AZURE
HEALTHCARE LIMITED

# ANNUAL REPORT
# FOR THE YEAR ENDED 30TH JUNE 2012

## REGISTERED OFFICE

AZURE HEALTHCARE LIMITED
(Formerly TSV Holdings Limited)
Level 18, 60 Albert Road
South Melbourne VIC 3205
Australia

## DIRECTORS

Mr Robert Grey – Executive Chairman
Mr William Brooks – Non Executive Director
Mr Michael Howard – Non Executive Director

## COMPANY SECRETARY

Mr Jason D'Arcy

## AUDITORS

BDO East Coast Partnership
Level 14, 140 William Street
Melbourne Vic 3000
Australia

## SHARE REGISTRY

Computershare Investor Services Pty Limited
Yarra Falls
453 Johnson Street
Abbotsford Vic 3067
Australia

## BANKERS

Australia and New Zealand Banking Group Limited
Business Banking
Level 1, 91 Maroondah Highway
Ringwood Vic 3134
Australia

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# CHAIRMAN'S REPORT



Dear Shareholders,

The Directors are pleased to release the Annual Report for the year ending 30 June 2012.

The new Board and management team at Azure Healthcare Limited have returned the Azure Group of companies to a profitable position both in Australia and internationally. This rapid turnaround is due to new management's focus on the customer, cost control and growing the Austco healthcare business by developing more efficient systems and solutions.

Revenue from ordinary activities increased by 8.26% in the 2012 financial year to $18.224 million, reflecting increased demand for our new generation Tacera products.

Net profit after tax (NPAT) was $0.744 million representing a significant turnaround from the 2011 NPAT loss of $11.050 million, giving an overall positive operating result for the group of earnings of 0.47 cents per share.

Net earnings before interest, tax, depreciation and amortisation, (EBITDA) were $0.940 million, whilst earnings before interest and tax (EBIT) were $0.501 million.

**Azure Group**

| | **30 June 2012** | **30 June 2011** | **increase** | |
|---|---|---|---|---|
| **Revenue** | **$18.224m** | **$16.833m** | **+$1.391m** | **(8.26%)** |
| **EBITDA** | **$0.940m** | **($1.935)m** | **+$2.875m** | |
| **NPAT** | **$0.744m** | **($11.050)m** | **+$11.794m** | |

**Note: 2012 NPAT includes $0.379 million from discontinued operations whilst 2011 NPAT includes ($7.906) million from discontinued operations.**

Operating expenses have increased by 9.82% over the prior corresponding period largely due to higher operating costs in the first half of the financial year and the renewed focus and expenditures for research & development. The company had net negative cashflows of $0.76 million during the year, with positive cashflows of $0.51 million for the 6 months ended 30 June 2012.

Our focus for the year ahead is to improve gross profit margins and our ability to leverage our intellectual property and national and international operations for sales growth.

Our balance sheet has bank debt of $1.80 million with cash at bank of $2.95 million. Cash holdings are higher than our target range due to the five international locations requiring ongoing working capital and thus limiting the efficiency of treasury functions. Net bank debt reduced to $1.8 million from $2.7 million. Net debt to shareholder funds has improved from 43.3% to 19.2%.

As a result of the reduction in debt and lower interest rates, interest cover improved from -11.76 to 2.42 times and net debt to EBITDA improved from -0.03 to -1.19 times.

# CHAIRMAN'S REPORT

**Operations Overview**

Business operations for the Group are continuing to be streamlined since the liquidation of the Australian contracting division TSV Australia Pty Ltd. The liquidation process facilitated a debt reduction for the Group of $0.379 million in the 2012 financial year and is expected to continue for the balance of the 2013 financial year with no materially adverse impact to the remaining Azure Group.

**Initiatives**

Initiatives that are currently being implemented to improve our business are:

- Continued emphasis on outsourcing to maximise the benefit of the high Australian dollar within low cost centres within South East Asia over 2012/13.
- Continued focus on improving and streamlining operational efficiencies.
- Doubling of Research & Development investment efforts specifically in software integrations to allow us to capture more of the high margin clinical middleware business.
- Increasing the sales of its IP Based Nursecall System Tacera over the lower margin second generation MediCom products.

We are particularly excited at the emerging opportunities with the Clinical Workflow space. Over the past year, we have noticed a rapidly expanding trend towards clinical workflow integration, to empower nursing staff with mobile solutions. With Austco maintaining an installation of base of on some 6,000 nursecall systems worldwide, we are well positioned to capitalise on this emerging opportunity.

**Appreciation**

In 2012, the economic climate and internal changes at Austco called for major commitment, dedication and flexibility on the part of our employees. On behalf of the Board of Directors and the Executive Board, we would like to thank all our employees for their outstanding support. Our thanks go also to our customers for the trust they show in our products and services, the good business relationship and the many ways in which they inspire us. Special thanks also go to you, our valued shareholders, for your continued loyalty.

Yours faithfully

R Grey

Robert Grey
Executive Chairman

## ROLE OF THE BOARD

The role of the Board of directors of the Company (Directors) is to provide strategic guidance for Azure Healthcare Limited ("Azure") and effective oversight of management. The Board operates in accordance with Azure's Constitution and Board Charter, which describes the Board's composition, functions and responsibilities and designates authority reserved to the Board and that which is delegated to management. The Board's functions are set out in Azure's Board Charter and include:

- monitoring financial performance against agreed financial objectives;
- monitoring the implementation of the strategy approved by the Board;
- appointing, removing and monitoring the performance of the Managing Director, Finance Director and the Company Secretary;
- ensuring appropriate succession planning for Board members and senior management;
- approving and monitoring financial and other reporting;
- determining the Company's dividend policy;
- approving and monitoring major capital expenditure, capital management, funding, acquisitions and divestments;
- overseeing risk management, control, accountability and compliance systems; and
- setting standards of behaviour to enhance the reputation of Azure in the market and the community.

A copy of Azure's Board Charter may be obtained from the Company upon request.

## COMPOSITION OF THE BOARD

As at the date of this Annual Report and during the financial year ended 30 June 2012, the Directors were as follows:

| | |
|---|---|
| Mr Robert Grey | Executive Chairman & CEO (Appointed 26 October 2011) |
| Mr William Brooks (ii) | Non Executive Director (Appointed 26 October 2011) |
| Mr Michael Howard (ii) | Non Executive Director (Appointed 26 October 2011) |
| Dr Alex Talevski | Non Executive Director (Appointed 26 October 2011, Resigned 20 April 2012) |
| Mr Brian Blythe (ii) | Non Executive Chairman (Appointed 8 August 2011, Resigned 26 October 2011) |
| Mr James Blythe (i) | Non Executive Director (Resigned 26 October 2011) |
| Mr Geoff Wanless | Executive Director & CEO (Resigned 26 October 2011) |
| Mr Jason D'Arcy | Finance Director (Resigned 26 October 2011) |
| Mr David Carter (ii) | Non Executive Chairman (Resigned 29 July 2011) |

(i) Member of the Audit and Risk Management Committee
(ii) Member of the Nomination and Remuneration Committee and the Audit and Risk Management Committee.

Each Director is a senior and experienced executive with skills and experience necessary for the proper supervision and leadership of the Company. Details of the Directors, their experience and their special responsibilities with respect to the Company are set out on page 8.

The Board considers none of Azure directors are independent under the guidelines. In assessing the independence of directors, the Board follows the ASX guidelines as set out.

Mr Robert Grey is not considered to be independent because he served as Chief Executive Officer ('CEO') of the company in the immediate past three year period and is a substantial shareholder in the company. Mr Brooks and Mr Howard are not considered to be independent because they are the substantial shareholders in the company.

# CORPORATE GOVERNANCE STATEMENT

Through the Nomination and Remuneration Committee, which has met during the current financial year to consider appointments to management and the Board, directors have considered the balance of skills and experience required of Board members for the size and state of development of Azure. Where additional skills are considered necessary for specific purposes, access is made to independent professional advice at the expense of the company.

## CHAIRMAN

The Australian Securities Exchange Corporate Governance Recommendations recommend that the chairperson be independent. The company believes that at this stage of the company's transition, the most appropriate person for the position of Chairman is an Executive Director with sufficient industry experience to steer the Company through its next phase of development. The Executive's overall expertise has been crucial to the repositioning of the company and negates any perceived lack of independence.

## RISK MANAGEMENT

The entire Board is responsible for overseeing the risk management function. The company believes that it is crucial for all Board members to be a part of the process and as such has established risk management as a component of the Audit and Risk Management Committee.

The Board is responsible for ensuring risks and opportunities are identified on a timely basis.

The Board has a number of mechanisms in place to ensure management manages risk in an effective manner. These include the following:

- Implementation of Board approved operating plans and budgets;
- Board monitoring of progress against these budgets, including the monitoring of key performance indicators of both a financial and non financial nature; and
- The establishment of risk management identification and mitigation practices.

## INTERNAL RISK MANAGEMENT SYSTEM COMPLIANCE

Management is accountable to the Chief Executive Officer to ensure that operating efficiency, effectiveness of risk management procedures, internal compliance control systems and controls and policies are all being monitored. Management has designed and implemented a risk management and internal control system to manage the company's material business risks and reports to the Board on the effective management of those risks. The company has developed a series of operational risks which the company believes to be inherent in the industry in which the company operates. These include:

- Changes to operating, market or regulatory environments;
- Fluctuations in demand volumes;
- Fluctuations in exchange rates;
- Increasing costs of operations; and
- Changes in competitive environment.

These risk areas are provided here to assist investors better understand the nature of the significant risks faced by the company.

The Board requires the Chief Executive Officer and Chief Financial Officer every half year to provide a statement confirming that a sound system of risk management and internal control is in place and that the system is operating effectively in all material respects in relation to financial risks. The Board has received that assurance.

The Risk Management Policy is available on request from the Company.

## BOARD PRACTICES

The Board meets monthly (and at other times as required) to evaluate, control, review and implement the Company's operations and objectives. The Directors receive monthly reports from the Chief Executive Officer and the Chief Financial Officer.

A Director, subject to prior consultation with the Chairman, may seek independent professional advice (including legal advice) at the Company's expense.

## BOARD COMMITTEES

The Board has established two committees of Directors, the Audit and Risk Management Committee and the Nomination and Remuneration Committee, to carry out certain tasks. Details of the names and relevant qualifications of the Directors appointed to these committees, the number of meetings of each committee held during the year ended 30 June 2012 and the attendance record for each Director can be found on page 17 of this Annual Report.

## NOMINATION & REMUNERATION COMMITTEE

The Nomination and Remuneration Committee has a documented charter (including guidelines for the nomination of Directors) approved by the Board, a copy of which may be obtained from the Company upon request.

## AUDIT & RISK MANAGEMENT COMMITTEE

The Board has established an Audit and Risk Management Committee, which where possible is chaired by a non-executive director and consists of at least two members. The Audit and Risk Management Committee has a documented charter approved by the Board, a copy of which may be obtained from the Company upon request.

## PERFORMANCE REVIEW

The Board has delegated the responsibility for evaluating the performance of the Board and the individual Board members to the Chairman. The performance evaluation includes the examination of the performance of the Board and the individual Board members against the Board Charter.

The Board has delegated the responsibility for evaluating the performance of the Company's executive management to the Nomination and Remuneration Committee.

## REMUNERATION POLICY

The company's remuneration policy is structured to ensure that the remuneration package properly reflects the person's duties and responsibilities and level of performance. Executive remuneration is set at a level that is at market rates and is competitive in attracting, retaining and motivating people of the highest quality.

Executive remuneration comprises the following elements:

- Fixed remuneration, including superannuation, which is set at a level that reflects the marketplace for each position;
- Equity based remuneration, including share options, which incorporates exercise restrictions based on continuity of employment and the achievement of certain individual and financial performance hurdles; and
- Incentive payments based on achievement of operational goals.

Non-Executive Directors can be remunerated by way of fees and also participate in profit or incentive schemes. Further details of remuneration of Directors and officers can be found on page 13 of this Annual Report.

# CORPORATE GOVERNANCE STATEMENT



## INTEGRITY OF FINANCIAL REPORTING & RISK MANAGEMENT

The Board has ultimate responsibility for the integrity of the Company's financial reporting. The Directors have implemented internal control processes for identifying, evaluating and managing significant financial, operational and compliance risks to the achievement of the Company's objectives.

The Directors have received and considered written representations from the Chief Executive Officer and the Chief Financial Officer of the Company in accordance with section 295A of the Corporations Act.

The Chief Executive Officer and the Chief Financial Officer of the Company have made the following representations to the Board:

- That the Company's Financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operating results of the company, and are in accordance with the relevant Accounting Standards; and
- That the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board, and that compliance and control is operating efficiently and effectively in all material respects.

The Company's external auditor has been invited to attend the Annual General Meeting and be available to answer questions from the members of the Company about the conduct of the audit and the preparation and content of the auditor's report.

## DIVERSITY POLICY

The board and company understand the importance of achieving diversity within the organisation and are committed to developing a corporate policy that addresses that opportunity.

The Diversity Policy will consider the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for board and senior management positions in the Company, education programs to develop skills and experience in preparation for board and senior management positions and processes to identify key measureable diversity performance objectives for the board, Chief Executive Officer and senior management.

The board expect to develop this policy over the coming months and once complete will publish a copy via the Announcements section on the ASX website and make a copy available from the Company upon request.

## COMMUNICATION WITH SHAREHOLDERS AND THE MARKET

The Company's commitment to communicating with its shareholders is embodied in its Continuous Disclosure Policy, which contains policies and procedures designed to ensure accountability at the senior management level for compliance with disclosure obligations. A copy of the Company's Continuous Disclosure Policy may be obtained upon request from the Company.

In addition to the distribution of the Annual Report, information is communicated to shareholders via the Announcements section of the ASX website and the occasional issue of shareholder newsletters.

