

Greencross Limited

The Pet Company

Annual Report 2018



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WHO IS GREENCROSS LIMITED

OUR COMPANY

Greencross is Australasia's leading integrated pet care company, offering an extensive range of services and products to serve the pet owner's needs. Formed through the integration of Australasia's largest vet services and specialty pet retail businesses, we now have an extensive network of retail stores, veterinary clinics, grooming salons and dog wash facilities across Australia and New Zealand. With 247 stores, operating under the brands of Petbarn and City Farmers in Australia and Animates in New Zealand, 160 GP vet clinics and over 30 specialty and emergency hospitals, Greencross is well placed to conveniently serve pet owners in ANZ, with significant opportunities for further growth.

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

OUR VISION

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

**Our
purpose**

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

CHAIRMAN'S REPORT



STUART JAMES
Non-Executive Chairman

Dear Fellow Shareholders

2018 has been a challenging year for the Company and our shareholders. This year we expanded our integrated pet care platform, achieved excellent like for like sales growth and customer metrics in our retail business and invested in our veterinary network through both new in-store clinics and vet acquisitions. However, while the Group delivered strong revenue growth, our earnings decreased as a result of disappointing results in our veterinary business and our decision to impair the value of some of our assets. We have taken decisive action to address the operating performance of the Company by appointing a new leadership team and resetting the cost base of the Company.

NEW LEADERSHIP TEAM

In February we announced the appointment of Simon Hickey as our new Managing Director and Chief Executive Officer. Simon joined Greencross with 10 years experience in Chief Executive roles with Campus Living Villages, Qantas International & Freight and Qantas Loyalty. Simon is well placed to deliver our integrated offering for customers and clients, maximise the value of our customer data and enhance our customer intimacy across our business. We have also appointed a new Chief Financial Officer, Lucas Barry, and streamlined our senior management structure. The Board is confident the new leadership team has the skills, experience and capability to successfully execute our integrated pet care strategy.

Our new management team has recently completed a review of the Company's operating cost base and implemented measures to reduce corporate overheads and improve labour efficiency. These measures are expected to deliver annualised operating cost savings of between \$10 million and \$13 million.

OPERATING PERFORMANCE

We continued to invest in our integrated pet care platform and we now have a portfolio of 54 in-store clinics across Australia and New Zealand. The strong LFL sales being delivered by these co-located sites gives us confidence that the decision to grow organically and invest in our integrated platform will deliver long term value for our shareholders.

Our retail business, which comprises over 70% of Group revenue, has performed well in FY2018. Our Australian and New Zealand retail stores delivered strong top line growth and our private label sales increased, supported by strong sales of our own label Leaps & Bounds pet food. Our investment in omnichannel is delivering successful results with click and collect proving very popular. And customer engagement remains strong, with over 90% of retail sales linked to our Friends for Life loyalty program.

The performance of our veterinary services business this year has been below our expectations but LFL sales in our standalone GP vet clinics have stabilised and initiatives are in place to drive visitation and improve profitability in FY2019. Pleasingly, our Healthy Pets Plus wellness program has reached record membership levels, with over 60,000 customers signed up. We have continued to invest in greenfield in-store clinics and added capacity in our specialist and emergency hospitals. These new facilities are delivering strong revenue growth and we expect operating leverage will improve as these businesses begin to mature.

FINANCIAL PERFORMANCE

In FY2018 Group revenue increased by 7.5% to \$878.7 million. Underlying EBITDA fell by 6% to \$97.6 million and statutory NPAT attributable to Greencross shareholders decreased by 51% to \$20.7 million as a result of \$24.2 million of exceptional items. The Board has resolved to pay a final fully franked dividend of 5.5 cents per share, taking the total dividends for the year to 15.5 cents per share.

GROUP STRATEGY

Our Group strategy is centred around providing pet owners with everything they need to ensure the health, happiness and wellbeing of their pets through the products and services provided by our integrated pet care platform. We will continue to strategically grow our footprint where we identify synergies with our existing network and to retrofit services like vet and grooming into existing stores. Our immediate focus will increasingly shift towards integrating technology into our existing offering in areas including omnichannel development, digital assets and data analytics, optimising our store and clinic footprint and increasing customer engagement through increased personalisation.

DIVERSITY

Each year we provide an update on our commitment to gender diversity. This year I am pleased to report that three of the most senior management positions in the Company, namely Chief Operating Officer, Chief Veterinary Officer and Chief Customer Officer, are all occupied by women. Women represent 77% of all Greencross employees. The number of women occupying senior management positions has increased to 46% and women comprise 33% of non-executive directors on the Board.

CONCLUSION

We are the leading specialist player in the growing Australia and New Zealand pet care sector. We are not just a retailer or a vet care provider – we offer pet owners the full suite of pet products, veterinary care, grooming and other services they need to look after their pet. Our unique combination of high quality assets and professional expertise represents a significant competitive advantage given the growing focus of pet consumers on the health and nutrition of their pets. It has been a challenging year for the Company and our shareholders, but I am confident we have the right senior leadership team and strategy to deliver future success for our shareholders.

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



STUART JAMES
Non-Executive Chairman

CEO'S REPORT



SIMON HICKEY

Managing Director
and Chief Executive Officer

Dear Fellow Shareholders

I am pleased to present the report on the performance of your Company for FY2018.

As the new Chief Executive Officer and Managing Director, I believe the company has significant opportunities to grow and consolidate our position as the leading specialist pet care player in Australia and New Zealand.

Greencross has an unrivalled integrated pet care platform that we can leverage to grow our market share. We are the ANZ market leader in specialty pet retail and veterinary services and we have an outstanding and growing customer loyalty base of over 1.9 million active members. The Company has a unique integrated service offering in an emotionally engaged segment and our developing omnichannel platform means we have the capability to deliver highly personalised offers in a channel agnostic manner. Our private label sales are growing and there is a significant opportunity to sell private label products into international markets, including Asia. And finally, we have over 5,000 pet passionate team members who genuinely care about animals and are committed to providing our customers with the best possible service and advice for their pets.

This has been a challenging year for Greencross and we have had to make some tough decisions to reset our cost base and impair the value of some of our assets. While the financial performance of the Company in FY2018 did not meet our expectations, there were still a number of significant achievements. We delivered 8.5% LFL sales growth at our integrated sites, comprising retail stores with an in-store clinic. Our 1.9 million active Friends for Life members represented over 90% of retail sales and we grew membership of our Healthy Pets Plus wellness program to over 60,000 customers. We also opened our 100th grooming salon, grew our online sales by 70% and increased sales of private label products to \$115 million.

FINANCIAL PERFORMANCE

In FY2018 Group Revenue grew by 7.5% to \$878.7 million as a result of network expansion and Group LFL sales growth of 4.9%.

Group gross margin increased by 90bps to 56.3% due to higher gross margin across all divisions. Underlying EBITDA fell by 6% to \$97.6 million and statutory NPAT attributable to Greencross shareholders decreased by 51% to \$20.7 million as a result of \$24.2 million of exceptional items relating to impairments of capitalised costs and assets, acquisition costs, restructuring and redundancy costs which were primarily incurred following an operational review of the business.

Our retail business performed well, delivering LFL sales growth of 5.1% underpinned by 3.1% LFL transaction growth and increased basket size. Australian retail underlying EBITDA grew by 5% to \$74.4 million. We were delighted with sales growth in our core categories of dog food (9%) and cat food (8%). Australian retail gross margin improved to 47.9% supported by increased promotional effectiveness and higher sales of private label products.

The performance of our veterinary division was disappointing, and we have already put a number of initiatives in place to improve our performance next year. Australian Vet revenue increased by 12% driven by network expansion in specialist and emergency, vet acquisitions and in-store clinic roll out. Australian Vet delivered 4.3% LFL sales growth with strong LFL sales growth at specialist hospitals and in-store clinics offset by a 2.2% decline in LFL sales in standalone GP vet clinics, reflecting lower visit numbers. Pleasingly, LFL sales at our standalone GP vet clinics stabilised in the fourth quarter. Australian Vet Underlying EBITDA decreased by \$5.0 million to \$24.6 million. This decline was attributable to a \$0.6 million short term earnings impact of the rollout of our immature in-store clinics which will deliver increased operating leverage and earnings as they mature, a \$2.6 million impact associated with higher labour costs in our Animal Referral Hospital joint venture (of which 50% or \$1.3 million is attributable to GXL shareholders) and a \$1.8 million impact from start-up losses in new emergency clinics and lower than planned standalone GP vet clinic traffic in the first three quarters of FY2018.

New Zealand achieved 11% revenue growth driven by network expansion and 5.2% LFL sales growth and a 90bps increase in gross margin reflecting improved retail trading and the growing maturity of in-store vet clinics.

