and commerce across a range of industries. He is currently CFO and Company Secretary for dual ASX- and AIM-listed Thor Mining PLC as well as CFO for ASX-listed Southern Gold Ltd and LBT Innovations Ltd.

Mr Ridge has broad corporate experience including previous appointments as General Manager Commercial & Operations with the Utilities, Government and Power Business Group of Parsons Brinckerhoff, CFO of the Merchandise Division of Elders Ltd and a Senior Manager at Arthur Andersen.

## Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of RHS Limited were:

	Number of ordinary shares	Number of unlisted options
D Brookes	1,854,774	1,400,000
M Fraser	422,063	3,000,000
J Matthews <sup>1</sup>	11,960,700	675,000
C Matthews (alternate) <sup>1</sup>	11,960,700	-
S MacLeman	24,500	675,000

<sup>1</sup>11,960,700 shares are held jointly by J Matthews and C Matthews.

## Principal activities

RHS Ltd's principal activities are the development and marketing of its biotechnology technologies, including its lead products EmbryoCollect™ for PGS (Pre-implantation Genetic Screening), DOPlify™ WGA (Whole Genome Amplification kit), and PG-Seq™.

## Financial Results

During the year ended 31 December 2017, the Group incurred a loss of \$ 1,985,068 (31 December 2016: \$1,809,225).

## Dividends

No dividend was paid or declared by the Company in the period and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend for the financial period ended 31 December 2017.

## Review and results of operations

RHS Limited has consolidated and enhanced its position in the burgeoning genomic field through the progress made in 2017. The Group is preparing for the commercial launch of a new product, has expanded its services offering, and has progressed the commercialisation of the Company's technology and capabilities. A summary of key developments, during the period 1 January 2017 through to the date of this Directors Report, is as follows:

### *Repositioning the Company*

- At the Company's 2017 AGM, the Company changed its name from Reproductive Health Science Limited to RHS Limited, to reposition and rebrand the Company as a single cell genomics company. The Company's deep expertise in amplifying and assessing limited DNA, including single cell genomes, has positioned RHS as a global leader.
- With the expansion of the number and diversity of products developed and launched by RHS, it was timely in late 2017 to form a dedicated technical team with specific focus on manufacturing, quality control, technical support and services led by a Clinical Operations Manager. This team is distinct from the product development, improvement, and innovation team led by the Chief Scientific Officer, who are working closely with key strategic partners to provide proof of principle for expanded novel applications of DOPlify™, in particular focusing on the personalized medicine genomic revolution through liquid biopsy.

### *Validation of DOPlify™*

- A second independent study by the University of Ghent comparing single cell Whole Genome Amplification (WGA) kit performance was published in December 2017, confirming that DOPlify™ is internationally competitive and demonstrating its application for cell-based cancer screening using liquid biopsy. The second publication reinforces the earlier study published by the same group in July 2017, and reaffirms the Company's own assertion that DOPlify™ is arguably the best WGA product worldwide. Refer ASX Announcement 11th December 2017.
- A co-authored abstract was presented at the American Society for Histocompatibility and Immunogenetics (11-15 September, San Francisco) with European company GenDx (<http://www.gendx.com/>) on the use of DOPlify™ with target sequence enrichment for HLA typing from 5 cells. Donor typing currently requires a blood sample containing 50-200 ng of purified DNA or more than 8,000 cells of DNA. The work presented demonstrates the possibility of using a non-invasive sample such as a cheek swab.

### *Target Sequence Enrichment*

- The Company has progressed a patent on target sequence enrichment (TSE) for specific genes of interest to published PCT. The patent claims a method that allows specific targeting of genes of clinical interest with applications including combined aneuploidy screening (PGT-A) and inherited genetic disorders (PGT-M). Importantly, the TSE patent is similarly applicable to screening circulating tumour cells in liquid biopsy. The patent accompanies RHS' registered trademark application for DOPlify®, our novel WGA kit and adds to the earlier registration of EmbryoCollect®.

### *New Product Launch – PG-Seq™*

- RHS has developed a new product PG-Seq™, first presented at the European Society for Human Reproduction and Embryology (ESHRE) meeting in Geneva, early July 2017. PG-Seq™ is a complete PGS solution using Next Generation Sequencing (NGS) that includes

RHS' DOPlify™ whole genome amplification (WGA), NGS library preparation reagents and software for data analysis.

- RHS commercial and scientific teams are readying for full commercial launch of PG-Seq™ with the first external clinical validation study complete and the second underway and expected to be completed during the March quarter. The validation studies compare separate biopsies from the same embryo using the current market leading product VeriSeq from Illumina and RHS' PG-Seq™. The outcomes measured are the correlation of results between the two kits and their relative performance and ease of use. Initial feedback from the validation studies has been positive with the first study achieving 100% aneuploidy concordance. Further detailed analysis is underway and an update will be reported at the completion of both trials. These two studies precede the commencement of RHS' early access program, for which the first clinic has enrolled.
- In parallel with validation of PG-Seq™ on the Illumina MiSeq sequencer, which is the most commonly used sequencer in IVF clinics, RHS has validated PG-Seq™ on the significantly cheaper Illumina MiniSeq sequencer. This provides a lower capex option to clinics looking to commence genetic testing in-house. RHS is also actively developing products for sequencing on the competitor sequencers from ThermoFisher.
- At a list price of AUD\$12,500 per kit, PG-Seq™ provides 96 tests at approximately AUD\$130 per test. PG-Seq™ is priced comparatively to Illumina's product, VeriSeq, which provides 24 tests. However, one of the advantages of PG-Seq™ is being able to analyse twice to four times as many samples leading to lab efficiencies with reduced hands on time and increased capacity without the need to upgrade equipment. The throughput is expected to dovetail well with the anticipated increased throughput needed for non-invasive embryo screening (refer below).
- In the December quarter, RHS was awarded grant funding for further development and customisation of software for use with PG-Seq™ from TechInSA through the HWA Lab program. This will allow RHS to tailor the PG-Seq™ software interface and introduce analysis modules specific to RHS' products and protocols, including combining PGT-A and PGT-M analysis in one package and allowing embryo identification using the mitochondrial genome sequence. These additional product features have received positive market feedback and the upgraded software will be released later in 2018 as a second generation PG-Seq™ kit.

#### *Non-invasive embryo screening*

- RHS entered into a co-development project with Repromed (part of the Monash IVF Group) on non-invasive PGT-A (Preimplantation Genetic Testing for Aneuploidy), announced at the RHS AGM on the 26<sup>th</sup> May 2017. A media release between Repromed and RHS can be found at the RHS website by the following link: <http://www.rhsc.com.au/news>.
- Recent tests have highlighted a 93% concordance between culture media and biopsy, which is the highest correlation reported globally.
- This non-invasive approach to embryo screening has the potential to improve IVF outcomes by making PGT-A more accessible for patients.

### *EmbryoCollect®*

- RHS published a 5 hour protocol for its first product, EmbryoCollect®. This is the shortest array protocol on the market and is significantly shorter than what is achievable using NGS. EmbryoCollect® is a solution to comfortably support fresh embryo transfer with results available the day of biopsy.