## ETHICS AND CODES OF CONDUCT

The Company has adopted a Director Code of Conduct that applies to the directors of the Company. The Director Code of Conduct reflects the commitment of the Company to ethical standards and practices. This Code deals with issues specific to the Directors. A copy of the Director Code of Conduct may be obtained from the Company upon request.

The Company has also implemented a policy on securities trading that binds all of the Company's officers and employees. In addition to ensuring that all officers and employees are aware of the legal restrictions on trading in the Company's securities while in possession of unpublished price-sensitive information, the policy also restricts the times when officers and employees may deal in the Company's securities. A copy of the Policy for Securities Dealing by Directors and Employees may be obtained from the Company upon request.

# DIRECTORS' REPORT

## DIRECTORS

The names of the directors in office at any time during or since the end of the year are:

### Current Directors:

**Mr Robert Grey** | **Executive Chairman & CEO** | **Appointed 26 October 2011**

Mr Grey founded Austco Communication Systems ("Austco") in 1986, and was responsible for increasing revenues from $5 million in 1989 to $19 million prior to the Company's acquisition by Azure Healthcare Limited, then TSV Holdings Limited, on 1 January 2007. Mr Grey retains a significant shareholding in Azure Healthcare Limited.

Throughout his career, Mr Grey has been involved in electronic communications in Australia and internationally, first as an engineer in telephony system development and installations, and later as the spearhead of Austco's expansion into new markets and territories.

Mr Grey holds a Bachelor of Engineering in Communications from Curtin University, WA and a Diploma of Electronic Engineering from Mount Lawley College.

Current equity holding:
54,281,586 Ordinary Shares
Nil options

**Mr William Brooks (ii)** | **Non Executive Director** | **Appointed 26 October 2011**

Mr Brooks has been involved in the exploration and mining industry for over 30 years and has extensive industry knowledge and contacts in the mineral industry. Mr Brooks and his private companies have been involved in many exploration joint ventures and project agreements with major and junior companies in the Western Australian Goldfields. Mr Brooks also has substantial interests in the hospitality industry, developing and owning two successful motel businesses.

Mr Brooks has been a non-executive director of Reward Minerals Ltd since 26 March 2003. He has not been a director of any other listed company in the past three years.

Current equity holding:
13,438,069 Ordinary Shares
Nil Options

**Mr Michael Howard (ii)** | **Non Executive Director** | **Appointed 26 October 2011**

Mr Howard is a qualified electronics technician with experience in computing and Nurse call systems. He operated a successful family owned furniture franchise for over 20 years. Mr Howard is a Director of an International Resort for the past 6 years and is a member of Ocean Gardens Inc, a not for profit organisation that owns and operates "Ocean Gardens" which is one of the largest retirement villages in Western Australia.

Current equity holding:
13,463,534 Ordinary Shares
Nil Options

### Directors during the course of the 2012 year:

Dr Alex Talevski | Executive Director | Appointed 26 October 2011
Resigned 20 April 2012

Current equity holding:
Nil Ordinary Shares
Nil Options

| | | |
|---|---|---|
| Mr Brian Blythe (ii)<br><br>Current equity holding:<br>Nil Ordinary Shares<br>Nil Options | Non-Executive Chairman | Appointed 8 August 2011<br>Resigned 26 October 2011 |
| Mr James Blythe (i)<br>Current equity holding:<br>Nil Ordinary Shares<br>Nil Options | Non-Executive Director | Resigned 26 October 2011 |
| Mr Geoff Wanless<br>Current equity holding:<br>Nil Ordinary Shares<br>Nil Options | Executive Director & CEO | Resigned 26 October 2011 |
| Mr Jason D'Arcy<br>Current equity holding:<br>1,000,000 Ordinary Shares<br>399,000 Options | Finance Director | Resigned 26 October 2011 |
| Mr David Carter (ii)<br>Current equity holding:<br>Nil Ordinary Shares<br>Nil Options | Non-Executive Chairman | Resigned 29 July 2011 |

(i) Member of the Audit and Risk Management Committee
(ii) Member of the Nomination and Remuneration Committee and the Audit and Risk Management Committee

## COMPANY SECRETARY

The following person held the position of Company Secretary at the end of the financial year:

| | | |
|---|---|---|
| Mr Jason D'Arcy | Company Secretary | Appointed 31 March 2004 |

Mr Jason D’Arcy is the Company Secretary of Azure Healthcare Limited. Mr D'Arcy is experienced in mergers & acquisitions, public company disclosure requirements including statutory reporting, ASX disclosures and in delivering quality management information within an organisation. Mr D'Arcy is a CPA, with B.Ec and B.Bus (Accounting) qualifications.

Mr D'Arcy has extensive ASX listed company financial experience in his former roles as the CFO and Company Secretary of Baxter Group Limited (ASX:BAX) and Cellestis Limited (ASX: CST). Jason has also worked in senior finance roles for NTT Communications Ltd, AV Jennings Limited (ASX:AVJ), Gordon Industries Ltd and Kawasaki Ltd.

## EARNING PER SHARE

### Continuing operations

Basic profit per share 0.23 cents (2011: loss per share 3.26 cents)
Diluted profit per share 0.23 cents (2011: loss per share 3.26 cents)

### Discontinued operations

Basic profit per share 0.24 cents (2011: loss per share 8.20 cents)
Diluted profit per share 0.24 cents (2011: loss per share 8.20 cents)

### Overall earnings per share

Basic profit per share 0.47 cents (2011: loss per share 11.46 cents)
Diluted profit per share 0.47 cents (2011: loss per share 11.46 cents)

## DIVIDEND PAID OR RECOMMENDED

No dividends were paid or declared for the year ended 30 June 2012.

## CORPORATE INFORMATION

### Corporate Structure

Azure Healthcare Limited is a for-profit company limited by shares that is incorporated and domiciled in Australia. It has several subsidiaries as indicated in Note 16.

### Principal Place of Business and Registered Office

Level 18, 60 Albert Road, South Melbourne, VIC 3205, Australia.

### Principal Activities

The principal activities of the economic entity during the financial year were the manufacture and supply of healthcare and electronic communications equipment.

### Employees

The Company had 82 employees at 30 June 2012 (2011: 147 employees).

## REVIEW OF OPERATIONS & OPERATING RESULTS

The consolidated profit of the economic entity after providing for income tax attributable to members of the parent entity amounted to $0.744 million (2011: loss $11.050 million). A Review of Operations is contained within the Chairman's Report.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there was no significant changes in the state of affairs of the consolidated entity during the financial year under review not otherwise disclosed in this Annual Report.

## AFTER BALANCE DATE EVENTS

There are no known events subsequent to 30 June 2012 that have an impact on the financial statements as presented.

## FUTURE DEVELOPMENTS, PROPECTS AND BUSINESS STRATEGIES

The likely developments in the economic entity's operations, to the extent that such matters can be commented upon, are covered in the Chairman's Report contained elsewhere in this Annual Report. In the opinion of the Directors, disclosure of information regarding the expected results or likely developments in those operations in financial years after the current financial year is not sufficiently predictable at this stage, or may prejudice the interests of the Company. Accordingly, this information has not been included in this report.

## ENVIRONMENTAL ISSUES

The economic entity's operations are not significantly impacted by any environmental regulation under a law of the Commonwealth or of a State or Territory of Australia.

## REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each key management person of Azure Healthcare Limited being directors and senior executives who influence or exercise strategic control of the economic entity. During the year, the following persons were key management personnel: Robert Grey (Chairman & CEO), William Brooks (Non Executive Director) , Michael Howard (Non Executive Director), Alex Talevski (Executive Director), Brian Blythe (Non Executive Chairman), James Blythe (Non Executive Director), Geoffrey Wanless (Executive Director & CEO), Jason D'Arcy (Executive Director & Company Secretary), David Carter (Non Executive Director), and Wayne Robinson (General Manager - Austco) whose service periods are disclosed in this Directors report. Details pertaining to these persons are contained in Note 5 of this report.

## REMUNERATION POLICY

The remuneration policy of Azure Healthcare Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The Board of Azure Healthcare Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the economic entity, as well as create goal congruence between directors, executives and shareholders.

The Board's policies for determining the nature and amount of remuneration for Board members and senior executives of the economic entity are detailed below.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Nomination and Remuneration committee and approved by the Board after seeking professional advice from independent external consultants. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives. The Nomination and Remuneration Committee reviews executive packages annually by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed biannually with each executive and is based predominately on the forecast growth of the economic entity's profits and shareholder value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align the directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee share plan.

## PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

### Executive Compensation

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

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

In consultation with external remuneration consultants, the economic entity has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

The remuneration and reward strategy of the Company seeks to align executives and shareholders' interests which:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering a constant return on assets as well as focusing the executive on key non-financial value drivers
- attracts and retains high caliber executives.

The remuneration and reward strategy of the Company seeks to align program participants' interests which:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the economic entity, the balance of this mix shifts to a higher proportion of "at risk" rewards.

### Non Executive Directors

Fees and payments to non executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non executive Directors' fees and payments are reviewed annually by the Board. The maximum fees payable to Directors as agreed to by the company's members at an Annual General Meeting are $250,000. The Board has also sought the advice of independent remuneration consultants to ensure non-executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive Directors based on comparable roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

### Company Performance, Shareholder Wealth and Key Management Personnel Remuneration

The following table shows the gross revenue, profits and dividends for the last five years as well as the share price at the end of each year.

| | 2012* $'000 | 2011* $'000 | 2010 $'000 | 2009 $'000 | 2008 $'000 |
|---|---|---|---|---|---|
| Revenue | 18,224 | 16,833 | 43,066 | 46,888 | 47,814 |
| Net Profit/(Loss) | 744 | (11,050) | (9,681) | (8,945) | 2,349 |
| Share price at year end | $0.029 | $0.040 | $0.100 | $0.100 | $0.230 |
| Dividends paid | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 |

*Revenues from continuing operations only

# DIRECTORS' REPORT

Performance payments, in the form of cash bonuses or share based payments, to Key Management Personnel are disclosed in the report and table below, are paid in accordance with employment agreements and on achievement of set milestones which may be based on financial and non financial outcomes. Payment of cash bonuses and options or shares are assessed on an Annual basis by the board of directors.

## DIRECTORS' FEES

The current base remuneration of Director's was last reviewed with effect from 26 October 2011. Non executive Directors who chair a committee may receive additional yearly fees. Additional fees may also payable to Directors for their membership on committees.

## DETAILS OF KEY MANAGEMENT PERSONNEL REMUNERATION

The remuneration for each director and each of the key management personal of the consolidated entity for the year was as follows:

| | Short Term Employee Benefits | | | Share Based Payments | Post Employment Expenses | | Performance Related |
|---|---|---|---|---|---|---|---|
| | Salaries, Fees & Commissions | Cash Bonus | Non Cash Benefits | Options | Superannuation Contributions | Total | % |
| **2012** | | | | | | | |
| Robert Grey[1,3] | 82,744 | - | - | - | 30,480 | 113,224 | - |
| William Brooks[1,4] | 7,500 | - | - | - | - | 7,500 | - |
| Michael Howard[1,4] | 7,500 | - | - | - | - | 7,500 | - |
| Alex Talevski[1,3] | 195,278 | 32,807 | - | - | 18,728 | 246,813 | 13% |
| Brian Blythe[2] | - | - | - | - | - | - | - |
| James Blythe[2] | - | - | - | - | - | - | - |
| Geoff Wanless[2,5] | 216,327 | 30,479 | - | - | 5,924 | 252,730 | 12% |
| Jason D'Arcy[6] | 184,967 | 72,000 | - | 6,475 | - | 263,442 | 30% |
| David Carter[2] | 5,000 | - | - | - | 450 | 5,450 | - |
| Wayne Robinson[2] | 103,572 | | | | 6,507 | 110,079 | - |
| | **802,888** | **135,286** | **-** | **6,475** | **62,089** | **1,006,738** | |
| **2011** | | | | | | | |
| Robert Grey[2] | 161,632 | - | - | - | - | 161,632 | - |
| Brian Blythe[1] | - | - | - | - | - | - | - |
| James Blythe[1] | - | - | - | - | - | - | - |
| Geoff Wanless[7] | 329,246 | 15,456 | - | 28,560 | 15,199 | 388,461 | 11% |
| Jason D'Arcy[7] | 255,000 | 15,600 | - | 5,426 | - | 276,026 | 8% |
| David Carter[1] | 23,250 | - | - | 804 | 23,075 | 47,129 | 2% |
| Wayne Robinson[1] | 144,834 | - | - | 940 | 12,900 | 158,674 | 1% |
| Dragan Jancic[1] | 178,000 | - | - | 1,902 | 15,199 | 195,101 | 1% |
| Paul Finkelstein[2] | 16,041 | - | - | - | - | 16,041 | - |
| Max Finlay[2] | - | - | - | - | - | - | - |
| Bruce Higgins[2] | 11,778 | - | - | - | - | 11,778 | - |
| Glen Peachey[2] | 63,220 | - | 13,209 | - | 2,594 | 79,023 | - |
| | **1,183,001** | **31,056** | **13,209** | **37,632** | **68,967** | **1,333,865** | |

1. The amounts included as Salaries, Fees and Commissions above, represent the fees paid to each Director, Executive or Senior Management from the date of their appointment up until the end of the financial year.

2. The amounts included as Salaries, Fees and Commissions above, represent the fees paid to each Director, Executive or Senior Management from the start of the financial year up until their resignation and may include termination payments.

3. Dr Talevski is entitled to performance based incentives in the form of cash bonuses under his employment arrangements. For the 30 June 2012 financial year, Dr Talevski was paid a cash bonus of $32,807, which related to the prior year. Under his employment arrangements he is entitled to a potential further cash bonus in the 30 June 2013 financial year of $40,500 for achievement of set milestones. Mr Grey is entitled to performance based incentives in the form of cash bonuses under his employment arrangements, of up to $100,000 per annum. Payment of bonuses to My Grey are at the discretion of the Nomination and Remuneration Committee. No cash bonus payment to Mr Grey has been approved by this committee during the 30 June 2012 financial year.