OUR STRATEGIC PRIORITIES

We have identified five strategic priorities for our Company to drive growth and increased earnings.

A summary of our strategic priorities, the progress we have made against them in FY2018 and our goals for the next 12 months is set out below.

1. Expand our integrated pet care model

Our integrated pet care model, where we provide our customers with all the products and services they need to ensure the health, happiness and wellbeing of their pet, is a clear point of differentiation from our competitors.

In FY2018 our integrated sites delivered outstanding LFL sales growth of 8.5% compared to 3.8% for standalone sites. FY2018 has been another busy year for network expansion. We opened 8 new stores, 17 in-store clinics and 4 specialist and emergency hospitals as well as making 3 GP vet clinic acquisitions. Following the further roll out of in-store services, 22% of our retail stores have an in-store clinic and 43% have a grooming salon. We also introduced puppy training into over 70 of our stores last year.

Looking forward, our strategy is to expand our integrated model more broadly, in terms of the number of integrated sites, and more deeply, in terms of the scope of our service offering.

In FY2019 we will continue to build on that physical expansion, through the addition of between 3 and 5 new stores and between 10 and 15 in-store clinics as well as strategic vet acquisitions. We will also focus on delivering bundled packages of products and services for our customers at compelling value through tailored pet care plans and subscription offerings.

2. Invest in personalisation and omni to leverage our loyalty data and customer intimacy

A key focus in FY2019 will be integrating technology into our retail and veterinary businesses including omnichannel, data analytics and digitalisation, to grow our customer intimacy.

Since I joined the business, we have increased our personalised marketing campaigns by over 40% and this delivered meaningfully higher levels of customer conversion. Online sales growth of 70% was primarily driven by click and collect, where customers order online and pick up in-store. This is a strong indication that our “clicks & mortar” approach to doing business is resonating with our customers – and that, while channel shift is occurring, our national store network is still a valuable part of our omnichannel business platform.

In FY2019 we will continue to evolve our membership programs, expand our tailored offerings and subscriptions and launch our new app. We also plan to expand our online range and enhance our fulfilment times to meet the increasingly higher expectations of the modern consumer.

3. Differentiate our retail offering to deliver a unique customer experience

We see innovation and the differentiation of our offering as key to consolidating our position as the leading pet specialty retailer in Australia and New Zealand

There were a number of important achievements in our retail business in FY2018. We increased private label penetration to 23% of retail sales, grew new customer numbers by over 7% and delivered strong growth in sales of superior food and fresh and frozen products off the back of our “know your bowl” nutrition campaign.

In FY2019 key initiatives include the introduction of new and smaller format stores, the implementation of demand driven workforce planning to increase labour efficiency and the implementation of endless aisle in our stores and clinics to broaden our retail range. We will also look to expand our private label product range and explore opportunities to take private label food into international markets.

4. Improved vet operational performance and delivering a future model offering customer improved service and convenience

While we were disappointed with the performance of parts of our veterinary business in FY2018, we have put in place a number of initiatives to address this and there have already been some encouraging signs that these initiatives are having a positive impact. Our LFL sales in standalone GP vet clinics stabilised in the fourth quarter, we have lowered our vet vacancy and turnover, and we have developed a new short-term incentive plan for our vets which we believe will result in better alignment and increased productivity.

In FY2019 our focus is on modernising the delivery of our vet service and increasing customer convenience by rolling out extended practice hours, mobile vet and team-based consulting. We intend to initiate a pilot telemedicine program, proactively market Healthy Pets Plus Program to our retail customers and launch our tactical vet boost marketing program to drive increased visitation and cross referrals. We will also introduce a new long-term incentive plan for our vets to ensure alignment of interest and encourage better performance.

5. Focus on service excellence across all parts of the business

We will continue to prioritise investment in our people in order to deliver excellent service for our customers.

FY2018 was another big year of investment in our team. We employed over 40 vets in our graduate vet program, completed over 200,000 hours of training in both our retail and vet businesses, and launched a major nutrition education campaign for our retail staff to ensure that our customers receive the best possible advice on the food most suitable for their pet.

In FY2019 we will employ a further 40 vet graduates, conduct our first national training symposium for both veterinary and retail teams, and further develop a structured program for vet nurse career path development. Following the work completed this year, we will use new real time unleashed potential scores to measure customer engagement in our retail stores in order to improve the quality of our service.

We also intend to rebalance store rosters to better match customer traffic and increase the level of permanent staff in our retail business.

CAPITAL MANAGEMENT

Leverage (Net debt/EBITDA) increased to 2.8x as at 30 June 2018, as a result of a decline in earnings, repayment of a short-term credit facility and the short-term EBITDA drag associated with our investment in 17 new in-store clinics. Current leverage levels will require a disciplined approach to investment. Greencross plans to reduce total capital expenditure in FY2019 to \$50 million without slowing the strategic expansion of our stores, in-store clinics and vet acquisitions or the continued development of our digital and omnichannel capability. Future network expansion will focus on optimising sales per square metre and piloting smaller store formats.

PETBARN FOUNDATION

We raised over \$3 million this year for our charity partners including the RSPCA, Seeing Eye Dogs Australia, Vets Beyond Borders and the Animal Welfare League. I am delighted to report that this year's donations have funded the training of 14 seeing eye dogs for the visually impaired.

THANKS TO OUR TEAM

Finally, I would like to take the opportunity to thank all of our staff for their efforts this year. Thank you for everything you have done for our customers and clients to make the world a happier place through the love of pets.

CONCLUSION

I am proud to be leading Greencross and I remain confident in our integrated pet care model and the outlook for both our retail and veterinary businesses. We are the leading specialist player in the growing Australian pet care market and our unique combination of high quality retail and veterinary assets means that, with the right focus to execute our strategy, we are well placed to grow our business and deliver value for our shareholders.

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



SIMON HICKEY
Managing Director and Chief Executive Officer

OUR FINANCIAL PERFORMANCE

\$878.7m

REVENUE

Group Revenue increased by 7% to \$878.7 million



5% ↑

AUSTRALIAN RETAIL REVENUE

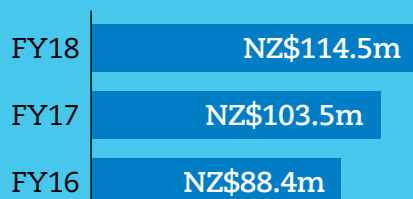
Revenue increased by 5% to \$532.3 million with LFL sales growth of 5.1%



11% ↑

NEW ZEALAND REVENUE

Revenue increased by 11% to NZ\$114.5 million with LFL sales growth of 5.2%



12% ↑

AUSTRALIAN VETERINARY REVENUE

Revenue increased by 12% to \$240.8 million with LFL sales growth of 4.3%



\$97.6m

UNDERLYING EBITDA

Underlying EBITDA decreased by 6% to \$97.6 million



56.3%

GROUP GROSS MARGIN

Group Gross Margin increased by 90bps to 56.3%



\$37.2m

UNDERLYING NPAT

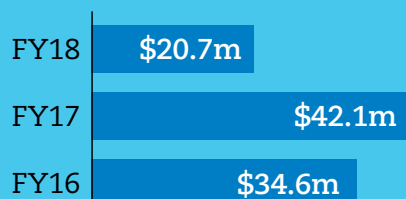
Underlying NPAT decreased by 14% to \$37.2 million



\$20.7m

STATUTORY NPAT

Statutory NPAT decreased by 51% to \$20.7 million



SPECIALIST CAPABILITY

Greencross is the largest specialist pet care business in Australia and New Zealand. Our aim is to provide our customers with everything they need to ensure the health, happiness and wellbeing of their pet.

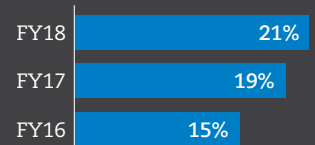




Everything you need for your pet

We offer our customers a full range of pet services and pet products including food, accessories, vet care, grooming, obedience training and nutritional advice.

Growth in customers who buy both products and services



Veterinary expertise

We are the largest employer of vets in Australia and New Zealand with almost 700 professional veterinary staff. Our vets are committed to the highest standards of animal healthcare and passionately care about pets.

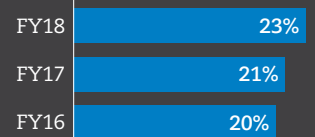
Professional veterinary staff



Private label brands

Our private label and exclusive brands in food and accessories are high quality products that are only available in our retail stores.