### *Marketing Activities and Feedback*

- RHS is buoyed by initial positive feedback from the external clinical validation trials of PG-Seq™ and looks forward to the increased revenues following the launch of the PG-Seq™ in the first half of 2018, together with continuing growth in revenue from DOPlify™ and RHS' PGT-A services.
- The Company has been receiving high levels of commercial interest in its products and capabilities in the IVF market, particularly following the presentations and exhibits in October 2017 at the American Society of Reproductive Medicine (ASRM) conference in San Antonio. The interest has advanced our significant commercial and business discussions with a number of multinationals. RHS is progressing its external strategic collaborations in the IVF, cancer and prenatal applications using our products and expertise. The collaborations are advancing towards formal relationships for co-development of new products and applications.
- The Company's presence was extended outside of the reproductive genomics market, as an exhibitor at the American Association for Cancer Research Annual Meeting in Washington DC April 1-5 2017. The overwhelming positive response has encouraged RHS to demonstrate proof of principle with key collaborators for the rapidly emerging liquid biopsy market, which is the testing of circulating tumour cells and cell free tumour DNA, a market estimated to reach USD\$13.4bn by 2020.
- RHS added Vietnamese company, AMB Vietnam Trading and Service Ltd (AMB), to its distributor list. AMB have already been working alongside RHS and secured our first DOPlify® sales into the territory. Vietnam represents approximately 30,000 IVF cycles with most genetic testing being performed by a small number of service labs.

### *Other income*

- Received \$234,662 for the 2016 year Research & Development Tax Offset. The claim for the 2017 year is expected to be lodged before the end of March 2018.
- RHS received \$23,269 for the second instalment of the Export Marketing Development Grant relating to the 2015/16 year and has lodged an application related to the 2016/17 year.

### *Capital Raising*

- On 9 June 2017, the Company issued 10,714,285 shares at \$0.14 per share, to sophisticated investors raising \$1,500,000 before capital raising costs.

During the period ended 31 December 2017, the Group incurred a loss of \$1,985,068 (31 December 2016: \$1,809,225 loss).

### Changes in the state of affairs

During the financial year, there were no significant change in the state of affairs of the Group, other than that referred to in the financial statements or notes thereto.

### Events subsequent to balance date

The following two matters have arisen since the end of the financial year. Other than these two matters, no other matters or circumstances have arisen since the end of the financial year, which significantly affected or could affect the operations of the Group, the results of those operations, or the state of the Group in future years.

#### (i) PerkinElmer to acquire all RHS shares via a Scheme of Arrangement

RHS has entered into a binding Scheme Implementation Agreement (“SIA”) with PerkinElmer, Inc. (“PerkinElmer”) (NYSE:PKI) for PerkinElmer to acquire of all of the issued share capital of RHS by way of a Scheme of Arrangement (“Scheme”). A summary of the proposed transaction is provided below. The full terms are contained in the SIA (refer ASX Announcement on 26<sup>th</sup> February 2018):

- PerkinElmer to pay \$0.28 cash per RHS share, for 89,920,483 outstanding shares.
- The acquisition will be implemented by way of a Scheme of Arrangement under the Australian Corporations Act 2001 (Cth).
- The Scheme is subject to approval by simple majority of the RHS shareholders and by at least 75% of the votes cast at a General Meeting, expected to be held on 22 May 2018.
- The Scheme is subject to limited other conditions that are standard for a transaction of this nature.
- Subject to the Scheme being implemented, PerkinElmer will seek to acquire options totalling 7,400,000, based on the difference in value between the offer price of \$0.28 and the respective option strike prices.

The Board of RHS have unanimously recommended that all RHS shareholders vote in favour of the Scheme, subject to (a) an independent expert report concluding that the transaction is in the best interests of all shareholders and (b) no superior proposal being received.

#### (ii) Interim Funding arrangements

RHS has also entered into an Interim Funding Agreement with The Very Company Pty Ltd, a company controlled by RHS' Alternate Director Colin Matthews.

The purpose of the Interim Funding Agreement is to provide funding for RHS pending the implementation of the Scheme, and to obviate the need for RHS to raise further capital prior to implementation of the Scheme, which might have diluted the equity interest of current shareholders.

The key terms of the Interim Funding Agreement are:

- Interest rate 9%, on drawdown with interest payable on repayment of the facility.
- Facility limit \$750,000.
- Repayment date 28 September 2018.
- “One off” establishment fee of \$25,000.

- RHS may prepay all or part of the drawn down facility without penalty.
- Facility may only be used for working capital purposes, to pay the establishment fee and for RHS to pay its costs and expenses of implementing the Scheme.

The Directors of RHS consider that the terms of the interim funding arrangements are no less favourable to RHS than arm's length terms.

### Likely developments and expected results

The Group continues to progress product development and commercialisation of its proprietary technologies and patent portfolio. As the Group is still at the point of commercialisation and development, no comment on the expected results from these efforts are included in this report.

### Environmental regulation and performance

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Group however believes that it has adequate systems in place for the management of any future environmental regulations.

### Options awarded, vested and lapsed during the year

At the date of this report, the following options to acquire ordinary shares in the Company were on issue:

Issue Date	Expiry Date	Exercise Price	Balance at 1 Jan 2017	Net granted, exercised, expired during year	Balance at 31 Dec 2017	Vested during the year	Vested and exercisable
31/05/2016	31/05/2020	\$0.208	4,250,000	-	4,250,000	-	4,250,000
31/05/2016	31/05/2020	\$0.248	1,500,000	-	1,500,000	-	1,500,000
10/01/2017	31/05/2020	\$0.208	-	1,000,000	1,000,000	1,000,000	1,000,000
23/03/2017	31/05/2019	\$0.200	-	200,000	200,000	200,000	200,000
09/06/2017	31/05/2020	\$0.200	-	100,000	100,000	100,000	100,000
28/11/2017	31/05/2019	\$0.200	-	100,000	100,000	100,000	100,000
28/11/2017	31/05/2020	\$0.200	-	250,000	250,000	-	-
			5,750,000	1,650,000	7,400,000	1,400,000	7,150,000

The Company issued 1,000,000 unlisted options to employees under the Company's Employee Share Option Plan. The options were issued on 10 January 2017, have an exercise price \$0.208, and expire 31 May 2020.

The Company issued 200,000 unlisted options to consultants on 23 March 2017. The options have an exercise price \$0.200, and expire 31 May 2019.

The Company issued 100,000 unlisted options to a consultant on 9 June 2017. The options have an exercise price \$0.200, and expire 31 May 2020.

The Company issued 100,000 unlisted options to a consultant on 28 November 2017. The options have an exercise price \$0.200, and expire 31 May 2019.

The Company issued 250,000 unlisted options to an employee on 28 November 2017, under the Company's Employee Share Option Plan. The options have an exercise price \$0.20, and expire 31 May 2020. The options vested on 17 February 2018 upon completion of six months full employment at RHS.

The 250,000 options issued on 28 November 2017 were expensed in the Company's statement of comprehensive income over the vesting period through to 17 February 2018. As such, 41.5% was expensed in the Company's statement of comprehensive income for the year ended 31 December 2017, with the remainder expensed in the year ended 31 December 2018. No other options contain vesting conditions and hence have been fully expensed in the Company's statement of comprehensive income for the year ended 31 December 2017.

No shares were issued during the year as a result of an exercise of options.

#### **Indemnification and insurance of directors and officers**

During or since the financial year, the Company has paid premiums in respect of a contract insuring all the directors of RHS Limited against legal costs incurred in defending proceedings for conduct other than:

- a) A wilful breach of duty.
- b) A contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$12,642.