4. These amounts included as a Salaries, Fees and Commissions above, were accrued at the end of the year and remain unpaid.

5. The Cash Bonus of $30,479 paid to Mr Wanless was paid during the year on achievement of set milestones in accordance with his employment agreement. The bonuses paid related to the previous financial year.

6. The amounts included as a Cash Bonus above, were paid during the year on achievement of set milestones in accordance with Mr D'Arcy's employment agreement. Of the bonuses paid, 50% were in relation to the current financial year and 50% related to the prior financial year.

7. These amounts included as a Cash Bonus above, were paid during the prior year on achievement of set milestones in accordance with Mr Wanless' and Mr D'Arcy's employment agreements. The bonuses paid represent 6% of the available 30%, the remaining amounts were not paid due to the Company not achieving its budgeted financial outcome.

## Voting and comments made at the Company's 2011 Annual General Meeting ("AGM")

The Company received 95.68% of 'for' votes in relation to its remuneration report for the year ended 30 June 2011. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

## Options

There were no options granted as part of remuneration in the financial year ended 30 June 2012. The value of options granted as part of remuneration in the prior year are in the following table:

| | | | | | Remuneration Consisting of Options | |
|---|---|---|---|---|---|---|
| 2011 | Granted During the Year | Exercised or Sold During the Year | Lapsed During the Year | Total | % | Amount |
| Geoff Wanless[1,2,3] | 28,560 | - | - | 28,560 | 7% | 28,560 |
| Jason D'Arcy[1,2,3] | 5,426 | - | - | 5,426 | 2% | 5,426 |
| David Carter[2,3] | 804 | - | - | 804 | 2% | 804 |
| Wayne Robinson[2,3] | 940 | - | - | 940 | 1% | 940 |
| Dragan Jancic[2,3] | 1,902 | - | - | 1,902 | 1% | 1,902 |
| | **37,632** | **-** | **-** | **37,632** | | **37,632** |

1. These options were issued in the year ended 30 June 2010.

2. All of the options granted above are performance related. Refer to page 13 of the Remuneration Report for further details on performance criteria assessed by the board of directors.

3. The options issued in the prior year, were fair valued using the Black Scholes methodology, applying the following inputs:

| | | | |
|---|---|---|---|
| Issue Date: | 25 November 2010 | Volatility: | 16.70% |
| Share Price: | $0.065 | Bond Rate: | 5.23% |
| Expiry Date: | 25 November 2015 | Period to Expiry: | 5 years |
| Dividend Yield: | 0.00% | | |
| Exercise Price: | a) $0.0758 | Option Price: | a) $0.0128 |
| | b) $0.0827 | | b) $0.0102 |
| | c) $0.0896 | | c) $0.0080 |

### SHARE BASED COMPENSATION

The services and performance criteria set to determine compensation are discussed under remuneration policy. All options were granted by Azure Healthcare Limited over ordinary shares for Nil consideration.

| | Vested | Grant^ | Grant Date & Issue Date | Value per Option at Grant Date | Exercise Price | First Exercise Date | Last Exercise Date |
|---|---|---|---|---|---|---|---|
| | No. | No. | | Cents | Cents | | |
| | | | 2011 | | | | |
| David Carter | - | 400,000 | 25/11/2010 | 1.28 | 7.58 | 25/11/2011 | 25/11/2016 |
| | | | | 1.02 | 8.27 | | |
| | | | | 0.80 | 8.96 | | |
| Wayne Robinson | - | 100,000 | 25/11/2010 | 1.28 | 7.58 | 25/11/2011 | 25/11/2016 |
| | | | | 1.02 | 8.27 | | |
| | | | | 0.80 | 8.96 | | |
| Dragan Jancic | - | 100,000 | 25/11/2010 | 1.28 | 7.58 | 25/11/2011 | 25/11/2016 |
| | | | | 1.02 | 8.27 | | |
| | | | | 0.80 | 8.96 | | |

^No options above vested in the year they were granted.

All employee options are unlisted, exercisable within 5 years of issue, have an exercise price consistent with the 5 day volume weighted average price at date of issue, one third are voluntarily escrowed for 1 year from date of issue, a further one third 2 years from date of issue and the final one third 3 years from date of issue. All options are non-transferable.

### SHARES ISSUED ON EXERCISE OF COMPENSATION OPTIONS

No shares were issued on the exercise of compensation options during the current or prior period.

### PERFORMANCE INCOME AS A PROPORTION OF TOTAL REMUNERATION

As part of each executive director and executives remuneration package there is a performance-based component, based on the achieving of key performance indicators (KPI's). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with directors/executives to ensure buy-in. The measures are specifically tailored to the areas each director/executive is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Remuneration and Nomination Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPI's are set for the following year.

In determining whether or not a KPI has been achieved, Azure Healthcare Limited bases the assessment on audited figures.

### EMPLOYMENT CONTRACTS OF DIRECTORS AND SENIOR EXECUTIVES

The employment conditions of the key executives are formalised in contracts of employment. All Directors Executives are employees of the Azure Healthcare Limited group.

Remuneration and other terms of employment for the Company Secretary and other specified executives are formalised in individual service agreements. The major provisions relating to remuneration are set out below:

**Executive Chairman & CEO - Mr Robert Grey (appointed 26 October 2011)**

- A written consulting agreement in place, effective from 1 November 2011, either party required to give 1 months notice, unless otherwise terminated;
- Base salary, inclusive of superannuation, to the value of $152,600 per annum; and
- Annual performance bonus of up to a maximum of $100,000 subject to personal performance and company profitability status; and
- Eligibility for company long term incentive plan.

**Executive Director - Dr Alex Talevski (appointed 26 October 2011, resigned 20 April 2012)**

- A written employment agreement in place, effective from 25 May 2011, either party required to give 6 months notice, unless otherwise terminated;
- Base salary, inclusive of superannuation, to the value of $218,000 per annum;
- Annual performance bonus of up to a maximum of 30% of base salary coupled to personal performance and company profitability status; and
- Eligibility for company long term incentive plan.

**Executive Director & CEO - Mr Geoff Wanless (resigned 26 October 2011)**

- A written employment agreement in place, effective from 4 December 2009. Notice was given during the year and the contract ceased on 26 October 2011;
- Base salary, inclusive of superannuation, to the value of $330,000 per annum;
- Annual performance bonus of up to a maximum of 30% of base salary coupled to personal performance and company profitability status; and
- Eligibility for company long term incentive plan.

**Finance Director - Mr Jason D'Arcy (resigned as Finance Director on 26 October 2011)**

- A written consulting agreement in place, effective from 12th October 2007. Notice was given during the year and the contract ceased on 26 October 2011;
- Base fee, to the value of $240,000 per annum for each 11 months service;
- Annual performance bonus of up to a maximum of 30% of base fee coupled to personal performance and company profitability status; and
- Eligibility for company long term incentive plan.

**Company Secretary - Mr Jason D'Arcy**

- A written consulting agreement in place, effective from 31st March 2004, either party required to give a minimum of 7 days notice, unless otherwise terminated;
- Base fee, to the value of $1,200 per day (the fee was not payable in the period Mr D'Arcy was also Finance Director, between 24 March 2011 to 26 October 2011); and
- Eligibility for company long term incentive plan.

**General Manager of Austco Communication Systems - Mr Wayne Robinson (resigned 16 December 2011)**

- A written employment agreement in place, effective from 1 August 2010, either party requiring 1 months notice, unless otherwise terminated;
- Base salary, inclusive of superannuation, to the value of $152,600 per annum;
- Annual performance bonus of up to a maximum of 30% of base salary coupled to personal performance and company profitability status; and
- Eligibility for company long term incentive plan.

End of Remuneration Report.

# DIRECTORS' REPORT

## MEETING OF DIRECTORS

During the financial year, 12 meetings of directors, 2 Audit and Risk Management Committee meetings and 1 Nomination and Remuneration Committee meeting were held.

Attendances by each director during the year were as follows:

| | Director Meetings | | Audit and Risk Management Committee | | Nomination and Remuneration Committee | |
|---|---|---|---|---|---|---|
| | A | B | A | B | A | B |
| Robert Grey | 8 | 8 | | | | |
| William Brooks | 8 | 8 | 1* | 1 | 1 | 1 |
| Michael Howard | 8 | 8 | 1* | 1 | 1 | 1 |
| Alex Talevski | 7 | 6 | | | | |
| Brian Blythe | 3 | 3 | 1 | 1 | - | - |
| James Blythe | 3 | 3 | 1 | - | | |
| Geoff Wanless | 4 | 4 | | | | |
| Jason D'Arcy | 4 | 4 | | | | |
| David Carter | - | - | - | - | - | - |

* This Audit and Risk Management meeting was held at the beginning of a board meeting, Mr Grey attended this meeting by invitation but did not participate.

A = Number of meetings eligible to attend
B = Number of meetings attended

## INDEMNIFYING OFFICERS OR AUDITORS

The company has paid premiums to insure each of the directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of the premium is $20,086 (2011: $21,775). No indemnifications have been provided by the company to the auditors.

## PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of the proceedings. The company was not a party to any such proceedings.

## OPTIONS

At the date of this report, the options over unissued ordinary shares of Azure Healthcare Limited are as follows:

| Number under Option | Date of Expiry | Exercise Price | Escrow Period |
|---|---|---|---|
| 133,000 | 7 December 2014 | $0.1508 | Nil |
| 133,000 | 7 December 2014 | $0.1645 | Nil |
| 133,000 | 7 December 2014 | $0.1782 | 3 months |
| 33,333 | 25 November 2015 | $0.0758 | Nil |
| 33,333 | 25 November 2015 | $0.0827 | Nil |
| 33,334 | 25 November 2015 | $0.0896 | Nil |
| 499,000 | | | |

## NON-AUDIT SERVICES

The Board of directors, in accordance with advice from the Audit and Risk Management Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below do not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit and Risk Management Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to the auditor independence as set out in APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30th June, 2012:

Other taxation compliance services $35,199 (2011: $16,013)

## AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration which forms part of the Directors report for the year ended 30 June, 2012 has been received and can be found on page 19.

## ROUNDING OF AMOUNTS

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and Directors' report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors

R Grey

Robert Grey
Executive Chairman
Dated this 28th day of September 2012, Melbourne.

# AUDITOR'S INDEPENDENCE DECLARATION

BDO

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Fax: +61 3 9602 3870
www.bdo.com.au

Level 14, 140 William St
Melbourne VIC 3000
GPO Box 5099 Melbourne VIC 3001
Australia

**DECLARATION OF INDEPENDENCE BY DAVID GARVEY TO THE DIRECTORS OF AZURE HEALTHCARE LIMITED**

As lead auditor of Azure Healthcare Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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

David Garvey
Partner

**BDO East Coast Partnership**

Melbourne, 28 September 2012

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## for the year ended 30 June 2012

| | Notes | Economic Entity 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Revenues from Continuing Activities** | 2 | 18,224 | 16,833 |
| Cost of sales (excluding direct labour) | | (8,607) | (8,352) |
| **Gross Profit** | | **9,617** | **8,481** |
| Other Income | | 4 | - |
| Employee benefits expense | 3 | (6,011) | (5,773) |
| Motor vehicle expenses | | (188) | (173) |
| Occupancy expenses | | (615) | (536) |
| Depreciation and amortisation expenses | 3 | (439) | (570) |
| Accounting, audit and legal expenses | | (451) | (323) |
| Finance costs | 3 | (207) | (213) |
| Telephone expenses | | (158) | (148) |
| Other expenses | | (1,231) | (409) |
| Impairment write downs | 3 | - | (2,988) |
| **Profit/(Loss) Before Income Tax Expense** | | **321** | **(2,652)** |
| Income tax expense | 4 | 44 | (492) |
| **Profit/(Loss) After Income Tax Expense from Continuing Operations** | | 365 | (3,144) |
| Profit/(Loss) for the year from discontinued operations | 7 | 379 | (7,906) |
| **Profit/(Loss) for the Year Attributable to Members of Azure Healthcare Limited** | | **744** | **(11,050)** |
| **Other Comprehensive Income** | | | |
| Exchange difference arising on translation of foreign operations (movement in equity reserves) | | (141) | (290) |
| **Total Comprehensive Income for the Year Attributable to Members of Azure Healthcare Limited** | | **603** | **(11,340)** |
| **Continuing Operations** | | **Cents** | **Cents** |
| Basic earnings/(loss) per share | 8 | 0.23 | (3.26) |
| Diluted earnings/(loss) per share | 8 | 0.23 | (3.26) |
| **Discontinued Operations** | | **Cents** | **Cents** |
| Basic earnings/(loss) per share | 8 | 0.24 | (8.20) |
| Diluted earnings/(loss) per share | 8 | 0.24 | (8.20) |
| **Overall EPS** | | **Cents** | **Cents** |
| Basic earnings/(loss) per share | 8 | 0.47 | (11.46) |
| Diluted earnings/(loss) per share | 8 | 0.47 | (11.46) |

The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## as at 30 June 2012

| | | Economic Entity | |
|---|---|---|---|
| | Notes | 2012 | 2011 |
| | | $'000 | $'000 |
| **Current Assets** | | | |
| Cash and cash equivalents | 10 | 2,950 | 2,869 |
| Trade and other receivables | 11 | 4,575 | 2,274 |
| Inventories | 12 | 2,742 | 2,357 |
| Other assets | 13 | 422 | 370 |
| **Total Current Assets** | | **10,689** | **7,870** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 14 | 605 | 519 |
| Deferred tax assets | 4(c) | 237 | 200 |
| Intangible assets | 15 | 3,820 | 4,013 |
| **Total Non-Current Assets** | | **4,662** | **4,732** |
| **Total Assets** | | **15,351** | **12,602** |
| **Current Liabilities** | | | |
| Trade and other payables | 17 | 3,150 | 1,952 |
| Short term borrowings | 18 | 1,815 | 2,926 |
| Current tax liabilities | | 39 | 8 |
| Provisions | 19 | 451 | 479 |
| **Total Current Liabilities** | | **5,455** | **5,365** |
| Deferred tax liabilities | 4(c) | 353 | 416 |
| Provisions | 19 | 79 | 72 |
| **Total Non-Current Liabilities** | | **432** | **488** |
| **Total Liabilities** | | **5,888** | **5,853** |
| **Net Assets** | | **9,464** | **6,749** |
| **Equity** | | | |
| Contributed equity | 20 | 35,042 | 33,033 |
| Option reserve | 20 | 378 | 275 |
| Accumulated losses | | (25,011) | (25,755) |
| Foreign exchange reserve | | (945) | (804) |
| **Total Equity** | | **9,464** | **6,749** |