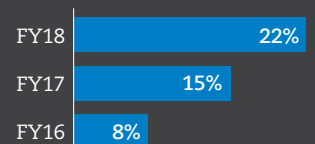
Private label sales as a % of Australian retail product sales



In-store services

Growing the number of stores with in-store services like vet care, grooming, dogwash and obedience training is a key part of our strategy. We will continue to expand the services offering in new and existing stores to help drive foot traffic and visit frequency.

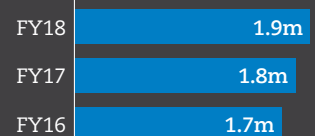
% of retail stores with in-store clinics



Group loyalty

We have over 1.9 million members of our Friends for Life Group Loyalty Program. Our members receive benefits including discounts on premium food, complimentary grooming and dogwash services and rewards for frequent spending.

Friends for life members who shopped with us in the last 12 months



PRIVATE LABEL

Our private label and exclusive brands are high quality products which our customers can only purchase at our Petbarn, Animates and City Farmers retail stores.

In FY2018 our private label and exclusive brands generated more than \$115 million of sales across Australia and New Zealand.

23% ↑

Private label products and exclusive brands represent 23% of Australian retail product sales.







CUSTOMER LOYALTY AND ENGAGEMENT



1.9m

Active Friends for Life members



Greencross has a large, growing and highly engaged customer loyalty base.

Our Friends for Life loyalty program has over 1.9 million active members representing 90% of retail revenue.

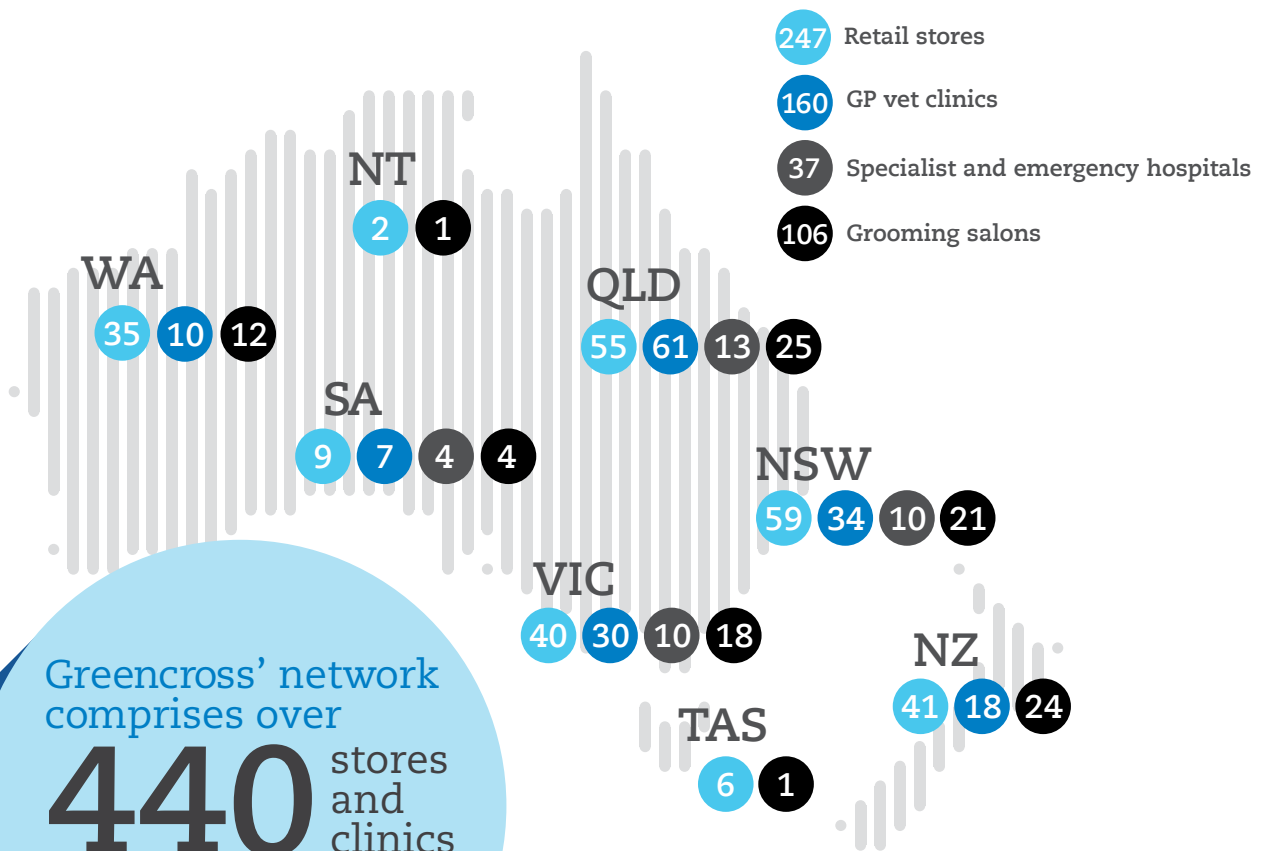
Our Healthy Pets Plus wellness program has over 60,000 members representing 40% of GP vet clinic revenue.

60,000

Healthy Pets Plus members



OUR STORE AND CLINIC NETWORK



Greencross' network comprises over **440** stores and clinics across Australia and New Zealand.

Retail stores



GP vet clinics



Specialist and emergency hospitals



In FY2018 we added

8 Retail stores

17 In-store clinics

3 GP vet clinic acquisitions

4 Specialist and emergency hospitals





AUSTRALIA'S LARGEST VETERINARY BUSINESS

690

We are the largest employer of vets in Australia and New Zealand with over 690 professional staff.

Professional veterinary staff



Greencross operates 160 GP vet clinics and over 30 specialist and emergency hospitals across Australia and New Zealand.

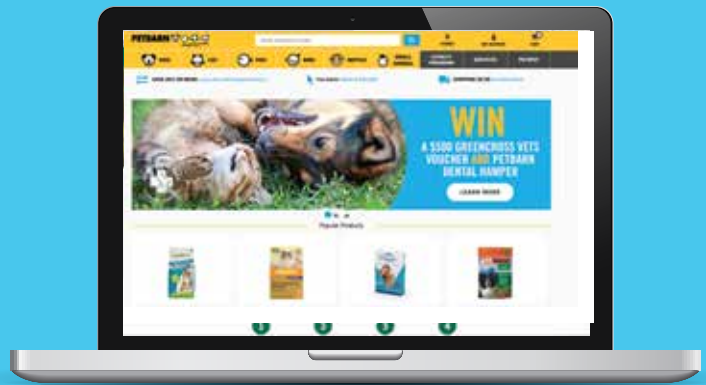
Our vets provide our customers with the best medical and nutritional advice for their pets.

DIGITAL AND ONLINE



We are committed to providing a seamless omnichannel offering to our customers that gives them the flexibility to purchase what they want, when they want and how they want.

Our online capability enables our customers to order online and have products delivered to their home or to pick up in store using our click and collect service.

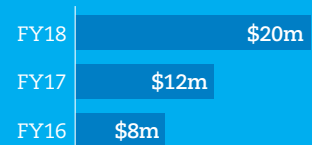


By investing in digital and omnichannel and leveraging our loyalty database we will increase our ability to deliver personalised offers.

70%

Online sales grew by 70% in FY2018.

Online sales



IN-STORE SERVICES

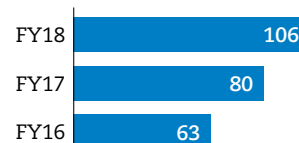


43%
of our stores
have a
grooming
salon and
22% have an
in-store clinic.

106

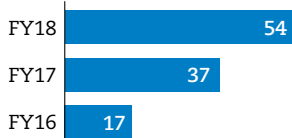
WE NOW HAVE
106 IN-STORE
GROOMING SALONS.

Grooming salons





In-store clinics



54

WE NOW HAVE 54
IN-STORE CLINICS.

PETBARN FOUNDATION



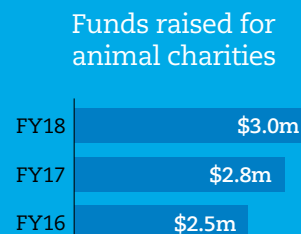


This year we have raised over \$3 million for our charity partners including the RSPCA, Seeing Eye Dogs Australia, Vets Beyond Borders and Soldier On.

Our donations have funded the training of 14 seeing eye dogs to help improve the lives of the visually impaired.

10,000 ↑

We have saved the lives of over 10,000 pets this year by providing them a forever home through our in-store adoption program.