#### **Indemnification of auditors**

To the extent permitted by the law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by a third party arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

#### **Directors' meetings**

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings		Audit Committee Meetings		Rem. & Nom. Committee	
	Attended	Eligible	Attended	Eligible	Attended	Eligible
David Brookes	11	11	2	2	3	3
Michelle Fraser	11	11	-	-	-	-
Johnathon Matthews	11	11	2	2	-	-
Colin Matthews (alt)	11	11	-	-	-	-
Sue MacLeman	11	11	-	-	3	3

## Remuneration report (audited)

This Remuneration Report for the year ended 31 December 2017 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

### Introduction

The remuneration report details the remuneration arrangements for key management personnel (KMP) who 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 Parent.

The names and positions held by Directors and Key Management Personnel of the Group during or since the end of the financial year are:

#### *i. Directors*

David Brookes	(Non-Executive Chairman)
Michelle Fraser	(Managing Director)
Johnathon Matthews	(Non-Executive Director)
Sue MacLeman	(Non-Executive Director)
Colin Matthews	(Alternate Director for Johnathon Matthews)

#### *ii. Key management personnel*

Ray Ridge	(CFO/Company Secretary)
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### Remuneration philosophy

The Board is responsible for determining remuneration policies applicable to directors and senior executives of the entity. The broad policy is to ensure that remuneration properly reflects the individuals' duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people with appropriate skills and experience. At the time of determining remuneration, consideration is given by the Board to the Group's financial performance, and the Company's share price performance over the year.

#### *Overview of company performance*

The table below sets out information about the entity's earnings and movements in shareholder wealth for the past five years up to and including the current financial year.

	2017	2016	2015	2014	2013 <sup>1</sup>
NPAT (\$'000)	(1,985)	(1,809)	(1,635)	(6,091)	N/A
Share price at year end (\$)	0.14	0.10	0.13	0.16	N/A
Basic EPS (cents)	(2.33)	(2.80)	(2.96)	(14.02)	N/A

<sup>1</sup>Figures are not applicable prior to the year 2014 as the company was listed on 2 April 2014. No dividends have been paid in respect of shares in the last four years.

### **Use of Remuneration Consultants**

During the financial year, there were no remuneration recommendations made in relation to key management personnel for the Company by any remuneration consultants.

### **Voting and comments made at the Company's 2017 Annual General Meeting**

RHS Ltd's motion in relation to the approval of 2016 remuneration report passed with a vote total of more than 75%. The Company did not receive any specific feedback at the AGM on its remuneration report.

### **Director remuneration arrangements**

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The Company's constitution and the ASX listing rules specify that the Non-Executive Director (NED) fee pool shall be determined from time to time by a general meeting. The last determination disclosed in the Company's prospectus dated 7 March 2014 approved an aggregate fee pool of \$500,000 per year.

The Board will not seek any increase for the NED pool at the 2018 AGM.

#### *Contracts*

##### *Dr Michelle Fraser*

The Company and Dr Fraser entered into an Executive Service Agreement (Agreement) on 19 December 2013. Pursuant to the Agreement, the Company employed Dr Fraser as Managing Director for a period of two years commencing on 2 April 2014. The contract was renewed for a further two year period on 16 December 2015 and again more recently on 16 November 2017. Dr Fraser's current salary has been increased to \$260,000 plus compulsory employer superannuation of 9.5% per annum, effective from 1 January 2018. A performance review of Dr Fraser's contract is undertaken annually.

Either party may terminate the Agreement on three months' notice to the other, and the Company may, subject to obtaining shareholder approval if required, pay to Dr Fraser three months remuneration in lieu of notice.

#### *Structure*

The remuneration of NEDs consists of directors' fees and consulting fees. NEDs do not receive retirement benefits. The remuneration of NEDs (and the Managing Director) for the year ended 31 December 2017 and 31 December 2016 is detailed in the table below.

Table 1: Remuneration of Directors

Directors	Financial Year	Salary and fees \$	Short term benefits \$	Share based payments \$	Post-employment Superannuation \$	Total \$
D Brookes	2017	54,795	-	-	5,205	60,000
	2016	54,795	-	76,523	5,205	136,523
M Fraser	2017	240,000	25,000	-	19,832	284,832
	2016	240,000	-	156,779	19,616	416,395
J Matthews	2017	31,964	-	-	3,036	35,000
	2016	31,964	-	36,896	3,036	71,896
S MacLeman	2017	31,964	-	-	3,036	35,000
	2016	31,964	-	36,896	3,036	71,896
F Dwyer <sup>1</sup>	2017	-	-	-	-	-
	2016	10,000	-	(4,500)	-	5,500
C Matthews	2017	5,000	-	-	-	5,000
	2016	5,000	-	-	-	5,000
R Ridge <sup>2</sup>	2017	-	-	-	-	-
	2016	-	-	-	-	-
FY 17 Directors		363,723	25,000	-	31,109	419,832
FY 16 Directors		373,723	-	302,594	30,893	707,210

<sup>1</sup> At the 31st December 2015, the Company had an obligation to issue 300,000 unlisted options to Mr Dwyer, as part of his terms of engagement. These options were subject to shareholder approval at the next Annual General Meeting. As these options did not contain any vesting conditions, other than shareholder approval, the assessed \$4,500 fair value of the options was expensed in the Company's statement of comprehensive income for the year ended 31 December 2015. As Mr Dwyer resigned effective 21 April 2016, prior to the Company's Annual General Meeting, the \$4,500 was reversed from the Company's statement of comprehensive income in the year ended 31 December 2016.

<sup>2</sup> Mr Ridge was appointed as CFO and Company Secretary on 11 May 2015. Mr Ridge is not employed by the Company. His services are engaged through a service agreement with an entity associated with Mr Ridge. The Company paid \$52,117 for these services during the 2017 year (2016: \$87,335).

Table 2: Option holdings of Directors and Key Management Personnel

	Balance at 1 Jan 17	Expired during 2017	Granted during 2017	Balance at 31 Dec 17
D Brookes	1,400,000	-	-	1,400,000
M Fraser	3,000,000	-	-	3,000,000
J Matthews	675,000	-	-	675,000
C Matthews (alt)	-	-	-	-
S MacLeman	675,000	-	-	675,000
R Ridge	-	-	-	-
	<b>5,750,000</b>	-	-	<b>5,750,000</b>

No shares were issued during the year as a result of an exercise of options.

Table 3: Shareholdings of Directors and Key Management Personnel

	Balance at 1 Jan 17	Acquired on market	Balance at 31 Dec 17
D Brookes	1,854,774	-	1,854,774
M Fraser	422,063	-	422,063
J Matthews/ C Matthews	11,960,700	-	11,960,700
S MacLeman	24,500	-	24,500
R Ridge	-	-	-
	<b>14,262,037</b>	-	<b>14,262,037</b>

## Auditor independence declaration

We have obtained the following independence declaration from our auditors, Ernst & Young.



121 King William Street  
Adelaide SA 5000 Australia  
GPO Box 1271 Adelaide SA 5001

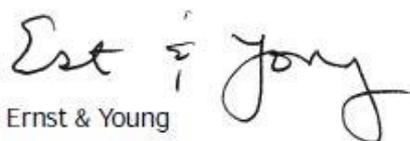
Tel: +61 8 8417 1600  
Fax: +61 8 8417 1775  
ey.com/au

## Auditor's Independence Declaration to the Directors of RHS Limited

As lead auditor for the audit of RHS Limited for the financial year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of RHS Limited and the entities it controlled during the financial year.



Ernst & Young



Nigel Stevenson  
Partner  
Adelaide  
28 February 2018

Signed in accordance with a resolution of the directors.