The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## for the year ended 30 June 2012

| | Contributed Equity | Economic Entity (Accumulated Losses) | Foreign Exchange Reserve | Option Reserve | Total Equity |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Balance at 1 July 2010 | 31,698 | (14,705) | (514) | 200 | 16,679 |
| Total comprehensive income for the year | - | (11,050) | (290) | - | (11,340) |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | |
| Shares issued | 1,285 | - | - | - | 1,285 |
| Share based payments | 50 | - | - | 75 | 125 |
| | 1,335 | - | - | 75 | 1,410 |
| **Balance at 30 June 2011** | **33,033** | **(25,755)** | **(804)** | **275** | **6,749** |
| Balance at 1 July 2011 | 33,033 | (25,755) | (804) | 275 | 6,749 |
| Total comprehensive income for the year | - | 744 | (141) | - | 603 |
| **Transactions with equity holders in their capacity as equity holders:** | | | | | |
| Shares issued | 2,083 | - | - | - | 2,083 |
| Capital Raising Costs | (74) | - | - | - | (74) |
| Share based payments | - | - | - | 103 | 103 |
| | 2,009 | - | - | 103 | 2,112 |
| **Balance at 30 June 2012** | **35,042** | **(25,011)** | **(945)** | **378** | **9,464** |

The accompanying notes form part of these financial statements

# CONSOLIDATED STATEMENT OF CASH FLOWS

## for the year ended 30 June 2012

| | Notes | Economic Entity 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Cash Flows From Operating Activities** | | | |
| Receipts from customers | | 15,896 | 48,674 |
| Payments to suppliers and employees | | (16,426) | (49,030) |
| Interest received | | 27 | 66 |
| Borrowing costs | | (207) | (123) |
| Income tax paid | | (18) | (365) |
| | 23 | (728) | (778) |
| Net cash provided by/(used in) continuing operations | | (728) | 1,965 |
| Net cash provided by/(used in) discontinued operations | | - | (2,743) |
| **Net Cash Used in Operating Activities** | | **(728)** | **(778)** |
| **Cash Flows From Investing Activities** | | | |
| Proceeds from sale of financial asset | | 35 | 100 |
| Payments for acquisition of plant and equipment | | (355) | (353) |
| Payments for intellectual property (capitalised R&D) | | - | (388) |
| Gain arising from de-consolidation of discontinued operations | | - | 6 |
| Proceeds from Liquidators | | 379 | - |
| | | 59 | (635) |
| Net cash provided used in continuing operations | | (320) | (633) |
| Net cash provided by/(used in) discontinued operations | | 379 | (2) |
| **Net Cash Provided by/(Used in) Investing Activities** | | **59** | **(635)** |
| **Cash Flows From Financing Activities** | | | |
| Proceeds from share issues | 20 | 2,009 | 1,285 |
| Increased/(repayment of) borrowings | | (900) | 500 |
| Payment of lease and hire purchase liabilities | | (6) | (491) |
| | | 1,103 | 1,294 |
| Net cash provided by continuing operations | | 1,103 | 1,785 |
| Net cash used in discontinued operations | | - | (491) |
| **Net Cash Provided by Financing Activities** | | **1,103** | **1,294** |
| **Net Increase/(Decrease) in Cash Held** | | 434 | (119) |
| **Cash and Cash Equivalents at Beginning of the Year** | | 2,666 | 3,032 |
| Effects of exchange rate changes in cash | | (150) | (247) |
| **Cash and Cash Equivalents at End of Year** | **10** | **2,950** | **2,666** |

The accompanying notes form part of these financial statements

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the economic entity of Azure Healthcare Limited and controlled entities. Azure Healthcare Limited is a for-profit listed public company, incorporated and domiciled in Australia.

The financial report was authorised for issue by the directors on 28 September 2012. The Company has the power to amend and reissue the financial report.

Separate financial statements for Azure Healthcare Limited as an individual entity are no longer presented as a consequence of a change in the Corporations Act 2001, however, limited financial information for Azure Healthcare Limited as an individual entity is included in Note 29.

As set out in Note 7 Discontinued Operations a number of subsidiaries of Azure Healthcare Limited were placed into Voluntary Administration on 30 June 2011 and at meetings of creditors held on 4 August 2011, creditors voted that all these Companies be placed into liquidation. These subsidiaries were deconsolidated at 30 June 2011 due to a loss of control.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied unless otherwise stated:

#### Basis of Preparation

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

In the current year, the economic entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the accounting policy notes set out below.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Azure Healthcare Limited comply with International Financial Reporting Standards (IFRS).

The financial report is presented in Australian dollars. The accounting policies set out below have been consistently applied.

#### Going Concern

The financial statements have been prepared on a going concern basis. The financial statements have been prepared in accordance with generally accepted accounting standards, which are based on the Company continuing as a going concern.

A number of operating subsidiaries of the consolidated entity being TSV Australia Pty Ltd and its subsidiaries (trading as Tecsound and Calltec) were placed into Voluntary Administration on 30 June 2011 and at meetings held on 4 August 2011, creditors voted that the TSV Australia Companies be placed into liquidation. Since that time the Group has undertaken a re-structure of the business.

The Directors believe that the financial report should be prepared on a going concern basis for the following reasons:

- The restructuring of the Group has seen the ongoing costs of the holding company significantly reduced in the 2012 financial year.
- During 2012 the Company raised $2.083 million, before costs, from a rights issue.
- The company has positive net tangible assets of $5.644 million as at 30 June 2012, including $2.950 million in cash, which will be used to discharge the company’s liabilities as and when they fall due.
- The directors believe the current borrowings, being commercial bills, will continued to be rolled over.

In addition, the Company reported positive operating cash flows of $0.506 million for the 6 months ended 30 June 2012 and the Directors believe that the consolidated entity has sufficient cash flows to meet its commitments over the next 12 months from the date of signing the 30 June 2012 financial report.

### Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

**(a) Critical accounting estimates and judgements**

In the application of Australian Accounting Standards management is required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revisions affect both current and future periods.

Judgments made in the application of Australian Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed where applicable in the relevant notes to the financial statements.

INVESTMENT SUBSIDIARIES, GOODWILL ON CONSOLIDATION AND INTANGIBLE ASSETS

The parent entity tests annually whether investments in subsidiaries and intangible assets have suffered any impairment in accordance with the accounting policy stated in Note 1(i). During the year there has been no impairment of investment in subsidiaries by the parent entity or an impairment of goodwill.

ALLOWANCE FOR DOUBTFUL DEBTS

The Company assesses impairment regularly. The allowance for doubtful debts represents management's estimate of the economic entity's doubtful debt as at 30 June 2012 based on past experience and judgment. At 30 June 2012, the allowances for doubtful debts are $111,000 (2011: $161,000).

SHARE BASED PAYMENTS

Share based payments are accounted for at fair valued using the Black-Scholes or Binomial model. See Note 24 for further discussion.

INCOME TAX

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

PROVISION FOR IMPAIRMENT OF INVENTORIES

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

ESTIMATION OF USEFUL LIVES OF ASSETS

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and definite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

**(b) Principles of Consolidation**

A controlled entity is any entity controlled by Azure Healthcare Limited. Control exists where Azure Healthcare Limited has the capacity to control the decision making in relation to the financial and operating policies of another entity so that the other entity operates with Azure Healthcare Limited to achieve the objectives of Azure Healthcare Limited. A full list of controlled entities is contained in Note 16 to the financial statements. All consolidated entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

**(c) Business combinations**

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value adjustments in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

**(d) Income Tax**

The voluntary administration and subsequent liquidation of TSV Australia Pty Ltd has led to certain assumptions in relation of the income tax note (Note 4). The final outcome in relation to the liquidation is as yet undetermined and as such the notes contained within this report are careful estimates of those undetermined outcomes.

CURRENT TAX

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or recoverable).

DEFERRED TAX

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax assets and liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax loses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

CURRENT AND DEFERRED TAX FOR THE PERIOD

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly to equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or discount on acquisition.

TAX CONSOLIDATION REGIME

Azure Healthcare Limited and its wholly-owned Australian subsidiaries (as indicated below), 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 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 tax consolidated group has entered into tax funding and sharing agreements 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.

Azure Healthcare Limited has formed a tax consolidated group with the following subsidiaries:

Austco Communication Systems Pty Ltd
TSV Australia Pty Ltd *
Tecsound (NSW) Pty Ltd *
Tecsound Queensland Pty Ltd *
Calltec Pty Ltd *
Teccall Pty Ltd *
Tecsound (SA) Pty Ltd *
Amatec Communications Pty Ltd *
Tecsound (West Australia) Pty Ltd *

* These subsidiaries were placed into Voluntary liquidation in the current year, refer to Note 7 Discontinued Operations for detail.

The overseas entities are not part of the TSV tax consolidated group as they have been incorporated overseas, and are not Australian resident taxpayers.

**(e) Financial Assets and Liabilities**

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss','held-to-maturity investments','available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Income or expense is recognised on an effective interest rate basis for financial instruments other than those financial assets or liabilities 'at fair value through profit or loss'.

The economic entity has designated financial assets at fair value through profit or loss contracts, where the contracts held are a derivative that are not designated and effective as hedging instruments.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest income is recognised by applying the effective interest rate.

Financial assets other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

The economic entity derecognises a financial asset or liability only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset or liability and substantially all the risks and rewards of ownership of the asset or liability to another entity.

**(f) Inventories**

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials.

**(g) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation.

DEPRECIATION

The depreciable amount of all fixed assets including capitalised leased assets are depreciated on a straight line or diminishing value basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold Improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable asset are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Leasehold Improvements | 2.50% - 10.00% |
| Plant & Equipment | 22.50% - 50.00% |
| Motor Vehicles | 18.75% - 22.50% |
| Furniture & Fittings | 7.50% - 30.00% |
| Office Equipment | 7.50% - 50.00% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date. At the current and prior financial year there has been no material change. An asset's carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

**(h) Leases**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the economic entity, are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a diminishing value or straight line basis over their estimated useful lives where it is likely that the entity will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they occur.

**(i) Intangibles**

GOODWILL

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for the business or for an ownership interest in the controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Both purchased goodwill and goodwill on consolidation are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with AASB 136 Impairment of Assets.

RESEARCH AND DEVELOPMENT COSTS

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognized, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development expenditure is recognised if, and only if all of the following are demonstrated:

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

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project. The life of an average project is between 4 and 9 years. The current version of the technology platform is estimated to require replacement in 2017 and amortization is being timed to coincide with this end date.

An intangible asset arising from computer software acquisition is being amortised on a straight line basis over 4 years.

**(j) Foreign Currency Transactions and Balances**

FOREIGN CURRENCY

The individual financial statements of each group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Azure Healthcare Limited and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

FOREIGN OPERATIONS

On consolidation, the assets and liabilities of the economic entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average monthly exchange rates. Exchange differences arising on translation of foreign operations, are recognised in the foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income on disposal of the foreign operation.

**(k) Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees at balance date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Employee contributions are made by the company to defined contribution superannuation funds and are charged as expenses when incurred.

**(l) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, balances with banks and investments in money market instruments.

**(m) Revenue**

Revenue from the rendering of a service is recognised upon the delivery of the service to the customer. Sales revenue relates to the sale of inventory and is recognised when substantially all the risks and rewards of ownership have passed to the buyer. When the outcome of a contract to provide installation can be reliably measured, revenue is measured by reference to the percentage of the services provided. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established.

**(n) 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 Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

**(o) Impairment of Assets**

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

**(p) Share Based Payment Arrangements**

Goods or services received or acquired in a share-based payment transaction are recognised as an increase in equity if the goods or services were received in an equity-settled share based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity settled share-based payments, goods or services received are measured directly at fair value of the goods and services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value.

**(q) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

**(r) Dividends**

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

**(s) Earnings per share (EPS)**

BASIC EARNINGS PER SHARE

Basic EPS is calculated by dividing the profit attributable to the members of Azure Healthcare Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

DILUTED EARNINGS PER SHARE

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

**(t) Rounding Amounts**

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts within this financial report have been rounded off to the nearest $1,000.

**(u) Comparative Figures**

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

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

**(v) New and Revised Accounting Standards Not Yet Effective**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2012. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

***AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9***

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

***AASB 10 Consolidated Financial Statements***

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

***AASB 11 Joint Arrangements***

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. The adoption of this standard from 1 July 2013 will not have a material impact on the consolidated entity.

***AASB 12 Disclosure of Interests in Other Entities***

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

***AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13***

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. As the standard does not introduce any new requirements for the use of fair value, its impact on adoption by the consolidated entity from 1 July 2013 should be minimal, although there will be increased disclosures where fair value is used.

***AASB 127 Separate Financial Statements (Revised)***

***AASB 128 Investments in Associates and Joint Ventures (Reissued)***

These standards are applicable to annual reporting periods beginning on or after 1 January 2013. They have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12. The adoption of these revised standards from 1 July 2013 will not have a material impact on the consolidated entity.

***AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement***

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

***AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards***

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the consolidated entity.

***AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income***

These amendments are applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The adoption of the revised standard from 1 July 2012 will impact the consolidated entity's presentation of its statement of comprehensive income.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### NOTE 2: REVENUE

| | Note | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|---|
| **Continuing Operations** | | | |
| - Sales Income | | 18,197 | 16,767 |
| - Interest Received | | 27 | 66 |
| **Total Revenue** | | **18,224** | **16,833** |

### NOTE 3: PROFIT/(LOSS) FOR THE YEAR

| | Note | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|---|
| **Continuing Operations** | | | |
| **Finance Costs** | | | |
| - other persons | | 207 | 213 |
| **Depreciation and Amortisation of Non Current Assets** | | | |
| - plant and equipment | | 239 | 215 |
| - amortisation of development costs | | 196 | 305 |
| - amortisation of software costs | | 4 | 50 |
| | | 439 | 570 |
| Foreign currency translation losses | | 596 | 906 |
| **Bad and Doubtful Debts** | | | |
| - trade receivables | | 50 | 83 |
| **Rental Expenses on Operating Leases** | | | |
| - minimum lease payments | | 542 | 706 |
| Share based payments | | 103 | 75 |
| Superannuation contributions | | 325 | 232 |
| Total employee benefits expense | | 6,011 | 5,773 |
| Research and development expenditure not capitalised | | 1,025 | 774 |
| Net (profit)/loss on disposal of fixed assets | | (11) | 10 |
| **Impairment Write Downs** | | | |
| - Impairment of goodwill | 15 | - | 2,988 |

### NOTE 4: INCOME TAX EXPENSE

| | Note | Economic Entity 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **(a) Income Tax Recognised in Profit or Loss** | | | |
| Current tax expense | | 56 | 129 |
| Deferred tax expense relating to the origination and reversal of temporary differences | | (100) | (16) |
| De-recognition of prior year losses | | - | 379 |
| **Total Tax Expense/Benefit** | | **(44)** | **492** |

The prima facie income tax expense on pre-tax accounting profit/(loss) for the continuing operations reconciles to the Income tax expense in the financial statements as follows;

| | | 2012 | 2011 |
|---|---|---|---|
| Profit/(Loss) from continuing operations | | 321 | (2,652) |
| Income tax expense calculated at 30% | | 96 | (796) |
| Non-deductible expenses | | 31 | 30 |
| Impairment of goodwill | | - | 896 |
| Tax effect of temporary differences not recognised | | 92 | (23) |
| Effects of non-assessable income | | - | (24) |
| Effects of different tax rates of subsidiaries operating in other jurisdiction | | 59 | (56) |
| Other | | (21) | (91) |
| Unused tax losses and tax offsets incurred in overseas controlled entities | | - | 177 |
| | | 257 | 113 |
| Under/(Over) Provision of income tax in previous year | | - | - |
| (Recognition)/De-recognition of prior year losses | | (301) | 379 |
| **Total Tax Expense/(Benefit)** | | **(44)** | **492** |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period. Overseas jurisdictions have differing corporate tax rates.

No income tax expense was incurred by the discontinued operation for the financial year ended 2012.

To 30 June 2012, the Australian tax consolidated group has recognised carry forward tax losses from prior years of $1,002,849 (at 30% $300,855) in the current tax expense calculation. The remaining carry forward tax losses attributable to the Australian tax consolidated group of $388,160 have not been recognised as an asset as they are immaterial.

**(b) Current Tax Assets and Liabilities**

| | | |
|---|---|---|
| Tax refunds receivable | - | - |
| | - | - |
| | | |
| Current tax payable | 39 | 8 |
| | **39** | **8** |

| | Note | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|---|
| **(c) Deferred Tax Balances** | | | |
| Deferred tax assets comprise temporary differences arising from the following: | | | |
| Current year tax losses | | - | - |
| Provisions | | 222 | 193 |
| Black hole expenditure | | (22) | 2 |
| Accruals | | 37 | 5 |
| | | 237 | 200 |
| Discontinued operations | | - | - |
| | | **237** | **200** |
| | | | |
| Deferred tax liabilities comprise temporary differences arising from the following: | | | |
| Capitalised development costs | | 352 | 411 |
| Other | | 1 | 5 |
| | | 353 | 416 |
| | | - | - |
| | | **353** | **416** |

Net movement in deferred tax assets and deferred tax liabilities charged/(credited) to income tax expense are ($100) thousand (2011: credited ($379) thousand).

### NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

Key Management personnel comprise directors and other persons having authority and responsibility for planning, directing and controlling the activities of Azure Healthcare Limited.

During the year the following persons were key management personal:

| | | |
|---|---|---|
| Mr Robert Grey | Executive Chairman & CEO | (Appointed 26 October 2011) |
| Mr William Brooks | Non Executive Director | (Appointed 26 October 2011) |
| Mr Michael Howard | Non Executive Director | (Appointed 26 October 2011) |
| Dr Alex Talevski | Non Executive Director | (Appointed 26 October 2011, Resigned 20 April 2012) |
| Mr Brian Blythe | Non Executive Chairman | (Appointed 8 August 2011, Resigned 26 October 2011) |
| Mr James Blythe | Non Executive Director | (Resigned 26 October 2011) |
| Mr Geoff Wanless | Executive Director & CEO | (Resigned 26 October 2011) |
| Mr Jason D'Arcy | Finance Director | (Resigned 26 October 2011) |
| Mr David Carter | Non Executive Chairman | (Resigned 29 July 2011) |
| Mr Wayne Robinson | General Manager - Austco | (Resigned 16 December 2011) |

| | Economic Entity | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| **Summary** | | |
| Short-term employee benefits | 938,174 | 1,227,266 |
| Share-based payments | 6,475 | 37,632 |
| Post employment benefits | 62,089 | 68,967 |
| | **1,006,738** | **1,333,865** |

### Options and Rights Holdings

Number of options held by Key Management Personnel.

| 2012 | Balance 1 July 2011 | Granted as Compensation | Expired During Year | Balance 30 June 2012 | Total Vested & Exercisable | Total Unvested & Unexercisable |
|---|---|---|---|---|---|---|
| Robert Grey | - | - | - | - | - | - |
| William Brooks | - | - | - | - | - | - |
| Michael Howard | - | - | - | - | - | - |
| Alex Talevski | 100,000 | - | - | 100,000 | - | 100,000 |
| Brian Blythe | - | - | - | - | - | - |
| James Blythe | - | - | - | - | - | - |
| Geoff Wanless | 2,100,000 | - | (2,100,000) | - | - | - |
| Jason D'Arcy | 599,000 | - | (200,000) | 399,000 | 266,000 | 133,000 |
| David Carter | 400,000 | - | (400,000) | - | - | - |
| Wayne Robinson | 100,000 | - | (100,000) | - | - | - |
| | **3,299,000** | **-** | **(2,800,000)** | **499,000** | **266,000** | **233,000** |

| 2011 | Balance 1 July 2010 | Granted as Compensation | Expired During Year | Balance 30 June 2011 | Total Vested & Exercisable | Total Unvested & Unexercisable |
|---|---|---|---|---|---|---|
| Brian Blythe | - | - | - | - | - | - |
| James Blythe | - | - | - | - | - | - |
| Geoff Wanless | 2,100,000 | - | - | 2,100,000 | 700,000 | 1,400,000 |
| Jason D'Arcy | 599,000 | - | - | 599,000 | 333,000 | 266,000 |
| David Carter | - | 400,000 | - | 400,000 | - | - |
| Wayne Robinson | - | 100,000 | - | 100,000 | - | - |
| Dragan Jancic | - | 100,000 | - | 100,000 | - | - |
| Paul Finkelstein | 250,000 | - | (250,000) | - | - | - |
| Bruce Higgins | 400,000 | - | (400,000) | - | - | - |
| Glen Peachey | 200,000 | - | (200,000) | - | - | - |
| | **3,549,000** | **600,000** | **(850,000)** | **3,299,000** | **1,033,000** | **1,666,000** |

### Shareholdings

Number of shares held by Key Management Personnel.

| | Balance 1 July | Received as Compensation | Options Exercised | Net Change Other * | Balance 30 June |
|---|---|---|---|---|---|
| **2012** | | | | | |
| Robert Grey | 25,369,816 | - | - | 28,911,770 | 54,281,586 |
| William Brooks | - | - | - | 13,438,069 | 13,438,069 |
| Michael Howard | - | - | - | 13,463,534 | 13,463,534 |
| Alex Talevski | - | - | - | - | - |
| Brian Blythe | 22,834,315 | - | - | (22,834,315) | - |
| James Blythe | 22,834,315 | - | - | (22,834,315) | - |
| Geoff Wanless | - | - | - | - | - |
| Jason D'Arcy | 857,500 | - | - | 142,500 | 1,000,000 |
| David Carter | - | - | - | - | - |
| Wayne Robinson | - | - | - | - | - |
| | **71,895,946** | **-** | **-** | **10,287,243** | **82,183,189** |
| **2011** | | | | | |
| Robert Grey | 25,369,816 | - | - | - | 25,369,816 |
| Brian Blythe | - | - | | 22,834,315 | 22,834,315 |
| James Blythe | - | - | | 22,834,315 | 22,834,315 |
| Geoff Wanless | - | - | - | - | - |
| Bruce Higgins | 505,936 | - | - | - | 505,936 |
| Paul Finkelstein | 107,000 | - | - | - | 107,000 |
| Jason D'Arcy | 735,000 | - | - | 122,500 | 857,500 |
| Glen Peachey | - | - | - | - | - |
| | **26,717,752** | **-** | **-** | **45,791,130** | **72,508,882** |

* Net change other includes shares purchased or sold during the year and shares held on date of appointment.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### NOTE 6: AUDITORS REMUNERATION

| | Economic Entity | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| **BDO East Coast Partnership (Formerly PKF East Coast Practice)** | | |
| Audit of the parent and subsidiary entities: | | |
| - Auditing or reviewing of the financial report | 77,000 | 160,134 |
| - Taxation compliance services | 35,000 | 16,013 |
| | 112,000 | 176,147 |
| **Overseas Offices of PKF International** | | |
| - Auditing or reviewing of the financial report | 48,397 | 54,095 |
| | 48,397 | 54,095 |
| **Total Remuneration** | **160,397** | **230,242** |

### NOTE 7: DISCONTINUED OPERATIONS

The former wholly controlled entities noted below were placed into Voluntary Administration by the Directors of those companies on 30 June 2011 and during a meeting of creditors held on 4 August 2011, creditors voted that all these Companies be placed into liquidation. These companies were accounted for as discontinued operations and deconsolidated as of 30 June 2011 due to loss of control. The final liquidator's report is expected to be released by 30 June 2013. Directors believe that unsecured creditors of the subsidiaries listed below are not expected to receive any monies from the liquidators.

Amatec Communications Pty Ltd
Calltec Pty Ltd
Tecsound (NSW) Pty Ltd
Tecsound (SA) Pty Ltd
Tecsound (West Australia) Pty Ltd
Tecsound Queensland Pty Ltd
TSV Australia Pty Ltd
Teccall Pty Ltd

Financial information relating to the discontinued operations was as follows:

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Revenue | 379 | 20,965 |
| Expenses | - | (25,890) |
| Loss before income tax | 379 | (4,925) |
| Income tax expense | - | - |
| Loss after income tax of discontinued operations | 379 | (4,925) |
| Loss on removal of discontinued operations from economic entity | - | (2,981) |
| Income tax expense | - | - |
| | - | (2,981) |
| **Total Profit/(Loss) After Tax Attributable to the Discontinued Operations** | **379** | **(7,906)** |

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| The net cash flows of the discontinued operations, which have been incorporated into the statement of cash flows, are as follows: | | |
| Net cash inflows (outflow) from operating activities | - | (2,743) |
| Net cash inflows (outflow) from investing activities | 379 | (2) |
| Net cash inflows (outflow) from financing activities | - | (491) |
| **Net cash provided by/(used in) discontinued operations** | **379** | **(3,236)** |
| Losses on removal of discontinued operations; | | |
| Current assets | - | 5,720 |
| Non current assets | - | 1,493 |
| Current liabilities | - | (4,232) |
| Non current liabilities | - | - |
| **Net Assets - loss on removal** | **-** | **2,981** |

### NOTE 8: EARNINGS PER SHARE

| | Economic Entity 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Continuing operations** | | |
| Profit/(Loss) After Income Tax Expense from Continuing Operations | 365 | (3,144) |
| **Discontinued operations** | | |
| Profit/(Loss) for the year from discontinued operations | 379 | (7,906) |
| **Overall operations** | | |
| Profit/(Loss) for the year attributable to members of Azure Healthcare Limited | 744 | (11,050) |
| | **No.** | **No.** |
| (b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share | 157,070,790 | 96,383,843 |
| Effect of dilutive share options (i) | - | - |
| Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive earnings per share | 157,070,790 | 96,383,843 |
| **Continuing operations** | | |
| Basic earnings/(loss) per share (cents per share) | 0.23 | (3.26) |
| Diluted earnings/(loss) per share (cents per share) | 0.23 | (3.26) |
| **Discontinued operations** | | |
| Basic earnings/(loss) per share (cents per share) | 0.24 | (8.20) |
| Diluted earnings/(loss) per share (cents per share) | 0.24 | (8.20) |
| **Overall EPS** | | |
| Basic earnings/(loss) per share (cents per share) | 0.47 | (11.46) |
| Diluted earnings/(loss) per share (cents per share) | 0.47 | (11.46) |

(i) As at 30 June 2012 the company has 499,000 (2011: 4,639,000) options over unissued capital (see note 20). These options are not included in the diluted earnings per share calculation as they are not considered dilutive.