GREENCROSS MANAGEMENT



Simon Hickey

Chief Executive Officer

Simon is Chief Executive Officer & Managing Director of Greencross Limited. Prior to Mr Hickey's appointment as CEO of Greencross, Mr Hickey was Group CEO and Managing Director of Campus Living Villages (CLV), the largest global provider of on-campus student accommodation with operations in Australia, New Zealand, the USA and the UK. Prior to joining CLV Mr Hickey was CEO of Qantas International & Freight, responsible for turning around the international business and restructuring the freight operations. Mr Hickey joined Qantas in September 2004 as Group General Manager Strategy and Fleet, and between 2007 and 2012 Mr Hickey was appointed CEO of Qantas Loyalty, responsible for growing the Qantas Frequent Flyer program into Australia's largest coalition program. Between 2001 and 2004, he was CFO for Bovis Lend Lease Americas. Prior to this, he held various roles with Lend lease including Bovis Lend Lease CFO Asia Pacific. Mr Hickey began his career with Arthur Andersen as a business consultant working in Sydney, Melbourne and London.



Lucas Barry

Chief Financial Officer

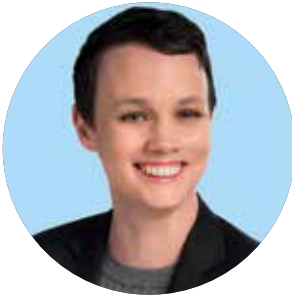
Lucas joined Greencross as Chief Financial Officer in June 2018. Lucas has 25 years of experience across several sectors internationally, including professional services, FMCG, financial services, infrastructure and aged care. Prior to joining Greencross, Lucas was Chief Financial Officer of Opal Aged Care, one of Australia's largest providers of residential aged care. Prior to this, Lucas was Group Financial Controller of Woolworths Group, Australia's largest retail business. From 2010 to 2014, Lucas was the Global Chief Financial Officer of LBC Tank Terminals headquartered in Europe and prior to 2010 he spent over seven years in various senior finance leadership roles at Challenger Limited. Lucas began his career at KPMG working in Sydney and New York.



Tanya Houghton

Chief Operating Officer

In the role of Chief Operating Officer, Tanya Houghton has responsibility for all stores, veterinary clinics and emergency and specialist practices. In addition, Tanya is responsible for the Property Team and the Format Development Team. Tanya has over 20 years of experience working in retail, including 14 years with Greencross. Prior to her appointment as COO, Tanya held a number of senior management positions in Greencross' retail business including COO New Zealand, National Operations Manager, National Marketing Manager and National Business Development Manager.



Dr Rachel Chay

Chief Veterinary Officer

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



Tania Whyte

Chief Customer Officer

Tania Whyte leads Greencross' Customer team with responsibility for loyalty and wellness programs, marketing and strategy. Tania has previously held ExCo level roles in service industry companies such as Linfox, Qantas Freight & Catering and Coateshire. Immediately prior to joining Greencross, Tania was running her own business providing strategic consulting to retail businesses.



Richard Bowker

Chief Merchant

Richard leads the Greencross Product and Merchandising Teams and is also responsible for the Group's supply chain and logistics. Richard has over 20 years of experience working in retail including 15 years with Greencross. Prior to his appointment as Chief Merchant, in his role as GM Merchandise, Richard was instrumental in successfully expanding Greencross' product range (including private label), growing the capability of the product team and strengthening supplier relationships.



Vincent Pollaers

Chief Human Resources Officer, General Counsel and Company Secretary

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

FINANCIAL INFORMATION

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Directors' Report

For the period ended 1 July 2018

The Directors present their report on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'Group') consisting of Greencross Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 1 July 2018.

Directors

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

Name	Position
Stuart James	Chairman
Martin Nicholas	Chief Executive Officer (resigned 4 March 2018)
Simon Hickey	Chief Executive Officer (from 5 March 2018)
Christina Boyce	Non-Executive Director
Andrew Geddes	Non-Executive Director (resigned 25 October 2017)
Rebekah Horne	Non-Executive Director
Chris Knoblanche	Non-Executive Director
Dr Glen Richards	Non-Executive Director
Paul Wilson	Non-Executive Director

Principal activities

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

Dividends

Dividends paid during the financial year were as follows:

	FY 2018 ¹ \$'000's	FY 2017 ² \$'000's
Final dividend for the period ended 2 July 2017 (2016: 26 June 2016) of 9.5 cents (2016: 9.5 cents) per ordinary share	11,190	10,849
Interim dividend for the period ended 1 July 2018 (2017: 2 July 2017) of 10 cents (2017: 9.5 cents) per ordinary share	11,779	11,034
	22,969	21,883

At the date of signing the financial report, the Directors have recommended the payment of a final fully franked dividend of 5.5 cents per share at a record date of 28 August 2018, which is expected to be paid on 12 October 2018.

No dividends were paid to non-controlling interest in respect of the underlying entities during the period ended 1 July 2018 (2017: \$2,023,000). There are no proposed dividends for minority interests as at signing date.

Review of operations

The profit for the Group after providing for income tax and non-controlling interest amounted to \$20,657,000 (2 July 2017: \$42,055,000).

¹ FY 2018 – 52 week period ended 1 July 2018

² FY 2017 – 53 week period ended 2 July 2017

Directors' Report

For the period ended 1 July 2018

Operating and financial review

The Directors are pleased to report the following results for the period ended 1 July 2018:

- **Group revenue increased by 7.5%**
- **Network expanded by 8 retail stores, 13 veterinary clinics and 4 specialist and emergency practices**
- **Group Like for Like ("LFL") sales revenue 4.9%;**
- **Gross margin % increased 90 bps to 56.3%**
- **Statutory EBITDA after exceptional items decreased 25% to \$74.8m**
- **Underlying¹ EBITDA decreased 6.4% to \$97.6m**
- **EPS down 51.6% to 17.5 cents**
- **Underlying³ EPS decreased 15.0% to 31.5 cents**
- **Cash conversion of 100.7%**

Financial overview – statutory performance

The Directors report a set of results highlighted by strong revenue growth in conjunction with strong cash generation across retail, veterinary and New Zealand operations. Profitability was adversely impacted by exceptional items relating to asset impairments and provisions resulting from a business wide operational and strategic review conducted by the new Executive team. During the year the Group pursued a strategy of organic and acquisitive growth while at the same time leveraging its integrated pet care offering and investing in growth capabilities.

	FY 2018 52 weeks \$'000's	FY 2017 53 weeks \$'000's	Change \$'000's	Change %
Statutory profit or loss				
Revenue²	878,734	817,496	61,238	7.5%
Cost of sales of goods	(383,989)	(364,509)	(19,480)	5.3%
Gross margin	494,745	452,987	41,758	9.2%
<i>Gross margin (%)</i>	56.3%	55.4%	0.9%	
Operating expenses	(419,940)	(353,208)	(66,732)	18.9%
EBITDA after exceptional items	74,806	99,779	(24,973)	(25.0%)
<i>EBITDA margin (%)</i>	8.5%	12.2%	(3.7%)	
Depreciation and amortisation	(27,928)	(23,140)	(4,788)	20.7%
Profit before finance costs and income tax expense	46,878	76,639	(29,761)	(38.8%)
Finance costs (net)	(14,219)	(13,872)	(347)	2.5%
Profit before income tax expense	32,659	62,767	(30,108)	(48.0%)
Income tax expense	(8,696)	(15,419)	6,723	(43.6%)
Profit after income tax expense	23,963	47,348	(23,385)	(49.4%)
Non-controlling interest	(3,306)	(5,293)	1,987	(37.5%)
NPAT³ attributable to the owners of Greencross Limited	20,657	42,055	(21,398)	(50.9%)
EPS (cents)	17.5	36.2	(18.7)	(51.6%)
Annual dividend per share (cents)	15.5	19.0	(3.5)	(18.4)%

¹ To assist readers in interpreting the underlying performance of the Group we present both a set of unaudited Underlying earnings which are reported excluding exceptional items and audited statutory earnings which are prepared including exceptional items. A reconciliation between underlying earnings and statutory earnings is provided later in this Directors' report

² Excludes interest income

³ NPAT – Net Profit After Tax

Directors' Report

For the period ended 1 July 2018

Revenue

Group revenues increased by +7.5% or \$61.2m to \$878.7m (2017: \$817.5m) as a result of continued organic and acquisitive network expansion across all operating divisions and strong LFL sales growth (+4.9%).

Revenues in our Australian Retail business were up by +5.4% or \$27.1m to \$532.3m (2017: \$505.2m) driven by network expansion and LFL sales growth. Australian retail LFL sales growth was +5.1% with our online businesses which include both home delivery and click & collect, growing by 70%. During the year we generated over \$100m in revenue from sales of private label and exclusive brands. The Australian Retail business added 6 (net) new retail stores to its network during the financial year.

Revenues in our Australian Veterinary business increased by +12.3% or \$26.4m to \$240.8m (2017: \$214.4m) driven by LFL Sales growth (+4.3%), network expansion in specialist and emergency and the continued roll out of in-store vets.