Dr David Brookes  
Chairman

28 February 2018

## Consolidated statement of comprehensive income

For the year ended 31 December 2017

		31 December 2017 \$	31 December 2016 \$
Sales Revenue		210,548	76,158
Cost of Goods Sold		(45,896)	(25,565)
<b>Gross Profit</b>		164,652	50,593
Research and development tax incentive		234,662	278,104
Other income	6	66,163	87,114
<b>Total Income</b>		465,477	415,811
<b>Expenses</b>			
Salaries and benefits	7	(1,232,727)	(1,003,965)
Consultants and professional fees		(289,144)	(187,253)
Research and development		(231,069)	(136,725)
Rent and property expenses		(132,127)	(131,293)
Depreciation and amortisation		(70,441)	(76,570)
Travel costs		(134,893)	(150,975)
Other expenses	8	(300,151)	(215,011)
Finance costs		(12,512)	(10,186)
Doubtful debts	11	-	(10,464)
Share based payments	20	(47,481)	(302,594)
<b>Loss before income tax expense</b>		(1,985,068)	(1,809,225)
Income tax benefit/(expense)	9	-	-
<b>Loss from continuing operations</b>		(1,985,068)	(1,809,225)
<b>Loss attributable to members of the parent entity</b>		(1,985,068)	(1,809,225)
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive loss for the year</b>		(1,985,068)	(1,809,225)
<b>Loss per share:</b>		<i>Cents</i>	<i>Cents</i>
Basic earnings per share	22	(2.33)	(2.80)
Diluted earnings per share	22	(2.33)	(2.80)

## Consolidated statement of financial position

As at 31 December 2017

	Note	31 December 2017 \$	31 December 2016 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	10	852,580	1,358,449
Trade and other receivables	11	17,827	24,763
Inventories		94,370	15,522
Other current assets	12	8,948	2,000
<b>TOTAL CURRENT ASSETS</b>		<b>973,725</b>	<b>1,400,734</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	266,107	310,260
Intangible assets	14	51,267	60,328
Other non-current assets		10,400	10,400
<b>TOTAL NON-CURRENT ASSETS</b>		<b>327,774</b>	<b>380,988</b>
<b>TOTAL ASSETS</b>		<b>1,301,499</b>	<b>1,781,722</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	214,885	171,755
Deferred Revenue	16	18,200	18,200
Interest-bearing loans and borrowings	17	54,329	47,632
Provisions		226,581	175,649
<b>TOTAL CURRENT LIABILITIES</b>		<b>513,995</b>	<b>413,236</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing loans and borrowings	17	64,567	115,753
Provisions		37,037	21,578
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>101,604</b>	<b>137,331</b>
<b>TOTAL LIABILITIES</b>		<b>615,599</b>	<b>550,567</b>
<b>NET ASSETS</b>		<b>685,900</b>	<b>1,231,155</b>
<b>EQUITY</b>			
Contributed equity	19	15,019,333	13,627,001
Share based payments reserve	20	354,575	1,089,279
Accumulated losses		(14,688,008)	(13,485,125)
<b>TOTAL EQUITY</b>		<b>685,900</b>	<b>1,231,155</b>

## Consolidated statement of changes in equity

For the year ended 31 December 2017

	Note	Issued capital ordinary \$	Share based payments reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 January 2017</b>		13,627,001	1,089,279	(13,485,125)	1,231,155
<i>Comprehensive income</i>					
Loss for the year		-	-	(1,985,068)	(1,985,068)
Other comprehensive income/(expense)		-	-	-	-
<b>Total comprehensive income for the period</b>				(1,985,068)	(1,985,068)
<i>Transactions with owners, in their capacity as owners, and other transfers</i>					
Issue of share capital		1,500,000	-	-	1,500,000
Costs associated with the issue of shares		(107,668)	-	-	(107,668)
Share based payments	<b>20</b>	-	47,481	-	47,481
Lapsed options		-	(782,185)	782,185	-
<b>Total transactions with owners and other transfers</b>		1,392,332	(734,704)	782,185	1,439,813
<b>Balance at 31 December 2017</b>		15,019,333	354,575	(14,688,008)	685,900

## Consolidated statement of changes in equity (Continued)

For the year ended 31 December 2016

	Note	Issued Capital Ordinary \$	Share based payments reserve \$	Accumulated losses \$	Total equity \$
<b>Balance at 1 January 2016</b>		12,239,599	786,685	(11,675,900)	1,350,384
<i>Comprehensive income</i>					
Loss for the year		-	-	(1,809,225)	(1,809,225)
Other comprehensive income/(expense)		-	-	-	-
<b>Total comprehensive income for the period</b>		-	-	(1,809,225)	(1,809,225)
<i>Transactions with owners, in their capacity as owners, and other transfers</i>					
Issue of share capital		1,515,077	-	-	1,515,077
Costs associated with the issue of shares		(127,675)	-	-	(127,675)
Share based payments	<b>20</b>	-	302,594	-	302,594
<b>Total transactions with owners and other transfers</b>		1,387,402	302,594	-	1,689,996
<b>Balance at 31 December 2016</b>		13,627,001	1,089,279	(13,485,125)	1,231,155

## Consolidated statement of cash flows

For the year ended 31 December 2017

		Year ended 31 December 2017 \$	Year ended 31 December 2016 \$
	<b>Note</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		205,923	64,153
Payments to suppliers and employees		(2,328,683)	(1,829,542)
Interest paid		(12,512)	(10,186)
Interest received		16,088	16,872
R&D Tax benefit received		234,662	278,104
EMDG grant received		23,269	103,927
Other income		26,806	8,000
<b>NET CASH FLOWS (USED IN) OPERATING ACTIVITIES</b>	<b>10</b>	<b>(1,834,447)</b>	<b>(1,368,672)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of intangible assets		-	(71,558)
Purchase of property, plant and equipment		(19,265)	(51,552)
Proceeds from the sale of assets		-	545
<b>NET CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>		<b>(19,265)</b>	<b>(122,565)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		1,500,000	1,515,077
Payment of transaction costs for issue of shares		(107,668)	(127,675)
Proceeds from borrowings	<b>18</b>	29,553	42,143
Finance lease repayments	<b>18</b>	(74,042)	(35,342)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>1,347,843</b>	<b>1,394,203</b>
Net increase/(decrease) in cash and cash equivalents		(505,869)	(97,034)
Cash at the beginning of the year		1,358,449	1,455,483
<b>CASH AT THE END OF THE YEAR</b>	<b>10</b>	<b>852,580</b>	<b>1,358,449</b>

# Notes to the consolidated financial statements

For the year ended 31 December 2017

## 1. Corporate information

The consolidated financial statements of RHS Limited and its subsidiaries (collectively, the Group) for the year ended 31 December 2017 were authorised to be issued, in accordance with a resolution of the directors on 28 February 2018.

RHS Limited is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded. The Group's principal activities are described in the Director's Report.

## 2. Summary of significant accounting policies

### 2.1. Basis of preparation

The 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 financial report has also been prepared on a historical cost basis.

The consolidated financial statements provide comparative information in respect of the previous period. The financial report is presented in Australian dollars, being the functional and presentation currency for the Group.

### 2.2. Compliance with International Financial Reporting Standards (IFRS)

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

### 2.3. Changes in accounting policy, disclosures, standards and interpretations

#### (i) *Changes in accounting policies*

The accounting policies adopted in the preparation of this Annual Report are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016.