### NOTE 9: DIVIDENDS

| | | Economic Entity | |
|---|---|---|---|
| | | 2012 | 2011 |
| | | $'000 | $'000 |
| **Distributions Paid** | | | |
| Interim fully franked ordinary dividend of Nil (2011: Nil) per share franked at the tax rate of 30% (2011: 30%) | | - | - |
| | | **-** | **-** |
| (a) Proposed final fully franked ordinary dividend of Nil (2011: Nil) cents franked at the tax rate of 30% (2011: 30%) | | - | - |
| **Amount of franking credits available for subsequent reporting periods:** | | | |
| - franking account balance as at the end of the financial year at 30% (2011: 30%) | | 2,915 | 2,915 |
| - franking credit that will arise from the payment of income tax payable as at the end of the financial year | | - | - |
| The amount of franking credits available for future reporting periods: | | 2,915 | 2,915 |
| - impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period | | - | - |
| | | **2,915** | **2,915** |

### NOTE 10: CASH AND CASH EQUIVALENTS

| | | Economic Entity | |
|---|---|---|---|
| | | 2012 | 2011 |
| | | $'000 | $'000 |
| **Current** | | | |
| Cash at bank and in hand | | 2,820 | 2,719 |
| Deposits at call | | 130 | 150 |
| | | **2,950** | **2,869** |
| **Reconciliation of Cash** | | | |
| Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial position as follows: | | | |
| Cash and cash equivalents | | 2,950 | 2,869 |
| Bank overdraft | 18 | - | (203) |
| | | **2,950** | **2,666** |

### NOTE 11: TRADE RECEIVEABLES AND OTHER RECEIVABLES

| | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|
| **Current** | | |
| Trade debtors | 4,462 | 2,403 |
| Less: Allowance for doubtful debts | (111) | (161) |
| | 4,351 | 2,242 |
| Sundry debtors | 224 | 32 |
| | **4,575** | **2,274** |

The ageing analysis of trade and other receivables is as follows:

| Economic Entity | As at 30 June 2012 Gross $'000 | As at 30 June 2012 Allowance $'000 |
|---|---|---|
| 30 days | 3,133 | - |
| 60 days | 609 | - |
| 90 days+ | 633 | 73 |
| Retentions | 87 | 38 |
| **Closing Balance** | **4,462** | **111** |

| Economic Entity | As at 30 June 2011 Gross $'000 | As at 30 June 2011 Allowance $'000 |
|---|---|---|
| 30 days | 1,496 | - |
| 60 days | 675 | - |
| 90 days+ | 147 | 161 |
| Retentions | 85 | - |
| **Closing Balance** | **2,403** | **161** |

**Allowance for Doubtful Debt Provisions**

| | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|
| Opening balance | 161 | 121 |
| Additional provision | - | 123 |
| Amount written off | (50) | (83) |
| **Closing Balance** | **111** | **161** |

### NOTE 12: INVENTORIES

| | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|
| **Current** | | |
| Finished goods on hand - at cost | 2,669 | 2,246 |
| Work in progress | 73 | 111 |
| | **2,742** | **2,357** |

### NOTE 13: OTHER ASSETS

| | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|
| **Current** | | |
| Prepayments | 82 | 140 |
| Deposits paid | 340 | 230 |
| | **422** | **370** |

### NOTE 14: PROPERTY, PLANT AND EQUIPMENT

| | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|
| **Leasehold Improvements** | | |
| Leasehold improvement- at cost | 137 | 137 |
| Less accumulated amortisation | (121) | (82) |
| | 16 | 55 |
| **Plant and Equipment** | | |
| Plant and Equipment- at cost | 475 | 463 |
| Less accumulated amortisation | (327) | (300) |
| | 148 | 163 |
| **Motor Vehicles** | | |
| Motor Vehicles - at cost | 599 | 370 |
| Less accumulated amortisation | (366) | (309) |
| | 233 | 61 |
| **Furniture and Fittings** | | |
| Furniture & Fittings- at cost | 122 | 127 |
| Less accumulated amortisation | (72) | (73) |
| | 50 | 54 |
| **Office Equipment** | | |
| Office Equipment- at cost | 544 | 546 |
| Less accumulated amortisation | (386) | (360) |
| | 158 | 186 |
| **Total Property, Plant and Equipment** | **605** | **519** |

**Movement in Carrying Amounts**

| Economic Entity | Leasehold Improvements $'000 | Plant and Equipment $'000 | Motor Vehicles $'000 | Furniture & Fittings $'000 | Office Equipment $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2012** | | | | | | |
| Balance at start of the year | 55 | 163 | 61 | 54 | 186 | 519 |
| Additions | - | 44 | 231 | 9 | 65 | 349 |
| Disposals | - | (10) | - | (1) | (13) | (24) |
| Depreciation | (39) | (49) | (59) | (12) | (80) | (239) |
| Reclassification | - | - | - | - | - | - |
| **Carrying Amount at end of Year** | **16** | **148** | **233** | **50** | **158** | **605** |

| Economic Entity | Leasehold Improvements $'000 | Plant and Equipment $'000 | Motor Vehicles $'000 | Furniture & Fittings $'000 | Office Equipment $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| Balance at start of the year | 50 | 183 | 72 | 57 | 137 | 499 |
| Additions | 48 | 38 | 18 | 5 | 138 | 247 |
| Disposals | (5) | (1) | (3) | - | (3) | (12) |
| Depreciation | (38) | (53) | (32) | (8) | (84) | (215) |
| Reclassification | - | (4) | 6 | - | (2) | - |
| **Carrying Amount at end of Year** | **55** | **163** | **61** | **54** | **186** | **519** |

### NOTE 15: INTANGIBLE ASSETS

| | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|
| Goodwill at cost | 2,638 | 2,631 |
| Software at cost | 46 | 46 |
| Less: accumulated amortisation | (37) | (33) |
| | 9 | 13 |
| Product development at cost | 2,345 | 2,345 |
| Less: accumulated amortisation | (1,172) | (976) |
| | 1,173 | 1,369 |
| **Total Intangibles** | **3,820** | **4,013** |

| 2012 Economic Entity | Software $'000 | Goodwill $'000 | Product Development $'000 |
|---|---|---|---|
| Balance at the beginning of year | 13 | 2,631 | 1,369 |
| Impairment | - | - | - |
| Internal development | - | - | - |
| Foreign exchange variation | - | 7 | - |
| Amortisation | (4) | - | (196) |
| **Closing Value at End of Year** | 9 | 2,638 | 1,173 |

| 2011 Economic Entity | Software $'000 | Goodwill $'000 | Product Development $'000 |
|---|---|---|---|
| Balance at the beginning of year | 91 | 5,651 | 1,285 |
| Impairment | (28) | (2,988) | - |
| Internal development | - | - | 389 |
| Foreign exchange variation | - | (32) | - |
| Amortisation | (50) | - | (305) |
| **Closing Value at End of Year** | 13 | 2,631 | 1,369 |

Intangible assets, other than goodwill, have finite useful lives. Goodwill has an indefinite life.

**Impairment Disclosure**

Goodwill is allocated to the company's cash-generating units being Healthcare.

| | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|
| Healthcare | 2,638 | 2,631 |
| | 2,638 | 2,631 |

Goodwill has been allocated to cash-generating units on the basis of the entity acquired. The recoverable amount of each cash-generating unit is determined based on value-in-use calculations. Value-in-use is calculated based on the present value established using historical company performance, approved 2012/2013 budgets using a 4% growth factor (30 June 2011: 4%) and including a terminal value using a long term growth rate of 4% (2011: 4%). The future cash flows have been discounted using a pre tax factor of 14.99% (30 June 2011: 18.52%).

Discounted cash flows including residual values result in an NPV of $4.431 million. The actual recoverable amount based upon the assumptions noted above exceeds the carrying amount by $1.793 million.

**Discount Rates**

Discount rates reflect management's estimate of the time value of money and the risks specific to each cash generating unit. This is the benchmark used by management to assess operating performance and to evaluate investment in that cash generating unit. In determining appropriate discount rates for each unit, regard has been given to the weighted average cost of capital of the entity as a whole and adjusted for current perceived future business risk.

**Growth Rate Estimates**

Growth rate estimates are based on current economic and industry specific research. The long term rate of 4% (4%: 2011) used to extrapolate the five year budget for the above cash generating units, factors into account management's view of the current economic climate.

**Impairment of Goodwill Losses Recognised**

No impairment to goodwill is required for the current year, based on impairment calculations at 30 June 2012.

In the prior year, an impairment loss of $2.988 million on goodwill was recognised for continuing operations based on impairment calculations at 30 June 2011 which used a growth factor of 4%. The impairment loss has been recognised in the statement of comprehensive income in the line item 'impairment of write downs'.

**Impact of Possible Changes in Key Assumptions**

As at 30 June 2011, the carrying amount of the Healthcare cash generating unit's goodwill was adjusted to equal the recoverable value of its goodwill.

In assessing the impact of possible changes in key assumptions applied to test the carrying value of goodwill allocated to this CGU, if the pre-tax discount rate increases by 2% (2011: 1%) or growth rate decreases by 2% (2011: 1%), when applied to this CGU, then the recoverable amount of its goodwill would be less than its carrying amount.

### NOTE 16: CONTROLLED ENTITIES

| | Country of Incorporation | Percentage Owned (%) 2012 | 2011 |
|---|---|---|---|
| **(a) Controlled Entities** | | | |
| **Parent Entity:** | | | |
| Azure Healthcare Limited | Australia | | |
| | | | |
| **Subsidiaries of TSV Holdings Limited** | | | |
| Austco Communication Systems Pty Ltd | Australia | 100% | 100% |
| Austco Marketing & Service (Asia) Pte Ltd | Singapore | 100% | 100% |
| Austco Marketing & Service (USA) Ltd | USA | 100% | 100% |
| Austco Marketing & Service (Canada) Ltd | Canada | 100% | 100% |
| Austco Marketing & Service (UK) Ltd | UK | 100% | 100% |
| Austco Communications (NZ) Ltd | New Zealand | 100% | 100% |

### NOTE 17: TRADE AND OTHER PAYABLES

| | Economic Entity 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Current** | | |
| Trade creditors | 3,150 | 1,952 |
| | 3,150 | 1,952 |

### NOTE 18: BORROWINGS

| | Economic Entity 2012 $'000 | 2011 $'000 |
|---|---|---|
| **Short Term** | | |
| Hire purchase liabilities | 17 | 27 |
| Less deferred interest charges | (2) | (4) |
| | 15 | 23 |
| Bank overdraft (Note 10) | - | 203 |
| Commercial bill facility | 1,800 | 2,700 |
| | 1,800 | 2,903 |
| | **1,815** | **2,926** |

The commercial bill facility and bank overdraft are secured by a registered mortgage debenture over all assets and undertakings of Azure Healthcare Limited. At the date of this report, the Group's banking facilities are to be assessed by the ANZ Bank following the receipt of the 30 June 2012 financial report and as such are currently considered at call.

## NOTE 19: PROVISIONS

| | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|
| **Short Term** | | |
| Employee entitlements | 451 | 479 |
| | **451** | **479** |
| **Long Term** | | |
| Employee entitlements | 79 | 72 |
| | **79** | **72** |

## NOTE 20: CONTRIBUTED EQUITY

| | Note | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|---|
| Ordinary shares fully paid | 20(a) | 35,042 | 33,033 |
| Options | 20(b) | 378 | 275 |
| | | **35,420** | **33,308** |

### (a) Movement in Ordinary Shares on Issue

| 2012 | | No. of shares | Issue price | $'000 |
|---|---|---|---|---|
| At the beginning of the reporting period: | | 126,208,363 | | 33,033 |
| Shares issued during the year: | | | | |
| 03 Jan 2012 | Rights Issue | 63,104,181 | 0.033 | 2,083 |
| 03 Jan 2012 | Capital Raising Costs | | | (74) |
| **At Reporting Date** | | **189,312,544** | | **35,042** |

| 2011 | | No. of shares | Issue price | $'000 |
|---|---|---|---|---|
| At the beginning of the reporting period: | | 93,350,955 | | 31,698 |
| Shares issued during the year: | | | | |
| 18 Jan 2011 | Payment for share advisory mandate | 717,391 | 0.069 | 50 |
| 10 May 2011 | Private Placement | 14,110,251 | 0.040 | 564 |
| 15 Jun 2011 | Rights Issue | 18,029,766 | 0.040 | 721 |
| **At Reporting Date** | | **126,208,363** | | **33,033** |

The Company has unlimited authorised share capital of no par value ordinary shares.

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

### (b) Movement in Options on Issue

| | Note | 2012 No. of options | 2012 $'000 | 2011 No. of options | 2011 $'000 |
|---|---|---|---|---|---|
| At the beginning of the reporting period: | | 4,639,000 | 275 | 6,299,000 | 200 |
| Options issued during the year | (i) | 500,000 | - | 700,000 | 21 |
| Expired and forfeited options | (ii) | (4,640,000) | (50) | (2,360,000) | (10) |
| Amortisation of option expense | | - | 153 | - | 64 |
| **At Reporting Date** | | **499,000** | **378** | **4,639,000** | **275** |

**Options Reserve**

This reserve is used to record the premium received on options issued.