Our New Zealand ("NZ") business revenues were up by +7.8% or \$7.6m to \$105.6m (2017: \$98.0m) driven by strong LFL sales (+5.2%) and continued network expansion. During the financial year the NZ business added 2 retail stores and 2 veterinary clinics.

During the financial year, we completed the rollout of 17 in-store vet clinics bringing the total number of in-store vet clinics to 54, representing 22% of our group retail store network. Our integrated sites delivered strong LFL sales growth of 8.5% in FY18.

Gross margin

Group gross margin % increased +90bps to 56.3% (2017: 55.4%) over the prior year due to margin growth in all of our businesses. Australian Retail gross margin improved to 47.9% supported by increased promotional effectiveness and higher sales of private label products and Australian Veterinary division gross margin % increased to 78.9% due to a change in revenue mix to higher margin Specialist & Emergency revenue, while NZ gross margin % increased to 50.0% due to the mix effect of higher margin veterinary clinics and improved retail margin.

Operating expenses

Operating expenses increased by +18.6% or \$65.6m to \$418.8m (2017: \$353.2m) which included \$19.8m of exceptional operating expense items compared to \$4.5m in the prior year. The remainder of the increase was primarily attributable to the addition of GP clinics, specialty and emergency clinics and retail stores, higher energy costs and higher labour costs in our Animal Referral Hospital joint venture.

EBITDA

EBITDA decreased by -25.0% or \$25.0m to \$74.8m (2017: \$99.8m), which included \$22.8m of exceptional items. After excluding these items, underlying EBITDA decreased by -6.3% or \$6.7m to \$97.6m (2017: \$104.2m) due to the short term earnings impact associated with continuing investment in our in-store clinic rollout which will deliver future earnings leverage as these clinics mature, lower than expected visitation in our veterinary business and higher labour costs in our Animal Referral Hospital joint venture.

Depreciation and amortisation

Depreciation and amortisation costs increased by +20.7% or \$4.8m to \$27.9m (2017: \$23.1m) primarily as a result of investments in expanding our network of retail stores and veterinary clinics in both the current and prior years. In addition, during the year the Directors reassessed the useful lives of certain software assets resulting in additional depreciation of \$1.0m.

Finance costs

Finance costs increased by +2.5% or \$0.3m to \$14.2m (2017: \$13.9m) due to higher average debt across the year.

Income tax expense

The effective tax rate increased to 26.6% (2017: 24.6%) as the prior year included the recognition of previously unrecognised tax losses.

Net profit after tax

Net profit after tax ("NPAT") attributable to Greencross Shareholders was down -50.9% or \$21.4m to \$20.7m (2017: \$42.1m), which included \$16.5m of exceptional items.

Directors' Report

For the period ended 1 July 2018

Cash flow highlights

The Group delivered a strong cash performance during the year driven by improved working capital management resulting in strong cash conversion.

Statutory cash flow	FY 2018 \$'000's	FY 2017 \$'000's	Change \$'000's	%
EBITDA	74,806	99,779	(24,973)	(25.0%)
Non-cash exceptional items	16,059	-	16,059	100.0%
Adjusted EBITDA	90,865	99,779	(8,914)	(8.9%)
Net working capital movement	654	(3,917)	4,571	116.7%
Ungeared, pre-tax operating cash flows	91,519	95,863	(4,344)	(4.5%)
Cash conversion %	100.7%	96.1%	4.6%	
Net interest and finance costs paid	(12,596)	(10,635)	(1,961)	(18.4%)
Income taxes received/(paid)	(13,310)	(10,241)	(3,069)	(30.0%)
Net cash from operating activities	65,613	74,986	(9,373)	(12.5%)
Expansionary capex	(49,024)	(57,890)	8,866	15.3%
Underlying capex ¹	(25,554)	(18,776)	(6,778)	(36.1%)
Net cash used in investing activities	(74,578)	(76,666)	2,088	2.7%
Free cash outflow	(8,965)	(1,680)	(7,285)	(443.6%)
Net proceeds from borrowings and refinance costs	8,290	(1,059)	9,349	82.9%
Dividends paid	(11,190)	(2,023)	(9,167)	(453.1%)
Net cash used in financing activities	(2,900)	(3,082)	182	5.9%
Net increase/(decrease) in cash and cash equivalents	(11,865)	(4,762)	(7,103)	(149.2%)

Ungeared, pre-tax operating cash flow decreased by -4.5% or \$4.3m to \$91.5m (2017: \$95.9m) as a result of lower EBITDA. Cash conversion of 100.7% (2017: 96.1%) was driven by a positive movement in working capital.

Positive working capital movement was driven by improvement in inventory management resulting in a 3.4% or \$10k reduction in average inventories per Australian retail store to \$280k (2017: \$290k) and an improvement in trade and other payables.

Interest and finance costs increased by +18.4% or \$2.0m to \$12.6m (2017: \$10.6m) as a result of timing of interest payments.

Income tax paid increased by +30.0% or \$3.1m to \$13.3m (2017: \$10.2m) due to utilisation of tax losses in the prior year.

Net cash used in investing activities decreased by -2.7% or \$2.1m to \$74.6m (2017: \$76.7m). During the year the Group's expansionary capex included the addition of 8 new retail stores, 4 specialty and emergency clinics, roll out of 17 in-store clinics, acquisition of 3 standalone veterinary clinics and investment in other expansion activities including omni and store format research and development. During the year the Group increased its underlying capex to \$25.6m (2017: \$18.8m) which included investment in supply chain systems, the development of a new point of sales system in NZ, a new rostering system and other capital investments supporting the business operations.

Free cash outflow of \$9.0m (2017: cash outflow of \$1.7m) was impacted by increased level of network expansion and underlying capital investment.

Net cash used in financing activities decreased by -5.9% or \$0.2m to \$2.9m outflow (2017: \$3.1m outflow) reflecting the net drawing of \$20m of borrowings offset by the \$11m net movement in working capital facility which was repaid during the year. The Group paid a final cash dividend of 9.5 cents per share to shareholders for FY17. The FY18 interim dividend of 10.0 cents per share was funded by the company's Dividend Reinvestment Plan.

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

Directors' Report

For the period ended 1 July 2018

Capital management

During the period ended 1 July 2018 Group net debt increased by \$32.7m to \$268.2m (2017: \$235.5m) to fund network expansion and increased underlying capital investment. As at 1 July 2018, the Group had drawn \$301.9m (2017: \$279.9m) of the \$310m Australian senior debt facilities with an additional accordion facility of \$50m.

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

Facility AUD \$m	Facility limit 1-Jul-2018	Expiry date	Amount drawn	
			1-Jul-2018	2-Jul-2017
A1 – bullet revolver	75.0	Nov-2020	75.0	75.0
A2 – bullet revolver	235.0	Oct-2020	226.9	204.9
B – accordion	50.0	Oct-2020	-	-
Senior debt facility	360.0		301.9	280.0

The \$360m senior debt facility comprises 2 separate revolving facilities and an accordion facility. All debt facilities are provided in equal proportions by National Australia Bank (“NAB”) and Commonwealth Bank of Australia (“CBA”). The A1 facility was refinanced during March 2018 and matures in November 2020 and the A2 facility matures in October 2020 when all facilities become repayable with a final bullet payment. Under the \$50m accordion facility the Group is permitted to approach other lenders if the existing syndicate does not wish to participate.

Financial covenant ratios on the Australian senior debt facilities comprise a Leverage Ratio (being Net Debt to EBITDA) and a Fixed-Charge Coverage Ratio (being EBITDA before rent divided by rent and interest). All financial covenant ratios were met during the year.

The Group also has a NZ\$15 million senior facility with the Bank of New Zealand (“BNZ”) facility through the 50% owned subsidiary Animates NZ Holdings Limited which is currently drawn to NZ\$13 million (2017: \$15 million). The facility is used to fund operations in New Zealand, expires on 31 December 2018 and has a bullet repayment due at expiry. Subsequent to year end, this facility was refinanced for a further three years and will expire on 31 December 2021.

The Animal Referral Hospital joint venture, for which Greencross has a 50.1% interest, has a secured facility with ANZ Bank for \$1.7m which is fully drawn. The facility is secured against a freehold property asset of the joint venture and expires on 31 September 2019.

At balance date, \$140 million of debt was hedged by floating to fixed interest rate swaps. The overall average effective interest rate remained at 4.7% (2017: 4.7%), inclusive of fixed rates on hedged debt, floating rates on unhedged debt and margin spreads.