#### (ii) *New and amended standards and interpretations*

The Group applied, for the first time, certain standards and amendments which are effective for annual periods beginning on or after 1 January 2017. The new standards and amendments have not had a material impact on the financial statements presented for the year ended 31 December 2017.

*AASB 2016-2: Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

The amendments to AASB 107 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). For the disclosure of the standard refer to note 5.

*(iii) Accounting Standards and Interpretations issued but not yet effective*

Australian Accounting Standards and Interpretations that have recently been issued or amended that potentially impact the Group but are not yet effective and have not been adopted by the Group.

*AASB 9: Financial Instruments*

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement.

Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs.

Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.

There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.

Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.

The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9.

The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.

AASB 9 is applicable to the Group from 1 January 2018. The Group has assessed that, for current operations, AASB 9 is unlikely to have a material impact on the Group.

### *AASB 15: Revenue from Contracts with Customers*

AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 Leases (or AASB 16 Leases, once applied).

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:

- ⇒ Step 1: Identify the contract(s) with a customer
- ⇒ Step 2: Identify the performance obligations in the contract
- ⇒ Step 3: Determine the transaction price
- ⇒ Step 4: Allocate the transaction price to the performance obligations in the contract
- ⇒ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

AASB 15 is applicable to the Group from 1 January 2018. The Group has assessed that, for current operations, AASB 15 is unlikely to have a material impact on accounting for future revenue contracts for the Group.

### *AASB 16: Leases*

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under AASB 117.

AASB is applicable to the Group from 1 January 2019. The Group only operates as a lessee. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has one non-cancellable operating lease commitment, being the lease of Office and laboratory space at the Company's head office. The lease expires 31 October 2019, with

total lease commitments from 31 December 2017, through to that date, of \$233,140 (refer to Note 18).

The Group has not yet completed its assessment of what adjustments, if any, are necessary on adoption of AASB 16. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

*AASB Interpretation 22: Foreign Currency Transactions and Advance Consideration*

The Interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transaction for each payment or receipt of advance consideration.

AASB Interpretation 22 is applicable to the Group from 1 January 2018. The Group has assessed that these amendments are unlikely to have any material effect for the Group.

## **2.4. Significant accounting policies**

### **(a) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired

or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises 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 OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

#### **(b) Current versus non-current classification**

The Group presents assets and liabilities in statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

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

### **(c) Foreign currency translation**

The Group's consolidated financial statements are presented in Australian dollars, which is also the Parent's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

#### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

#### *Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

#### **(d) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is acting as a principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks. The specific recognition criteria described below must also be met before revenue is recognised.

##### *Interest income*

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

##### *Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

The company does not provide any warranties to its customers.

##### *Rendering of services*

Revenue from the provision of services is recognised by reference to the stage of completion. Stage of completion is measured by reference to the timing of the final reports provided to the client.

#### **(e) Taxes**

##### *Current income tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### *Deferred tax*

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

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 difference 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 balance 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 balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset 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 substantively 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*

RHS Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 2 April 2014. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

#### **(f) Property, plant and equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Property, plant and equipment	3 – 12 years
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An item of property, plant and equipment and any significant part initially recognised is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

#### **(g) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding

capitalised development costs, are not capitalised and the related expenditure is reflected in the profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite life is reviewed at least at the end of each reporting period, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is de-recognised.

#### *Patents and licenses*

The Group owns trademarks and patent protection in respect of a single family of patents relating to a method of comparing chromosomes from two different karyotypes and methods for detecting chromosomal abnormalities using comparative genomic hybridisation and microarrays. These methods are used in the Group's first product, EmbryoCollect®, which is useful in reproductive medicine and has particular applications in the pre-implantation genetic screening (PGS) of an embryo or egg prior to implantation.

As a result, those patents and trademarks are assessed as having a finite useful life. The useful life estimated in relation to each of the Company's patents is the period commencing with notification of patent registration through to scheduled patent expiry in each jurisdiction. The useful life of the Company's patents ranges from 9 to 13 years. The useful life of trademark application and registration costs is 20 years. Amortisation of patents and trademarks is calculated on a straight line basis.

The Group acquired patents and trademarks for its recently developed products, DOPlify™ and PG-Seq™, but given the uncertainty around future economic benefits, these amounts have been expensed rather than capitalised on the balance sheet.

#### *Research and development costs*

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development, and
- The ability to use the intangible asset generated.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

#### **(h) Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether 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 or assets, even if that right is not explicitly specified in an arrangement.

#### *Group as a lessee*

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

### **(i) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of 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 the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### **(j) Financial Instruments**

#### *Recognition and initial measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

#### *Classification and subsequent measurement*

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

*(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

*(ii) Classification and subsequent measurement of financial liabilities*

The Group's financial liabilities include borrowings and trade and other payables.

Financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

**(k) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**(l) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

**(m) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

**(n) Contributed equity**

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

**(o) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(p) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**(q) Critical Accounting Estimates and Judgments**

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

**(r) Inventories**

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

The cost of inventory is determined as the cost incurred in bringing each product to its present location and condition being the cost of purchase, transportation and import duties, calculated on an average cost basis.

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

Inventory on hand is held both for re-sale to customers, and for consumption internally during the provision of services.

**(s) Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

A government grant that becomes receivable as compensation for expenses or losses already incurred, with no future related costs, shall be recognised in profit or loss of the period in which it becomes receivable.

## Key estimates

### *Impairment*

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

### *Share-based payments*

Estimating the fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses a binomial model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 19.

## 3. Operating Segments

The Group has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources.

The Group only operates in one business segment being the product development and commercialisation of Biotechnology technologies. Therefore, all segment assets and liabilities, and the segment result, relate to the one business segment and consequently no detailed segment analysis has been prepared.

## 4. Information about subsidiaries

The consolidated financial statements of the Group include:

Name	Principal Activities	Country of incorporation	% Equity interest	
			2017	2016
RHS Subsidiary Pty Ltd	Biotechnology technology development	Australia	100%	100%
AO Energy (Asia) Pty Ltd	Dormant subsidiary	Australia	100%	100%
AO Energy (Singapore) Pte. Ltd. <sup>1</sup>	Dormant subsidiary	Singapore	N/A	100%

<sup>1</sup> During the year ended 31 December 2017, following an application by the parent company RHS Ltd, AO Energy (Singapore) Pte Ltd was formally deregistered as a company.

### *Parent of the group*

The parent entity of the Group is RHS Ltd and is based and listed in Australia.

## 5. Financial assets and financial liabilities

### Financial risk management objectives and policies

The Group's principal financial liabilities comprise of borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include trade and other receivables and cash and short-term deposits that derive directly from its operations.

The Group is not exposed materially to market risk, credit risk, foreign exchange risk or liquidity risk. The Board takes ultimate responsibility for managing the financial risks of the Group.

Management assessed that the fair values of cash, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. The fair value of interest bearing liabilities approximates the carrying value, as there has not been a significant change in market rates.

### Trade receivables

Group does not have a material risk in trade receivables due, ordinarily only having other receivables relating to receipts from the Australian Taxation Office in relation to GST refunds or other sundry receivables from time to time.

### Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in notes 19 and 20.

Proceeds from share issues are used to fund the Group's commercialisation and product development of its biotechnology patent portfolio.