**Nature and Purpose of Reserve**

The Share Option Reserve contains amounts received on the issue of options over unissued capital of the company.

| (i) 2012 | No. | Exercise Price | Value Expensed $'000 |
|---|---|---|---|
| Issue of options expiring on or before 9 March 2017. | 500,000 | 0.0370 | - |
| | **500,000** | | - |

| (i) 2011 | No. | Exercise Price | Value Expensed $'000 |
|---|---|---|---|
| Issue of options expiring on or before 25 November 2015. | 233,333 | 0.0758 | 7 |
| Issue of options expiring on or before 25 November 2015. | 233,333 | 0.0827 | 7 |
| Issue of options expiring on or before 25 November 2015. | 233,333 | 0.0896 | 7 |
| | **700,000** | | **21** |

| (ii) 2012 | No. | | Forfeited Value $'000 |
|---|---|---|---|
| Issue of options expiring on or before 25 August 2011. | 200,000 | 0.3940 | - |
| Issue of options expiring on or before 1 January 2012. | 1,140,000 | 0.4594 | - |
| Issue of options expiring on or before 7 December 2014. | 100,000 | 0.1214 | 3 |
| Issue of options expiring on or before 7 December 2014. | 700,000 | 0.1508 | 11 |
| Issue of options expiring on or before 7 December 2014. | 700,000 | 0.1645 | 10 |
| Issue of options expiring on or before 7 December 2014. | 700,000 | 0.1782 | 8 |
| Issue of options expiring on or before 25 November 2015. | 200,000 | 0.0758 | 6 |
| Issue of options expiring on or before 25 November 2015. | 200,000 | 0.0827 | 6 |
| Issue of options expiring on or before 25 November 2015. | 200,000 | 0.0896 | 6 |
| Issue of options expiring on or before 9 March 2017. | 500,000 | 0.0370 | - |
| | **4,640,000** | | **50** |

| (ii) 2011 | No. | | Forfeited Value $'000 |
|---|---|---|---|
| Issue of options expiring on or before 22 November 2014. | 650,000 | 0.4550 | 3.0 |
| Issue of options expiring on or before 25 November 2013. | 740,000 | 0.1214 | 3.2 |
| Issue of options expiring on or before 7 December 2014. | 33,333 | 0.1508 | 0.4 |
| Issue of options expiring on or before 7 December 2014. | 33,333 | 0.1645 | 0.4 |
| Issue of options expiring on or before 7 December 2014. | 33,334 | 0.1782 | 0.4 |
| Issue of options expiring on or before 11 May 2011. | 50,000 | 0.4600 | 0.5 |
| Issue of options expiring on or before 31 December 2010. | 385,000 | 0.3260 | 1.3 |
| Issue of options expiring on or before 26 October 2010. | 45,000 | 0.3630 | 0.2 |
| Issue of options expiring on or before 31 January 2011. | 140,000 | 0.3930 | 0.3 |
| Issue of options expiring on or before 1 January 2012. | 250,000 | 0.4594 | 0.4 |
| | **2,360,000** | | **10.1** |

All the above options were issued pursuant to an employee share plan for nil cash consideration.

### (c) Employee Share Scheme

For information relating to the Azure Healthcare Limited Employee Share Scheme, including details of shares issued during the financial year, refer to Note 24.

### (d) Options Valuation

Options issued during the current and prior year were valued using the Black Scholes methodology, applying the following inputs:

| Issue Date | 9/03/2012 |
|---|---|
| Ordinary share price | 0.035 |
| Volatility (%) | 21.2 |
| Bond rate (%) | 4.33 |
| Exercise price | 0.0370 |
| Expiry date | 9/03/2017 |
| Period to expiry (yrs) | 5 |
| Dividend yield | 0 |
| Option price | 0.0080 |

| Issue Date | 25/11/2010 | 25/11/2010 | 25/11/2010 |
|---|---|---|---|
| Ordinary share price | 0.065 | 0.065 | 0.065 |
| Volatility (%) | 16.7 | 16.7 | 16.7 |
| Bond rate (%) | 5.23 | 5.23 | 5.23 |
| Exercise price | 0.0758 | 0.0827 | 0.0896 |
| Expiry date | 25/11/2015 | 25/11/2015 | 25/11/2015 |
| Period to expiry (yrs) | 5 | 5 | 5 |
| Dividend yield | 0 | 0 | 0 |
| Option price | 0.0128 | 0.0102 | 0.0080 |

### (e) Capital Management

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

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

| | Economic Entity | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Total borrowings | 1,800 | 2,903 |
| Less cash and cash equivalents | (2,950) | (2,869) |
| Net Debt | (1,150) | 34 |
| Total equity | 9,463 | 6,749 |
| Total capital | 8,313 | 6,783 |
| Gearing Ratio | - | 1% |

## NOTE 21: CAPITAL AND LEASING COMMITMENTS

### (a) Finance Leasing and Hire Purchasing Commitments

| | Economic Entity | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| - not longer than one year | 6 | 6 |
| - longer than 1 year but not longer than five years | 11 | 21 |
| Minimum lease payments | 17 | 27 |
| Less future finance charges | (2) | (4) |
| **Total Lease and Hire Purchase Liability** | **15** | **23** |
| Current Liability (Note 18) | 15 | 23 |
| Non-Current Liability (Note 18) | - | - |
| | **15** | **23** |

All finance leasing and hire purchase commitments are for the financing of motor vehicles. These leases are paid monthly in advance.

### (b) Operating Lease Commitments in Respect of Rented Properties

Non-cancellable operating leases contracted but not capitalised in the financial statements:

| | Economic Entity | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| - not longer than one year | 536 | 700 |
| - longer than 1 year but not longer than five years | 1,348 | 1,947 |
| **Total Operating Lease Commitments** | **1,884** | **2,647** |

The main operating premises is based in Osborne Park, WA. This is a non-cancellable property lease with a ten-year term, starting on 1 January 2007, with rent payable monthly in advance. There are contingent rental provisions within the lease agreement which link the lease payments to be increased by the greater of CPI or 3% of the rental payments on an annual basis. An option exists to renew the lease at the end of the ten-year term for two additional terms of five years.

## NOTE 22: SEGMENT REPORTING

Management has determined the operating segments based upon reports reviewed by the board and executive management that are used to make operational and strategic decisions. The group is organised into four major operating divisions, healthcare which has geographic segments. These segments are the basis on which the Group reports its segment information.

### Healthcare

The healthcare division focuses on providing electronic communications in healthcare and development of nurse call and care management systems for hospitals, aged care and detention care market. The healthcare division is further segmented into four geographic regions consisting of Australia/New Zealand, Asia, Europe and North America.

| 2012 | Healthcare Australia /NZ $'000's | Asia $'000's | Europe $'000's | North America $'000's | Eliminations $'000's | Total $'000's |
|---|---|---|---|---|---|---|
| Revenue | 13,266 | 4,575 | 1,696 | 4,475 | (5,815) | 18,197 |
| Interest Revenue | 25 | 1 | 1 | - | - | 27 |
| Total Revenue | 13,291 | 4,576 | 1,697 | 4,475 | (5,815) | 18,224 |
| Adjusted EBITDA | 1,595 | 464 | 140 | (384) | (588) | 1,227 |
| Corporate | | | | | | (286) |
| Non Operating Impairment | | | | | | - |
| | | | | | | 941 |
| Depreciation | (66) | (74) | (41) | (43) | - | (224) |
| Corporate | | | | | | (15) |
| | | | | | | (239) |
| Amortisation | (196) | - | - | - | - | (196) |
| Corporate | | | | | | (4) |
| | | | | | | (200) |
| **EBIT** | **1,333** | **390** | **99** | **(427)** | **(588)** | **502** |
| Net Interest | 39 | 1 | (10) | (32) | (12) | (14) |
| Corporate | | | | | | (167) |
| | | | | | | (181) |
| Income Tax | - | (32) | (22) | - | 98 | 44 |
| Corporate | | | | | | - |
| | | | | | | 44 |
| **NPAT** | **1,372** | **359** | **67** | **(459)** | **(502)** | **365** |
| Total Segment Assets | 15,614 | 1,753 | 1,328 | 2,560 | (24,662) | (3,407) |
| Corporate | | | | | | 18,758 |
| | | | | | | 15,351 |
| Total Segment Liabilities | 6,712 | 1,042 | 441 | 4,510 | (8,950) | 3,755 |
| Corporate | | | | | | 2,133 |
| | | | | | | 5,888 |

| 2011 | Healthcare Australia /NZ $'000's | Healthcare Asia $'000's | Healthcare Europe $'000's | Healthcare North America $'000's | Eliminations $'000's | Total $'000's |
|---|---|---|---|---|---|---|
| Revenue | 11,540 | 4,039 | 1,675 | 3,713 | (4,200) | 16,767 |
| Interest Revenue | 64 | 1 | 1 | - | - | 66 |
| Total Revenue | 11,604 | 4,040 | 1,676 | 3,713 | (4,200) | 16,833 |
| Adjusted EBITDA | 797 | 453 | 211 | (516) | (571) | 374 |
| Corporate | | | | | | 633 |
| Non Operating Impairment | | | | | | (2,988) |
| | | | | | | (1,981) |
| Depreciation | (71) | (70) | (12) | (48) | - | (201) |
| Corporate | | | | | | (14) |
| | | | | | | (215) |
| Amortisation | (305) | - | - | - | - | (305) |
| Corporate | | | | | | (50) |
| | | | | | | (355) |
| **EBIT** | **421** | **383** | **199** | **(564)** | **(571)** | **(2,551)** |
| Net Interest | 28 | 1 | 1 | (32) | - | (2) |
| Corporate | | | | | | (99) |
| | | | | | | (101) |
| Income Tax | (105) | (27) | (51) | - | 33 | (150) |
| Corporate | | | | | | (342) |
| | | | | | | (492) |
| **NPAT** | **344** | **357** | **149** | **(596)** | **(538)** | **(3,144)** |
| Total Segment Assets | 11,083 | 1,515 | 911 | 1,564 | (16,858) | (1,785) |
| Corporate | | | | | | 14,387 |
| | | | | | | 12,602 |
| Total Segment Liabilities | 3,561 | 606 | 112 | 2,911 | (4,233) | 2,957 |
| Corporate | | | | | | 2,896 |
| | | | | | | 5,853 |

The Board assesses the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as depreciation, amortisation and net interest and impairment to non current assets which is disclosed separately.

### Results of Segments

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists.

### Inter-segment pricing

Segment revenues, expenses and result include transfers between segments. The prices charged on inter-segment transactions are the same as those charged for similar goods to parties outside of the economic entity at arm's length. These transfers are eliminated on consolidation.

## NOTE 23: CASH FLOW INFORMATION

### a) Reconciliation of Cash Flow from Operations with Profit After Income Tax

| | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|
| (Loss)/Profit after income tax - continuing operations | 365 | (3,144) |
| (Loss)/Profit after income tax - discontinued operations | 379 | (7,906) |
| (Loss)/Profit after income tax | 744 | (11,050) |
| **Non-Cash Flows in Loss** | | |
| Share based payments | 103 | 125 |
| Depreciation and amortisation | 439 | 1,069 |
| Bad and doubtful debts expenses | - | 41 |
| (Profit)/Loss on disposal of fixed assets | (4) | 31 |
| Profit on discontinued operations | (379) | - |
| Non cash loss on removal of discontinued operations | - | 2,981 |
| Non cash impairment write downs | - | 2,988 |
| | 159 | 7,235 |
| Non-cash flows - continuing operations | 538 | 6,321 |
| Non-cash flows - discontinued operations | (379) | 914 |
| Non-Cash Flows in Loss | 159 | 7,235 |
| **Changes in Assets and Liabilities** | | |
| (Increase) / decrease in trade and other receivables | (2,301) | 2,156 |
| (Increase) / decrease in prepayments and other assets | (52) | (17) |
| (Increase) / decrease in inventories | (385) | 850 |
| (Increase) / decrease in deferred tax assets | (38) | 345 |
| Increase / (decrease) in trade and other creditors | 1,198 | 281 |
| Increase / (decrease) in income taxes payable | 31 | (180) |
| Increase / (decrease) in deferred tax liabilities | (63) | - |
| Increase / (decrease) in provisions | (21) | (401) |
| Increase / (decrease) in other financial liabilities | - | 3 |
| | (1,631) | 3,037 |
| Changes in assets and liabilities - continuing operations | (1,631) | 3,919 |
| Changes in assets and liabilities - discontinued operations | - | (882) |
| Changes in Assets and Liabilities | (1,631) | 3,037 |
| **Net Cash Provided by / (Used in) Operating Activities** | **(728)** | **(778)** |

### (b) Non Cash Financing and investing activities

**(i) Equity Issued**
See Note 20 for equity issued for no cash consideration.

**(ii) Hire purchase contracts**

In the prior year the economic entity acquired $23,000 of equipment under hire purchase. This acquisition will be reflected in the statement of cash flows over the term of the hire purchase agreements.

### (c) Credit Standby Arrangements with Banks

The Group has access to financing facilities at reporting date as indicated above. The Group expects to meet its obligations from operating cash flows and proceeds of maturing financial assets.

**Bank Overdraft**

Bank overdraft facilities are arranged with the ANZ Bank with the general terms and conditions being set and agreed annually. Interest rates are variable and subject to adjustment.

| | Economic Entity | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| **Secured Bank Overdraft Facility** | | |
| - amount used | - | 203 |
| - amount unused | 450 | 247 |
| | 450 | 450 |
| **Secured Leasing Facility** | | |
| - amount used | 15 | 23 |
| - amount unused | - | - |
| | 15 | 23 |
| **Secured Bank Loan Facility** | | |
| - amount used | 1,800 | 2,700 |
| - amount unused | - | - |
| | 1,800 | 2,700 |

## NOTE 24: SHARE BASED PAYMENTS

The Company established the Azure Healthcare Limited Employee Share Scheme as a means to reward employees for their contribution to the Company. All employees are entitled to participate in the scheme.

All employee options are unlisted, exercisable within 5 years of issue, have an exercise price consistent with the 5 day volume weighted average price at date of issue, one third are voluntarily escrowed for 1 year from date of issue, a further one third 2 years from date of issue and the final one third 3 years from date of issue. All options are non-transferable.

All options granted to employees (including Key Management Personnel) are over ordinary shares in Azure Healthcare Limited (parent entity) and confer a right to one ordinary share for every option held.

| | | Parent Entity | | | |
|---|---|---|---|---|---|
| | | 2012 | | 2011 | |
| | Note | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Outstanding at the beginning of the year | | 4,639,000 | 0.244 | 6,299,000 | 0.283 |
| Granted | 20 | 500,000 | 0.037 | 700,000 | 0.151 |
| Forfeited/expired | 20 | (4,640,000) | 0.222 | (2,360,000) | 0.312 |
| Outstanding at year end | | 499,000 | 0.148 | 4,639,000 | 0.244 |
| Exercisable at year end | | 266,000 | | 2,239,667 | |

The options outstanding at 30 June 2012 had a weighted average exercise price of 14.81 cents (2011: 24.39 cents) and an average remaining contractual life of 2.59 years (2011: 1.31 years). Exercise prices range from 7.58 cents to 17.82 cents in respect of options outstanding at 30 June 2012.