Directors' Report

For the period ended 1 July 2018

Exceptional items

During the period ended 1 July 2018 the Group recognised exceptional items of \$24.2m (2017: \$4.5m), of which \$22.8m related to impairment of previously capitalised project costs, store assets, investments, provision for slow moving inventory, acquisition costs and redundancy and restructuring costs recognized in EBITDA and \$1.4m recognised in amortisation and depreciation associated with reassessment of make good assets (\$0.4m) and Directors reassessment of useful lives of certain software assets of \$1.0m. The NPAT impact of the depreciation related items is reported in the below table.

Accounting standards as adopted by the Group require the classification of profit and loss items by nature. Consequently, a number of exceptional items incurred during the year cannot be separately identified on the face of the statutory profit and loss statement.

In order to assist readers of the financial statements the Group has presented an underlying profit and loss statement after removing the impact of exceptional costs from each cost type. Their removal improves comparability of results because they relate to costs which have not been incurred in the normal course of business and are of a non-recurring nature.

Reconciliation of underlying to statutory results	FY 2018		FY 2017	
	EBITDA \$'000's	NPAT ¹ \$'000's	EBITDA \$'000's	NPAT \$'000's
Statutory	74,806	20,657	99,779	42,055
Add back: acquisition & defence costs	1,412	988	1,803	1,298
Impairment of projects	10,723	7,440	-	-
Provision for slow moving inventory	3,025	2,118	750	540
Redundancy and restructuring costs	2,734	1,914	1,898	1,367
Impairment of investments, store assets, store network and incidental provisions	4,881	3,344	-	-
Changes to effective life of intangible assets ²	-	728	-	-
Tax loss recognition	-	-	-	(1,876)
Effective tax rate adjustment	-	-	-	(387)
Total adjustments	22,775³	16,533	4,451	942
Underlying	97,581	37,190	104,230	42,997

¹ NPAT attributable to shareholders of Greencross.

² Represents after tax impact of accelerated depreciation due to reassessment of intangible software asset useful lives of \$1.0m.

³ Total exceptional items of \$24.2m, of which \$22.8m are related to items in EBITDA and \$1.4m of Depreciation.

Directors' Report

For the period ended 1 July 2018

Group Strategy

Our purpose is to make the world a better place through the love of pets.

The new management team has identified the following five key strategic priorities for the business:

- Expand our integrated pet care model;
- Improve the operational performance of our veterinary business and deliver a future model offering customers improved convenience;
- Innovate to better support our customers in retail;
- Invest in personalization and omnichannel to leverage our loyalty data and customer intimacy; and
- Continue our people journey with a focus on driving service excellence across all parts of the business.

We are confident the delivery of these priorities will drive future growth in the business and increased earnings.

Material business risks

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

Expected industry trends

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

Workplace relations risk

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

Identification and completion of acquisition opportunities

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

Product sourcing

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

Loss of key management personnel and shortages of skilled personnel

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

Directors' Report

For the period ended 1 July 2018

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

The Group has a NZ\$15.0 million senior facility with the Bank of New Zealand ("BNZ") facility through the 50% owned subsidiary Animates NZ Holdings Limited which is currently drawn to NZ\$13.0 million (2017: \$15.0 million). The facility is used to fund operations in New Zealand, expires on 31 December 2018 and has a bullet repayment due at expiry. Consequently, this liability has been recognized in the Balance Sheet as a current liability. Subsequent to year end this facility was refinanced for a further three years and will expire on 31 December 2021. Refer Note 20 for further information.

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

Outlook

The Group expects to deliver ongoing revenue growth and earnings growth in FY 2019 driven by the expansion of its proven business platform and delivery of the benefits of its integrated business model.

The Group expects to deliver continued strong operating cash flows to support both acquisitive and organic growth in FY 2019.

Environmental regulation

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

Directors' Report

For the period ended 1 July 2018

Information on directors

Stuart James	
Title	Non-Executive Director and Chairman
Qualifications	BA (Hons), MAICD, FAIM
Experience and expertise	<p>Stuart has had a successful career within the Resources, Financial, Healthcare and Pharmaceutical sectors around the world.</p> <p>Stuart had a 25 year career with Royal Dutch Shell Group both in Australia and internationally. His special areas of focus were Retail and South East Asia. Stuart became Managing Director of Australian Financial Services for Colonial and Managing Director of the Colonial State Bank (formerly the State Bank of NSW). Subsequently Stuart became CEO of the Mayne Group with its diverse interests in logistics, healthcare and pharmaceutical, both in Australia and internationally.</p> <p>Following his executive career Stuart has held a number of Non-Executive roles in both Australian and international companies. Between 2006 to 2014 he was a member of the supervisory Board of Wolters Kluwer N.V., a software as services global company which during this period underwent significant transformation from a hard copy provider of information to a total digital provider.</p> <p>Stuart was Chairman of Pulse Health Group - a private hospital operator, Affinity Education Group – a childcare operator, Prime Financial Group - a wealth management and financial advisor business. Stuart was also Chairman of Progen Ltd and NED of Phosphagenics Ltd - both biotech companies. Stuart currently has interests in both fin-tech and healthcare digitisation.</p>
Other current public company directorships	None
Former directorships (last 3 years)	Pulse Health Limited Affinity Education Group Limited Progen Pharmaceuticals Limited NED of Phosphagenics Limited
Special responsibilities	Member of the Remuneration and Nomination Committee
Interests in shares as at 1 July 2018	2,499,704 ordinary shares
Simon Hickey	
Title	Managing Director and Chief Executive Officer
Qualifications	BA (Hons) University of New South Wales, UNSW
Experience and expertise	<p>Simon Hickey has been appointed Chief Executive Officer & Managing Director of Greencross Limited (Greencross) effective 5 March 2018. Prior to Mr Hickey's appointment as CEO of Greencross, Mr Hickey was Group CEO and Managing Director of Campus Living Villages (CLV), the largest global provider of on-campus student accommodation with operations in Australia, New Zealand, the USA and the UK. Prior to joining CLV Mr Hickey was CEO of Qantas International & Freight, responsible for turning around the international business and restructuring the freight operations. Mr Hickey joined Qantas in September 2004 as Group General Manager Strategy and Fleet, and between 2007 and 2012 Mr Hickey was appointed CEO of Qantas Loyalty, responsible for growing the Qantas Frequent Flyer program into Australia's largest coalition program. Mr Hickey began his career with Arthur Andersen as a business consultant working in Sydney, Melbourne and London. Between 2001 and 2004, he was CFO for Bovis Lend Lease Americas. Prior to this, he held various roles with Lend lease including Bovis Lend Lease CFO Asia Pacific.</p>
Other current public company directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Managing Director and Chief Executive
Interests in shares as at 1 July 2018	58,112 ordinary shares

Directors' Report

For the period ended 1 July 2018

Christina Boyce

Title	Non-Executive Director
Qualifications	B.Ec. (University of Sydney), MBA (KGSM), GAICD
Experience and expertise	Christy has over 25 years management consulting experience advising major local and international companies in the retail and consumer goods space on marketing and sales strategies. She has worked with a number of major retailers on format renewal, category and pricing strategy and business transformation. Christy started her career at McKinsey where she co-led the Asia Pacific Retail and Consumer Goods practice. She subsequently acted as a key advisor on a number of major private equity transactions as well as advising on a range of digital transformation projects across a range of industries including retail. She was an advisor and executive at NBN Co during its initial start up with responsibility for regulatory strategy, product and pricing. She continues to provide strategic advice as a director of Port Jackson Partners, a leading consultancy, with a particular focus on strategic direction setting, negotiation strategy and revenue management. She is currently a Non-Executive Director of Monash IVF Group Limited and Oneview Healthcare Plc.
Other current public company directorships	Monash IVF Group Limited
Former directorships (last 3 years)	Oneview Healthcare Public Limited Company - Oneview Healthcare Plc is listed on ASX Cryosite Limited
Special responsibilities	Chair of the Remuneration and Nomination Committee, Member of Audit and Risk Management Committee
Interests in shares as at 1 July 2018	29,000 ordinary shares

Rebekah Horne

Title	Non-Executive Director
Qualifications	BBus
Experience and expertise	Rebekah has had a successful 20-year career advising many of the world's most respected media brands and is currently the Chief Digital and Data Officer of the NRL. Rebekah was previously CDO of Network Ten and CEO of the Los Angeles based start-up Topfloor.com, a Google and POLARIS Ventures backed e-commerce business. Rebekah has also been responsible for the internationalisation of News Corp's digital business, Fox Interactive Media, starting with the build of the Australian operation, and going on to be the SVP International, responsible for 26 territories outside of the US. Prior to joining News Corp, Rebekah held senior positions at SingtelOptus.
Other current public company directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Member of Remuneration and Nomination Committee
Interests in shares as at 1 July 2018	0 ordinary shares