### Changes in liabilities arising from financing activities

	1 Jan 2017	Cash flows	New liabilities	Other	31 Dec 2017
Current interest bearing loans and borrowings (excluding the finance lease below)	-	(26,410)	29,553	-	3,143
Current obligations under a finance lease	47,632	(47,632)	-	51,186	51,186
Non-current obligations under a finance lease	115,753	-	-	(51,186)	64,567
<b>Total liabilities from financing activities</b>	<b>163,385</b>	<b>(74,042)</b>	<b>29,553</b>	<b>-</b>	<b>118,896</b>

The 'Other' column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings, including obligations under finance leases, to current due to the passage of time, and the effect of accrued but not yet paid interest on interest bearing loans and borrowings. The Group classifies interest paid as cash flows from operating activities.

## 6. Other income

	31 Dec 2017	31 Dec 2016
	\$	\$
Interest income	16,088	15,187
Export Marketing Development Grant	23,269	63,927
Deposits received	1,774	8,000
Other income	25,032	-
	<u>66,163</u>	<u>87,114</u>

## 7. Salaries and benefits

Wages, salaries and other remuneration expenses	1,139,274	925,145
Superannuation expense	93,453	78,820
	<u>1,232,727</u>	<u>1,003,965</u>

## 8. Other expenses

Share registry expenses	11,676	10,229
ASX fees	30,034	28,717
IT expenses	33,684	21,891
Repairs and maintenance	33,542	2,881
Insurance expenses	29,745	30,607
Shareholder General Meeting expenses	6,518	5,300
Subscriptions and memberships	14,868	14,482
Telephone	5,025	5,055
Foreign exchange loss / (gain)	1,370	(1,485)
Patent & Trademark annual license fees	41,123	28,041
Client Training	-	4,312
Other expenses	92,566	64,981
	<u>300,151</u>	<u>215,011</u>

## 9. Income tax

	31 Dec 2017	31 Dec 2016
	\$	\$
<b>Accounting (loss) before income tax</b>	<b>(1,985,068)</b>	<b>(1,809,225)</b>
At Australia's statutory income tax rate of 27.5% (2016: 30%)	(545,894)	(542,768)
Adjust for the tax effect of:		
Other non-allowable items	19,270	276,357
Non assessable income	(64,532)	(83,431)
Unrecognised tax assets	591,156	349,842
Income tax (benefit)	-	-

RHS Ltd and its 100% owned resident Australian subsidiaries comprise a tax consolidated group. RHS Ltd is the head entity of the tax consolidated group.

At 31 December 2017, the Group has total tax losses of the Australian companies within the Group of \$9,647,419 (2016: \$7,709,054) that are available indefinitely to offset against future taxable profits of the Group. These losses include \$3,163,000 tax transferred to the tax consolidated group on the acquisition of RHS Subsidiary Pty Ltd on 2 April 2014. The utilisation of these losses acquired will be restricted to the available fraction of 0.853.

A deferred tax asset shall only be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable income will be available against which unused tax losses can be utilised. The total deferred tax asset of \$2,653,040 (2016: \$2,313,000) arising from the carried forward tax losses has not been recognised as meeting the probability criteria.

The taxation benefits of tax losses and timing differences not brought to account will only be obtained if:

- assessable income is derived of a nature and amount sufficient to enable the benefit from the deductions to be realised
- conditions for deductibility imposed by the law are complied with, and
- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

## 10. Cash and cash equivalents

	31 Dec 17	31 Dec 16
	\$	\$
Cash in bank and on hand	852,580	1,358,449
	852,580	1,358,449

### Reconciliation of net loss after tax to net cash flows from operations

Accounting loss after income tax	(1,985,068)	(1,809,225)
<i>Adjustments for:</i>		
Depreciation and amortisation	70,441	76,570
Share based payments	47,481	302,594
Gain/(loss) on sale of property plant and equipment	-	1,348
Provision for doubtful debts	-	10,464
<i>Changes in assets and liabilities:</i>		
Decrease/ (increase) in trade and other receivables	6,936	37,737
Decrease/ (increase) in inventories and prepayments	(85,796)	(5,051)
(Decrease)/ increase in trade and other payables	45,168	(9,989)
(Decrease)/ increase in deferred revenue	-	(9,200)
(Decrease)/ increase in provisions	66,391	36,080
<b>Net cash (used in) operating activities</b>	<b>(1,834,447)</b>	<b>(1,368,672)</b>

## 11. Trade and other receivables

Trade Receivables	7,173	16,900
Provision for doubtful debt (charged for the year)	-	(10,464)
	7,173	6,436
GST Receivable	10,546	14,856
Export Marketing Development Grant	-	-
Other Receivables	108	3,471
	17,827	24,763

Other receivables are non-interest bearing and are generally received within 30 days.

### Movements in the provision for doubtful debts were as follows:

Balance at 1 January	(10,464)	-
Charge for the year	-	(10,464)
Amounts written off	10,464	-
Balance at 31 December	-	(10,464)

As at 31 December, the ageing analysis of trade receivables is, as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 Days	30–60 Days	61–90 Days	91–120 Days	> 120 Days
			\$	\$	\$	\$	\$
<b>2017</b>	7,173	6,015	-	1,158	-	-	-
<b>2016</b>	6,436	6,436	-	-	-	-	-

## 12. Other current assets

	31 Dec 17 \$	31 Dec 16 \$
Prepayments	8,948	2,000
	8,948	2,000

## 13. Property, plant and equipment

<i>Property, plant and equipment - Cost</i>		
Opening cost 1 Jan	737,586	692,282
Additions	19,265	51,552
Disposals	-	(6,248)
	756,851	737,586
<i>Accumulated depreciation</i>		
Opening balance 1 Jan	427,326	362,938
Depreciation expense	63,418	68,743
Disposals	-	(4,355)
	490,744	427,326
Net book value of property, plant and equipment	266,107	310,260

## 14. Intangible Assets

Balance at the beginning of the year	60,328	66,519
Additional patent costs	-	1,635
Adjust prior period accrued costs	(2,038)	-
Amortisation expense	(7,023)	(7,826)
	51,267	60,328

The remaining intangible asset balance at 31 December 2017 relates to costs associated with obtaining patents and trademarks in a number of jurisdictions. As described in Note 2, these costs are being amortised over the term of the patents and trademarks, being the period from notification of approval to expiry.

## 15. Trade and other payables

	31 Dec 17	31 Dec 16
	\$	\$
Trade payables	56,081	50,839
Other payables	158,804	120,916
	<u>214,885</u>	<u>171,755</u>

## 16. Deferred Revenue

Balance at the beginning of the year	18,200	27,400
Deferred during the year	-	-
Released to the statement of comprehensive income	-	(9,200)
	<u>18,200</u>	<u>18,200</u>
Current	18,200	18,200
Non-current	-	-
	<u>18,200</u>	<u>18,200</u>

The balance of deferred revenue represents the receipt of payments for which the Company is yet to provide the goods or services as at the end of year. Once the goods or services are provided, the deferred revenue is released to the Statement of Comprehensive Income as revenue earned.