Refer Note 20 for valuation of employee options issued under the plan during this financial year.

## NOTE 25: RELATED PARTY TRANSACTIONS

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

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 16.

Shareholdings and Option holdings of Key Management Personnel are disclosed in Note 5.

**Transactions with related parties:**

| | Economic Entity | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Occupancy Fees for the lease of the premises located at Unit F 7 Palm Grove Business Park, 13–15 Forrester Street, Kingsgrove, New South Wales were paid to Mr. Robert Grey (Director). | - | 25 |
| Occupancy Fees for the lease of the premises located at 40 O'Malley St, Osborne Park, WA were paid to Mr Robert Grey (Director). | 265 | 257 |
| Commission for the underwriting of a capital raising were paid to a company associated with Mr Brian Blythe and Mr James Blythe (former Director's). | - | 6 |
| Legal fees for capital raising are paid to Carter Lawyers - entities related to Mr David Carter (former Director). | - | 62 |

**Holding Company Transactions with Subsidiaries:**

Azure Healthcare Limited provided managerial, secretarial, accounting, legal and insurance services to the entire group. Azure Healthcare Limited recharges costs incurred to 100% owned subsidiaries on the basis of operating revenue contributed to the group by the subsidiary.

| | Economic Entity | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| **Holding Company Receivables from Subsidiaries** | | |
| Austco | - | 577 |
| Tecsound NZ | 53 | 53 |
| | 53 | 630 |
| **Holding Company Payables to Subsidiaries** | | |
| TSV Australia | - | 57 |
| **Sales between group companies on normal terms and conditions** | | |
| Continuing operations | 5,306 | 4,194 |
| | 5,306 | 4,194 |

## NOTE 26: FINANCIAL MANAGEMENT OBJECTIVES AND POLICIES

### Interest Rate Risk

The Group's principal financial instruments comprise receivables, payables, bank loans and overdraft, cash and short term deposits. These activities expose the Group to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Directors meet monthly to monitor and discuss the current market conditions and the impact on the Group. This monthly analysis and review considers the Group's market risk and exposure, credit risk and liquidity risk. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through annual budgets and regular forecasts. The analysis undertaken enables the Board to determine the overseas price list, the level of hedging strategy based on forward orders and anticipated overseas purchases, the level of debt appropriate to the business and other factors which may impact on the Group's risk profile.

The method of monitoring risk has not altered from the previous corresponding period.

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument’s value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

| | Weighted average interest rate | Floating interest rate | Fixed Interest Maturing In | | Non-interest bearing | Total |
|---|---|---|---|---|---|---|
| | | | 1 year or less | 1 to 5 years | | |
| **Economic Entity** | | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| | | | **2012** | | | |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 1.4% | 2,950 | - | - | - | 2,950 |
| Trade and other receivables | | - | - | - | 4,575 | 4,575 |
| **Total** | | **2,950** | **-** | **-** | **4,575** | **7,525** |
| **Financial Liabilities** | | | | | | |
| Trade and other payables | | - | - | - | 3,150 | 3,150 |
| Short-term liabilities | 9.5% | - | 5 | 10 | - | 15 |
| Long-term liabilities | 7.3% | 1,800 | - | - | - | 1,800 |
| **Total** | | **1,800** | **5** | **10** | **3,150** | **4,965** |

| Economic Entity | Weighted average interest rate | Floating interest rate $'000 | Fixed Interest Maturing In: 1 year or less $'000 | Fixed Interest Maturing In: 1 to 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| | | | 2011 | | | |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 1.0% | 2,869 | - | - | - | 2,869 |
| Trade and other receivables | | - | - | - | 2,274 | 2,274 |
| **Total** | | **2,869** | **-** | **-** | **2,274** | **5,143** |
| **Financial Liabilities** | | | | | | |
| Trade and other payables | | - | - | - | 1,952 | 1,952 |
| Insurance funding | 4.0% | - | 1 | - | - | 1 |
| Short-term liabilities | 12.0% | 203 | - | - | - | 203 |
| Short-term liabilities | 5.0% | - | 5 | 18 | - | 23 |
| Long-term liabilities | 8.0% | 2,700 | - | - | - | 2,700 |
| **Total** | | **2,903** | **6** | **18** | **1,952** | **4,879** |

**Risk Exposure and Responses**

The Group's exposure to market interest rates relates primarily to the Group's short term deposits held. The effect of volatility of interest rates within expected reasonable possible movement would not be material.

**Currency risk**

| | | Economic Entity 2012 $'000 | Economic Entity 2011 $'000 |
|---|---|---|---|
| **Financial Assets** | | | |
| Current assets (inc. cash and trade debtors) | USD | 1,846 | 343 |
| | NZD | 933 | 1,326 |
| | CAN | 1,041 | 861 |
| | GBP | 548 | 592 |
| | SGD | 1,129 | 1,879 |
| | EURO | 120 | - |
| **Financial Liabilities** | | | |
| Current liabilities (inc. trade and other payables) | USD | 1,442 | 1,108 |
| | NZD | 474 | 1,330 |
| | CAN | 284 | 722 |
| | GBP | 224 | 74 |
| | SGD | 930 | 800 |

**Sensitivity Analysis**

The Group currently has material exposures to the currencies in the table below.

At 30 June, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

| | Post Tax Profit Higher/(Lower) | | Equity Higher/(Lower) | |
|---|---|---|---|---|
| Economic Entity | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| AUD/USD +10% | 40 | (75) | 40 | (75) |
| AUD/USD -10% | (40) | 75 | (40) | 75 |
| AUD/NZD +10% | 36 | - | 36 | - |
| AUD/NZD -10% | (36) | - | (36) | - |
| AUD/CAN +10% | 73 | 13 | 73 | 13 |
| AUD/CAN -10% | (73) | (13) | (73) | (13) |
| AUD/GBP +10% | 50 | 80 | 50 | 80 |
| AUD/GBP -10% | (50) | (80) | (50) | (80) |
| AUD/SGD +10% | 15 | 84 | 15 | 84 |
| AUD/SGD -10% | (15) | (84) | (15) | (84) |

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments. A movement of + and – 10% is selected because a review of recent exchange rate movements and economic data suggests this range is reasonable. All the amounts in the table above are displayed in $AUD.

**Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securities its trade and other receivables. It is the group's policy to consider the credit worthiness of all customers who wish to trade on credit terms.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk.

**Price Risk**

The Group's exposure to commodity and equity securities price risk is minimal.

**Liquidity Risk**

The Group manages liquidity risk by monitoring cash flow and maturity profiles of financial assets and liabilities. The maturities of financial liabilities is set out above.

### NOTE 27: EVENTS AFTER THE BALANCE DATE

No matters or circumstances have arisen since the end of the reporting date, not otherwise disclosed in this report, which significantly affected or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity is subsequent financial years.

### NOTE 28: CONTINGENT LIABILITIES AND ASSETS

**Austco (UK) Ltd**

As part of the acquisition of the Austco (UK) Ltd, further consideration is payable of GBP£50,000 by Azure Healthcare Limited, upon attainment and audit confirmation of Net Profit After Tax (NPAT) of GBP£226,000 for the year ended 30 June 2012.

The NPAT for Austco (UK) Ltd for the year ended 30 June 2012 was less than GBP£226,000 and therefore no additional consideration is payable.

**Austco (Asia) Ltd**

There is an outstanding performance guarantee of SGB$35,600 in relation to a project with Khoo Teck Phuat Hospital in Singapore.

**Outstanding Bank Guarantees**

The outstanding bank guarantees held as at 30 June 2012 amounted to $38,959 (2011: $334,264), which consist of financial guarantees of $38,959 (2011: performance guarantees $157,420; financial guarantees: $176,844).

### NOTE 29: PARENT ENTITY INFORMATION

The following information related to the parent entity, Azure Healthcare Limited at 30 June 2012. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

| | Parent Entity | |
|---|---|---|
| | 2012 | 2011 |
| | $'000 | $'000 |
| Current assets | 2,752 | 1,258 |
| Non-current assets | 8,223 | 8,333 |
| **Total Assets** | **10,975** | **9,591** |
| Current liabilities | 2,133 | 142 |
| Non-current liabilities | - | 2,700 |
| **Total Liabilities** | **2,133** | **2,842** |
| **Net Assets** | **8,842** | **6,749** |
| Contributed Equity | 35,041 | 33,032 |
| Accumulated losses | (26,577) | (26,558) |
| Option Reserve | 378 | 275 |
| **Total Equity** | **8,842** | **6,749** |
| Loss for the year | (19) | (10,803) |
| Other comprehensive income for the year | - | - |
| **Total comprehensive income for the year** | **(19)** | **(10,803)** |

# DIRECTORS DECLARATION

## for the year ended 30 June 2012

The directors of Azure Healthcare Limited declare that:

(a) in the directors' opinion the financial report and remuneration report as set out on pages 20 to 63, are in accordance with the Corporation Act 2001, including:

(i) giving a true and fair view of consolidated entity's financial position as at 30 June 2012 and of its performance, for the financial year ended on that date;

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

(iii) the remuneration disclosures contained in the remuneration report comply with s300A of the Corporations Act 2001.

(b) the financial report also complies with International Financial Reporting standards issued by the International Accounting Standards Board (IASB) as disclosed in note 1; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they became due and payable.

The directors have been given the declarations by the chief executive and chief financial officer for the financial year ended 30 June 2012, required by Section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors.

R Grey

Robert Grey
Executive Chairman

Dated this 28th day of September 2012, Melbourne.

BDO

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# INDEPENDENT AUDITOR'S REPORT

To the members of Azure Healthcare Limited

## Report on the Financial Report

We have audited the accompanying financial report of Azure Healthcare Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

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

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

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

BDO

### Independence

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

### Opinion

In our opinion:

(a) the financial report of Azure Healthcare Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included on pages 11 to 16 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Opinion

In our opinion, the Remuneration Report of Azure Healthcare Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

**BDO East Coast Partnership**

BDO

David Garvey

**David Garvey**
Partner

Melbourne, 28 September 2012

# SHAREHOLDER INFORMATION
## as at 26 September 2012

### Number of Holders of Equity Securities

**Ordinary Shares**

189,312,544 fully paid ordinary shares are held by 462 individual shareholders.

All ordinary shares carry one vote per share.

**Options**

| | Date of expiry | Exercise price |
|---|---|---|
| 133,000 Unlisted Options | 7/12/2014 | $0.1508 |
| 133,000 Unlisted Options | 7/12/2014 | $0.1645 |
| 133,000 Unlisted Options | 7/12/2014 | $0.1782 |
| 33,333 Unlisted Options | 25/11/2015 | $0.0758 |
| 33,333 Unlisted Options | 25/11/2015 | $0.0827 |
| 33,334 Unlisted Options | 25/11/2015 | $0.0896 |
| 499,000 Unlisted Options | | |

### Distribution of Holders In Each Class Of Equity Securities

| | Fully paid ordinary shares |
|---|---|
| 1 – 1000 | 16 |
| 1,001 – 5,000 | 82 |
| 5001 – 10 000 | 74 |
| 10,001 – 100,000 | 202 |
| 100,001 and over | 88 |
| Total Number of shareholders | 462 |
| Unmarketable parcels | 274 |

# SHAREHOLDER INFORMATION

## as at 26 September 2012

### Twenty largest Holders Of Quoted Securities

| Shareholder | Number | % |
|---|---|---|
| MR ROBERT EDWARD GREY | 40,139,469 | 21.20 |
| MR MICHAEL RUANE | 15,543,604 | 8.21 |
| BILL BROOKS PTY LTD | 13,438,069 | 7.10 |
| MR NATHAN EDMUND JAMES BUZZA | 12,259,997 | 6.48 |
| ASIA PAC HOLDINGS PTY LTD | 8,806,517 | 4.65 |
| MR ROBERT GREY + MRS AURAWAN GREY | 8,467,934 | 4.47 |
| ASIA PAC TECHNOLOGY PTY LTD | 7,718,126 | 4.08 |
| BARWAN HOLDINGS PTY LTD | 5,871,318 | 3.10 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 5,717,554 | 3.02 |
| HASKANE PTY LTD | 5,243,060 | 2.77 |
| RUMINATOR PTY LTD | 5,170,041 | 2.73 |
| MR ROBERT GREY + MRS AURAWAN GREY | 5,102,798 | 2.70 |
| MR MICHAEL JOHN HOWARD | 4,912,263 | 2.59 |
| GORMAC MANAGEMENT PTY LTD | 4,545,425 | 2.40 |
| MR DAVID LEROY BOYLES | 4,000,000 | 2.11 |
| MR DAVID JOHN LIGHTFOOT | 2,096,652 | 1.11 |
| WAKKO ENTERPRISES PTY LTD | 1,983,992 | 1.05 |
| WAKKO ENTERPRISES PTY LTD | 1,983,992 | 1.05 |
| CONTEMPLATOR PTY LTD | 1,872,629 | 0.99 |
| MR MICHAEL JOHN HOWARD | 1,607,453 | 0.85 |

### Shareholder Enquiries

Shareholders with enquiries about their shareholdings should contact the share registry:

Computershare Investor Services Pty Ltd
Yarra Falls, 453 Johnston Street
Abbotsford VIC 3067

### Change of Address, Change of Name, Consolidation of Shareholdings

Shareholders should contact the share registry to obtain details of the procedure required for any of these changes.

### Removal from the Annual Report Mailing List

Shareholders who do not wish to receive the Annual Report should advise the share registry in writing. These shareholders will continue to receive all other shareholder information.

### Tax File Numbers

It is important that Australian resident shareholders, including children, have their tax file number or exemption details recorded with the share registry.

### CHESS (Clearing House Electronic Subregister System)

Shareholders wishing to move to uncertified holdings under the Australian Securities Exchange CHESS System should contact their stockbroker.

### Uncertified Share Register

Shareholding statements are issued at the end of each month that there is a transaction that alters the balance of the holding.