Directors' Report

For the period ended 1 July 2018

Christopher Knoblanche AM

Title	Non-Executive Director
Qualifications	BCom, ACA, FCPA
Experience and expertise	Chris has held a number of high profile leadership (CEO) roles in Australia and across Asia. Chris sits on a number of boards providing his deep history on governance, financial, accounting and risk management skills. Currently Chris is the Chair of the Audit and Risk Management Committee for iMed Radiology, Australia's largest provider of radiology and medical diagnostic imaging. During his time in investment banking, Chris has provided detailed advice in the Australian consumer retail sector. Chris is currently the Principal of Advisory & Capital Pty Ltd. Chris previously held the role of Managing Director and Head of CitiGroup Corporate and Investment Banking Australia & New Zealand. Chris has been CEO of Andersen Australia, CEO of Andersen Business Consulting Asia Pacific and Regional Managing Director of Deloitte Management Solutions – Asia. Prior to CitiGroup, Chris was a Partner in the boutique investment bank, Caliburn Partnership (now Greenhill). He serves as Board Member of the Sydney Opera House and the Environmental Protection Authority of NSW. Chris is Chairman of iSelect Limited. Chris was appointed a Member of the Order of Australia for significant service to arts administration, to the community and to the business and finance sector in 2014.
Other current public company directorships	iSelect Limited
Former directorships (last 3 years)	None
Special responsibilities	Chair of the Audit and Risk Management Committee, Member of Remuneration and Nomination Committee
Interests in shares as at 1 July 2018	18,000 ordinary shares

Dr Glen Richards

Title	Non-Executive Director
Qualifications	B.V.Sc.(Hons), M.Sc., F.A.I.C.D.
Experience and expertise	Glen has over 26 years of experience in the retail and professional services sectors. Glen was the founding Managing Director of Greencross Limited and Co-Founder and Director of Mammoth Pet Holdings Pty Ltd, prior to its merger with Greencross Limited in 2014. Glen established Greencross Vets Pty Ltd in 1994 and PetHQ Pty Ltd in 2005. Glen has extensive operational experience in fast growing companies, especially in health care and allied health. He established the first western veterinary practice in China (Shanghai PAW) in 2001; was a director of Lyppard Australia, one of Australia's leading veterinary wholesalers. He is currently Chairman of Healthia Ltd (Australia's largest podiatry group), a director of Montserrat Private Day Hospitals (one of Western Australia's and Queensland's largest day hospital groups), Smart Clinics General Medical Practices (with over 35 general practices), Regeneus Ltd (a regenerative medicine company), and 1300Smiles Ltd (a national dentistry group). Glen continues as a shareholder, advisor and mentor to a number of innovative technology companies (Sourcehub, OneWorld, Smartvet, Clinician Connect and Naturo) that operate nationally and globally in health, retail and agriculture.
Other current public company directorships	1300 Smiles Limited Regeneus Limited
Former directorships (last 3 years)	None
Special responsibilities	None
Interests in shares as at 1 July 2018	2,356,770 ordinary shares

Directors' Report

For the period ended 1 July 2018

Paul Wilson

Title	Non-Executive Director
Qualifications	B.Bus, MBA, MAID
Experience and expertise	Paul has over 30 years of extensive experience in the Retail Sector. Paul co-founded Mammoth Pet Holdings Pty Ltd in 2005 and as its Managing Director grew its chain of pet specialty retail stores (Petbarn and Animates) from 10 to over 150 across Australia and New Zealand. During that time, he introduced sector innovation in store design, layout and merchandising, product and service range and mix, and customer loyalty programs. Immediately prior to Mammoth, Paul held leading edge positions in online commerce and digital marketing: first as Chief Operating Officer of ShopFast, which he grew to be Australia's then largest online grocery retailer (sold to Coles in 2003); and as Managing Director of Adstream Pty Ltd, a leader in the digitalisation of advertising content delivery. During the period, 1987 to 1999 inclusive, Paul held a number of senior retail positions with Caltex Australia including, National Fuels Pricing and Planning Manager, General Manager of Vitalgas (a Caltex/Boral JV), and as Retail Sales Manager responsible for introducing and growing a competitive retail offer in a network of over 500 Caltex service stations.
Other current public company directorships	None
Former directorships (last 3 years)	None
Special responsibilities	Chairman, Animates NZ Holdings Ltd, a joint venture between Greencross Limited and EBOS Chairman, The Petbarn Foundation
Interests in shares as at 1 July 2018	3,244,837 ordinary shares

Vincent Pollaers – Company Secretary

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

Directors' Report

For the period ended 1 July 2018

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the period ended 1 July 2018, and the number of meetings attended by each director were:

	Full Board		Remuneration and Nomination Committee		Audit, Compliance and Risk Management Committee	
	Attended	Held ¹	Attended	Held ¹	Attended	Held ¹
Stuart James	9	9	4	4	-	-
Simon Hickey	3	3	-	-	-	-
Martin Nicholas	5	5	-	-	-	-
Christina Boyce	9	9	4	4	6	6
Andrew Geddes	3	3	-	-	2	2
Rebekah Horne	9	9	-	-	3	4
Chris Knoblanche	8	9	4	4	6	6
Dr Glen Richards	9	9	-	-	-	-
Paul Wilson	9	9	-	-	-	-

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

Directors' Report

For the period ended 1 July 2018

Remuneration Report

The Directors present the 2018 Remuneration Report prepared in accordance with section 300A of the Corporations Act 2001, for the Company and the consolidated entity for the period ended 1 July 2018¹ ("FY 2018"). The information provided in this Remuneration Report has been audited by PricewaterhouseCoopers as required by section 308(3C) of the Corporations Act 2001. The Remuneration Report forms part of the Directors' Report.

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

1. Introduction

1.1 Overview of FY 2018 Remuneration Initiatives

No major changes were made to the remuneration framework and policy in FY 2018.

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

Fairness	Performance	Balance	Risk
<ul style="list-style-type: none"> Remuneration evaluated against independent market data. Fixed pay based on incumbent experience and comparable positions. Attracts and retains. 	<ul style="list-style-type: none"> Half of pay is at risk and linked to performance. Measures include both relative and absolute performance. Requires growth and improvement on prior period. 	<ul style="list-style-type: none"> Reward balances short term and long term focus. Mix of cash with equity. Employ formulaic incentives tempered with judgement. Provide reward in both current and deferred pay. 	<ul style="list-style-type: none"> Mix of performance measures and time periods assessed for sustainable results. Discretion to apply malus. Shareholding guidelines and payment in equity for longer term alignment. Incentive caps to limit prospect of excessive risk taking.

In managing and oversight of remuneration we:

Do	Don't
<ul style="list-style-type: none"> Seek shareholder approval for CEO equity grants. Grant equity based on face value. Monitor executive shareholdings against guidelines. Vary payments with performance. Retrospectively disclose performance attained and payments made. Limit executive termination payment to less than 12 months' pay. Align interests of executives with shareholders via payments in equity. Demand progress on strategy execution. Exercise judgement after applying formulas. 	<ul style="list-style-type: none"> Permit hedging of Greencross Limited equity. Have soft performance targets Blindly follow formulas without exercising a final judgement on performance.

¹ The financial year period reported in the 2017 Financial Report ended on 2 July 2017. The financial year period in this Financial Report is 3 July 2017 to 1 July 2018 inclusive.

Directors' Report

For the period ended 1 July 2018

Remuneration Report

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

The Company focussed the FY 2018 KMP short term incentive plan ("STI Plan") on cash generation, working capital management, revenue growth and the successful completion of a number of large, complex and business critical strategic projects, including extending its private label and exclusive product range, extending its range of channels to market, strategic pricing and range reviews, accelerating the roll-out of veterinary clinics within retail stores, and the continued delivery of our integrated petcare model.

The Company welcomes shareholder feedback on our remuneration framework.

1.2 Key Management Personnel

Set out below is the list of the Directors and Executives of the Company whose remuneration details are outlined in this Remuneration Report. These Directors and Executives comprised the key management personnel ("KMP") of the Company for FY 2018, who have authority and responsibility for planning, directing and controlling the activities of the Company, as defined within the relevant accounting standard and confirmed by our auditors. Except where noted, these Directors and Executives were employed for all of FY 2018 in the positions noted below.