## 17. Interest-bearing loans and borrowings

Current		
Insurance premium funding	3,143	-
Obligations under finance lease	51,186	47,632
Total	<u>54,329</u>	<u>47,632</u>
Non-current		
Obligations under finance lease	64,567	115,753
Total	<u>64,567</u>	<u>115,753</u>

On 30 January 2015, the Group entered into a finance lease with its financier for the sum of \$190,481. After leasing an additional piece of equipment on 14 April 2016, the Group signed a revised finance lease agreement, receiving additional \$42,143, bringing the loan amount, at that time, to the total sum of \$178,516. The finance lease provides for fixed monthly payments, over a 3.5 year period, comprising principal and an effective interest rate of 7.22%. Future minimum lease payments under the finance lease are as follows:

Within one year	57,872	57,873
After one year but less than five years	67,518	125,390
More than five years	-	-
Total minimum lease payments	<u>125,390</u>	<u>183,263</u>
Less amounts representing finance charges	<u>(9,637)</u>	<u>(19,878)</u>
Present value of minimum lease payments	<u>115,753</u>	<u>163,385</u>

	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>
	<b>\$</b>	<b>\$</b>
Current	51,186	47,632
Non-current	64,567	115,753
<b>Total</b>	<b>115,753</b>	<b>163,385</b>

The Group's obligations under the finance lease are secured by the lessor's title to the leased asset.

### **18. Commitments and contingencies.**

The Group entered into operating lease for its office and laboratory space on 23 December 2015. The lease expires on 31 October 2019. Future minimum rentals payable under non-cancellable operating lease as at 31 December 2017 are as follows:

Within one year	125,513	121,269
After one year but not more than five years	107,627	233,140
More than five years	-	-
	<b>233,140</b>	<b>354,409</b>

### **19. Contributed equity**

	<b>31 Dec 2017</b>	<b>31 Dec 2016</b>
	<b>\$</b>	<b>\$</b>
89,920,483 Ordinary fully paid shares (2016: 79,206,198)	15,019,333	13,627,001
	<b>15,019,033</b>	<b>13,627,001</b>

	<b>Number of shares</b>	<b>Consolidated \$</b>
Balance as at 1 January 2017	79,206,198	13,627,001
Placement <sup>1</sup>	10,714,285	1,500,000
Costs associated with the issue of shares	-	(107,668)
	<b>89,920,483</b>	<b>15,019,333</b>

<sup>1</sup> On 9 June 2017, the Company issued 10,714,285 shares at \$0.14 per share, to sophisticated investors raising \$1,500,000 before capital raising costs.

## 20. Share Option Reserve

	31 Dec 2017	31 Dec 2016
	\$	\$
Share based payments reserve	354,575	1,089,279
	354,575	1,089,279
<i>Share based payments reserve</i>		
Opening balance 1 January	1,089,279	786,685
Fair value of share options issued	47,481	307,094
Fair value of share options forfeited	-	(4,500)
Fair value of options lapsed	(782,185)	
	354,575	1,089,279

The share option reserve comprises the fair value of options issued to directors of the Company and other parties.

### Fair Value of Options recognised in the year ended 31 December 2017

1,000,000 unlisted options were issued to the employees of the Company on 6 January 2017. These options are exercisable at a price of \$0.208, at any time prior to 31 May 2020. The options were valued using a binomial option valuation method, using the following assumptions:

Volatility Rate:	68%
Estimated life	3.4 years
Risk free rate	1.94%
Number of steps	150

The total value pertaining to these options using the above assumptions amounted to \$29,212. None of the options contained vesting conditions and hence have been expensed in the Company's statement of comprehensive income for the year ended 31 December 2017.

200,000 unlisted options were issued to two business development consultants. These options are exercisable at a price of \$0.20, at any time prior to 31 May 2019. The options were valued using a binomial option valuation method, using the following assumptions:

Volatility Rate:	68%
Estimated life	2.2 years
Risk free rate	1.77%
Number of steps	1,000

The total value pertaining to these options using the above assumptions amounted to \$2,884. None of the options contained vesting conditions and hence have been expensed in the Company's statement of comprehensive income for the year ended 31 December 2017.

100,000 unlisted options were issued to a consultant on 9 July 2017. These options are exercisable at a price of \$0.20, at any time prior to 31 May 2019. The options were valued using a binomial option valuation method, using the following assumptions:

Volatility Rate:	75%
Estimated life	3 years
Risk free rate	1.73%
Number of steps	1,000

The total value pertaining to these options using the above assumptions amounted to \$6,325. None of the options contained vesting conditions and hence have been expensed in the Company's statement of comprehensive income for the half year ended 31 December 2017.

100,000 unlisted options were issued to a consultant on 28 November 2017. These options are exercisable at a price of \$0.20, at any time prior to 31 May 2019. The options were valued using a binomial option valuation method, using the following assumptions:

Volatility Rate:	75%
Estimated life	1.5 years
Risk free rate	1.76%
Number of steps	1,000

The total value pertaining to these options using the above assumptions amounted to \$3,815. None of the options contained vesting conditions and hence have been expensed in the Company's statement of comprehensive income for the half year ended 31 December 2017.

250,000 unlisted options were issued to an employee on 28 November 2017. The options vest on 17 February 2018, upon the expiry of six months full employment with the Company. These options are exercisable at a price of \$0.20, at any time from 18 February 2018 through to 31 May 2020. The options were valued using a binomial option valuation method, using the following assumptions:

Volatility Rate:	75%
Estimated life	2.3 years
Risk free rate	1.76%
Number of steps	1,000

The total value pertaining to these options using the above assumptions amounted to \$12,651. The options have been expensed on a straight line basis over the vesting period through to 17 February 2018. Hence, \$5,245 has been recognised in the Company's statement of comprehensive income for the year ended 31 December 2017, and the remaining \$7,406 will be recognised in the year ended 31 December 2018.

#### Fair Value of Options recognised in the year ended 31 December 2016

In accordance with shareholder approval at the Company's Annual General Meeting dated 25 May 2016, 4,250,000 unlisted options were issued to the directors of the Company. These options are exercisable at a price of \$0.208, at any time on or after 1 January 2017 and expire 31 May 2020.

The options were valued using a binomial option valuation method, using the following assumptions:

Volatility Rate:	68%
Estimated life	4 years
Risk free rate	1.83%
Number of steps	1,000

The total value pertaining to these options using the above assumptions amounted to \$232,306. None of the options contained vesting conditions and were expensed in the Company's statement of comprehensive income for the year ended 31 December 2016.

1,500,000 unlisted options were issued to a director of the Company, in accordance with shareholder approval at the Company's Annual General Meeting dated 25 May 2016. These options are exercisable at a price of \$0.248, at any time on or after 1 January 2017 and expire 31 May 2020.

The options were valued using a binomial option valuation method, using the following assumptions:

Volatility Rate:	68%
Estimated life	4 years
Risk free rate	1.83%
Number of steps	1,000

The total value pertaining to these options using the above assumptions amounted to \$74,788. None of the options contained vesting conditions and hence have been expensed in the Company's statement of comprehensive income for the year ended 31 December 2016.

## 21. Related party disclosures

Remuneration of Key Management Personnel	31 Dec 17	31 Dec 16
	\$	\$
Short-term employee benefits	388,723	373,723
Share based payments	-	302,594
Post-employment benefits	31,109	30,893
Total compensation	419,832	707,210

## 22. Earnings per share

Basic earnings per share amounts are 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 amounts are 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 into ordinary shares.

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

	<b>Consolidated</b>	
	<b>31 Dec 17</b>	<b>31 Dec 16</b>
	<b>\$</b>	<b>\$</b>
Net loss attributable to ordinary equity holders of the parent entity:		
Continuing operations	(1,985,068)	(1,809,225)
Weighted average number of ordinary shares for basic earnings per share	85,223,810	64,685,418
Effect of dilution		
Share options	N/A	N/A
Weighted average number of ordinary shares adjusted for the effect of dilution	85,223,810	64,685,418

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

In accordance with AASB 133 'Earnings per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taken into account. A total of 7,400,000 unlisted options, as outlined in the Directors' Report, could potentially dilute basic EPS in the future.

### **23. Events after the reporting period**

The following two matters have arisen since the end of the financial year. Other than these two matters, no other matters or circumstances have arisen since the end of the financial year, which significantly affected or could affect the operations of the Group, the results of those operations, or the state of the Group in future years.

(i) PerkinElmer to acquire all RHS shares via a Scheme of Arrangement

RHS has entered into a binding Scheme Implementation Agreement ("SIA") with PerkinElmer, Inc. ("PerkinElmer") (NYSE:PKI) for PerkinElmer to acquire of all of the issued share capital of RHS by way of a Scheme of Arrangement ("Scheme"). A summary of the proposed transaction is provided below. The full terms are contained in the SIA (refer ASX Announcement on 26<sup>th</sup> February 2018):

- PerkinElmer to pay \$0.28 cash per RHS share, for 89,920,483 outstanding shares.
- The acquisition will be implemented by way of a Scheme of Arrangement under the Australian Corporations Act 2001 (Cth).

- The Scheme is subject to approval by simple majority of the RHS shareholders and by at least 75% of the votes cast at a General Meeting, expected to be held on 22<sup>nd</sup> May 2018.
- The Scheme is subject to limited other conditions that are standard for a transaction of this nature.
- Subject to the Scheme being implemented, PerkinElmer will seek to acquire options totalling 7,400,000, based on the difference in value between the offer price of \$0.28 and the respective option strike prices.

The Board of RHS have unanimously recommended that all RHS shareholders vote in favour of the Scheme, subject to an independent expert report concluding that the transaction is in the best interests of all shareholders and no superior proposal being received.

(ii) Interim Funding arrangements

RHS has also entered into an Interim Funding Agreement with The Very Company Pty Ltd, a company controlled by RHS' Alternate Director Colin Matthews.

The purpose of the Interim Funding Agreement is to provide funding for RHS pending the implementation of the Scheme, and to obviate the need for RHS to raise further capital prior to implementation of the Scheme, which might have diluted the equity interest of current shareholders.

The key terms of the Interim Funding Agreement are:

- Interest rate 9%, with interest payable on repayment of the facility.
- Facility limit \$750,000.
- Repayment date 28 September 2018.
- "One off" establishment fee of \$25,000.
- RHS may prepay all or part of the drawn down facility without penalty.
- Facility may only be used for working capital purposes, to pay the establishment fee and for RHS to pay its costs and expenses of implementing the Scheme.

**24. Auditor's remuneration**

	<b>31 Dec 17</b>	<b>31 Dec 16</b>
	<b>\$</b>	<b>\$</b>
An audit or review of the financial report	29,765	28,000
Other assurance services	25,235	-
<b>Total Auditor's remuneration</b>	<b>55,000</b>	<b>28,000</b>

## 25. Parent entity information

	31 Dec 17	31 Dec 16
	\$	\$
Current assets	960,399	1,397,688
Non-current assets	319,841	310,258
Total assets	1,280,240	1,707,946
<i>Liabilities</i>		
Current liabilities	(492,737)	(407,849)
Non-current liabilities	(101,604)	(137,331)
Total liabilities	(594,341)	(545,180)
Issued capital	55,626,708	54,234,376
Accumulated losses	(55,853,834)	(54,719,339)
Reserve	913,025	1,647,729
Total shareholders' equity	685,899	1,162,766
Loss of the parent entity	1,916,681	(1,877,613)
Total comprehensive loss of the parent entity	1,916,681	(1,877,613)

## 26. Going concern basis of accounting

In preparing the annual report, the Directors have made an assessment of the ability of the Group to continue as a going concern. As described in the Directors' Report, the Company remains in the start-up phase of operations and is forecast to operate at an operating loss and cash flow deficit for the immediate forecast period. In considering their position, the Directors have had regard to the current cash reserves and forecasts of cash expenditure and income; together with the potential for the successful conclusion of the proposed PerkinElmer transaction and the interim funding (refer Note 23), and the likelihood of being able to raise funds in future should the proposed PerkinElmer transaction not proceed to completion. The Directors have concluded there are reasonable grounds to believe the Company is a going concern and will be able to continue to pay its debts as and when they become due and payable.

Should the Group not complete the proposed PerkinElmer transaction, and it does not achieve its forecast trading result or not raise funds of a level or timing as required, there is material uncertainty as to whether the Group will realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial report.

## Directors' declaration

In accordance with a resolution of the directors of RHS Limited, I state that:

In the opinion of the directors:

- a) The financial statements and notes of RHS Limited for the year ended 31 December 2017 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 31 December 2017 and of its performance for the year ended on that date; and
  - 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 2.2; and
- c) Subject to the matters detailed at Note 26 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors by the Chief Executive Officer and the Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 31 December 2017.

On behalf of the board



Dr David Brookes  
Chairman

28 February 2018

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## Independent Auditor's Report to the Members of RHS Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of RHS Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Material Uncertainty Related to Going Concern

We draw attention to Note 26 in the financial report, which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

### 1. Carrying value of non-current assets

#### Why significant

Australian Accounting Standards require the Group to assess throughout the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group must estimate the recoverable amount of the asset. Impairment indicators were present at 31 December 2017 and impairment testing was undertaken. The principal indicators of impairment were the start up nature of the business and ongoing trading losses.

At 31 December 2017, the Group had non-current assets of \$0.33m comprised of \$0.05m trademarks and licenses and \$0.27m of plant and equipment.

The impairment testing process is complex and highly judgmental and is based on assumptions and estimates that are affected by expected future performance and market conditions.

#### How our audit addressed the key audit matter

We evaluated the assumptions and methodologies used by the Group and the estimates made. In particular, we considered those estimates and judgments relating to the forecast cash flows and the inputs used to formulate those cash flows, such as sales activity, operating costs, discount rates and inflation rates.

Specifically, we evaluated the discounted cash flow models and other data supporting the Group's assessment. In doing so, we:

- ▶ understood activity with regard to the development and marketing of the current product range;
- ▶ considered forecast sales activity, current Board approved budgets and results from historical operations;
- ▶ assessed the Group's historic ability to meet cash flow forecasts;
- ▶ evaluated discount rates with reference to market research, market practice, market indices and historical performance; and
- ▶ tested the mathematical accuracy of the discounted cash flow models.

We also considered the adequacy of the financial report disclosures regarding impairment and the recoverable amount of the Group's assets.

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## 2. Share options

### Why significant

The Group awarded options in the current year to the directors and employees. The Group has performed calculations to record the related share based payment expense in the statement of comprehensive income.

Due to the complex and judgmental estimates used in determining the valuation of the share based payments, we considered the Group's calculation of the share based payment expense to be a key audit matter. The Group uses assumptions in respect of future market and economic conditions. Refer to Note 20 to the financial statements for the share based payment expenses recognised for the period ended 31 December 2017 and related disclosure.

### How our audit addressed the key audit matter

We considered the suitability of the model used by the Group to value the options.

Our valuations specialists assessed the assumptions used in the model, including the share price of the underlying equity, interest rate, volatility, dividend yield, time to maturity (expected life), grant date and vesting conditions.

We also assessed the adequacy and completeness of the financial report disclosures.

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

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report (including the remuneration report) that are to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

The directors 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.

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In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

## Report on the Audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 17 of the directors' report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of RHS Limited for the year ended 31 December 2017, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors 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.

  
Ernst & Young



Nigel Stevenson  
Partner  
Adelaide  
28 February 2018