Table 1 – Key Management Personnel

Name	Position	Period Covered Under this Report
Directors		
Christina Boyce	Non-Executive Director	Full financial year
Andrew Geddes	Non-Executive Director	3 July 2017 to 25 October 2017 ²
Simon Hickey	Managing Director and Chief Executive Officer ("CEO")	5 March 2018 to 1 July 2018 ³
Rebekah Horne	Non-Executive Director	Full financial year
Stuart James	Non-Executive Chairman	Full financial year
Christopher Knoblanche	Non-Executive Director	Full financial year
Martin Nicholas	Managing Director and Chief Executive Officer	3 July 2017 to 5 March 2018 ⁴
Glen Richards	Non-Executive Director	Full financial year
Paul Wilson	Non-Executive Director	Full financial year
Other KMP		
Lucas Barry	Chief Financial Officer ("CFO")	18 June 2018 to 1 July 2018 ⁵

² Mr Geddes retired from office on 25 October 2017.

³ Mr Hickey was appointed to the position of CEO from 5 March 2018.

⁴ Mr Nicholas ceased to occupy the position of CEO on 5 March 2018 but remain employed until 5 August 2018.

⁵ Mr Barry was appointed to the position of Chief Financial Officer from 18 June 2018.

Directors' Report

For the period ended 1 July 2018

Remuneration Report

Name	Position	Period Covered Under this Report
Tanya Houghton	Chief Operating Officer, Retail	3 July 2017 to 20 May 2018
	Chief Operating Officer ("COO")	21 May 2018 to 1 July 2018 ⁶
Darren Maier	Chief Operating Officer, Vet Services	3 July 2017 to 8 June 2018 ⁷
Warwick Thresher	Chief Financial Officer	3 July 2017 to 1 March 2018 ⁸

1.3 Link between Remuneration and Company Performance

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

The key financial measures for FY 2018 that applied to Executive KMP incentives are all considered to be appropriate for sustainable long-term performance and shareholder value creation. They were:

- **Earnings Per Share ("EPS") growth** – EPS is a measure of profitability, a direct determinant of dividends and a measure of the Company's long-term success. In FY 2018, the actual reported EPS was 17.5 cents, being a 51.6% decrease on the previous year. EPS may, at the discretion of the board, exclude any exceptional non-repeating or non-comparable income or costs that are not relevant to the long term performance of the Group. In FY 2018, the actual reported underlying EPS was 31.5 cents, being a 14.8% decrease on the previous year (FY 2017: 37.0 cents). The FY 2018 underlying EPS result excluded \$16.5m (FY 2017: \$0.9m) of exceptional, non-repeating or non-comparable costs.
- **Underlying Return on Invested Capital ("ROIC")** - is a measure of capital efficiency. It takes into account both the cost of equity and debt. It ensures that earnings growth is achieved on a sustainable basis. Underlying ROIC may, at the discretion of the board, exclude any exceptional non-repeating or non-comparable income or costs that are not relevant to the long term performance of the Group and the impact of significant acquisitions and disposals. In FY 2018 underlying ROIC was 6.7% (FY 2017: 8.5%), this excluded \$16.5m (FY 2017: \$0.9m) of exceptional, non-repeating or non-comparable costs.
- **Total Shareholder Return ("TSR")** - is a measure of share price appreciation and dividends paid to show the total return to the shareholder expressed as an annualized percentage. The Company measures performance by comparison against the total shareholder returns of the ASX200 consumer discretionary accumulation index companies over a period of 3 years. In FY 2018 TSR was negative (30.7%).
- **Underlying EBITDA** - Underlying Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") is a measure of the company's underlying ability to generate cash to pay dividends and support growth. Underlying EBITDA excludes, at the discretion of the board, any exceptional non-repeating income or non-comparable income or costs that are not relevant to the long term performance of the Group. In FY 2018, the actual reported underlying EBITDA was \$97.6m, being a 6.4% decrease on the previous year (FY 2017: \$104.2m). The FY 2018 underlying EBITDA result excluded \$22.8m (FY 2017: \$4.5m) of exceptional, non-repeating or non-comparable income or costs.

⁶ Ms Houghton was promoted to Chief Operating Officer for the Group on 21 May 2018 and assumed responsibility for both the Retail and Vet Services Divisions.

⁷ Mr Maier ceased to occupy the position of Chief Operating Officer, Vet Services on 8 June 2018.

⁸ Mr Thresher ceased to occupy the position of the Chief Financial Officer on 1 March 2018.

Directors' Report

For the period ended 1 July 2018

Remuneration Report

- **Total comparable sales growth percentage** – (alternatively referred to as Like for Like Sales) is a measure of the percentage of growth of 52 weeks of sales revenue generated in the current financial year compared to 52 weeks of sales revenue generated in the previous financial year for stores and clinics that were open in the same period last year. In FY 2018, the actual reported total comparable sales growth percentage was 4.9% (FY 2017 4.5%). No adjustment is made for either cannibalisation or competition in the calculation of Like for Like sales.
- **Cash Generation Percentage** - is a measure of the effectiveness of the Company in generating cash to fund expansion, tax, interest and dividends and is defined as EBITDA less Working Capital (adjusted for NTI inventory) less Underlying Capex. Cash Generation Percentage is defined as Cash Generation divided by EBITDA. In FY 2018, the actual reported cash generation percentage was 74.6% (FY 2017: 81.7%).
- **Vet Vacancy Rate** - is a measure of the absolute number of vet vacancies expressed as a percentage of active vet roles in the Company in Australia. The Vet Vacancy Rate is measured monthly. For testing this performance condition, the Vet Vacancy Rate is the rate for June 2018. In June 2018, the actual reported vet vacancy rate was 8.0% (FY 2017 was 9.1%).
- **Retail Net Promoter Score ("NPS")** - is a measure of the satisfaction and loyalty of the Company's retail customers in Australia. This is calculated as a percentage of customers who rated the Company a score 9 or 10 (highest score being 10) offset by customers who rated the Company 0 to 6 in response to the question "How likely are you to recommend Petbarn to family and friends?" Customer feedback is collected weekly. For testing this performance condition, NPS is the average for Q4 of FY 2018. In Q4 of FY 2018, the actual reported NPS was 63.0% (Q4 of FY 2017 56.3%).
- **Cross Shopper Rate** - is a measure of the percentage of active customers and clients of the Company who are members of the Company's loyalty programs and who are purchasing products and services from multiple platforms against total active customers over the period measured. It is measured weekly. For testing this performance condition, Cross Shopping Rate is the moving average total for June 2018. In June 2018, the actual reported cross shopper rate was 13.5% (FY 2017 11.2%).

Directors' Report

For the period ended 1 July 2018

Remuneration Report

Performance and Remuneration

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

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

	Measure	FY2014 ⁹	FY2015	FY2016	FY2017	FY2018
Revenue	\$M	445.5	644.5	733.6	817.5	878.7
Revenue Growth (on previous year)	%	23.1%	44.7%	13.8%	11.4%	7.5%
Total LFL Sales	%	6.0%	6.2%	4.4%	4.5%	4.9%
Underlying EBITDA ¹⁰	\$M	54.3	86.8	95.3	104.2	97.6
Underlying EBITDA Growth (on previous year)	%	31.8%	59.9%	9.8%	9.3%	(6.4%)
EBITDA	\$M	38.6	63.3	87.1	99.8	74.8
EBITDA Growth (on previous year)	%	5.2%	64.0%	37.7%	14.5%	(25.0%)
Underlying NPAT ¹¹	\$M	21.6	38.2	40.2	43.0	37.2
Underlying NPAT Growth (on previous year)	%	45.0%	76.9%	5.2%	7.0%	(13.5%)
NPAT ¹²	\$M	(127.8) ¹³	19.1	34.6	42.1	20.7
NPAT Growth (on previous year)	%	(1,294.4%)	114.9%	82.5%	21.5%	(50.9%)
Underlying EPS ¹⁴	cents	24.0	34.3	35.3	37.0	31.5
Underlying EPS Growth (on previous year)	%	28.3%	42.9%	2.9%	4.9%	(14.8%)
EPS	cents	(190.6) ¹⁵	17.2	30.4	36.2	17.5
EPS Growth (on previous year)	%	NA	109.0%	76.7%	19.1%	(51.6%)
Operating Cash Flow	\$	45.0	41.3	87.9	75.0	65.6
Closing share price	\$	9.24	5.75	6.76	6.05	4.48
Dividend Per Share	cents	12.5	17.0	18.5	19.0	15.5
Total Shareholder return	%	98%	(36%)	21%	(6.8%)	(30.7%)

⁹ Pro forma as if the merger had occurred on 1 July 2010

¹⁰ Underlying results exclude asset impairments, exceptional costs and income items in order to facilitate year on year comparison. Underlying EBITDA is reported after excluding exceptional items.

¹¹ Underlying NPAT attributable to shareholders of Greencross. FY2017 excludes the benefit of one off tax loss recognition in the results.

¹² NPAT attributable to shareholders of Greencross.

¹³ NPAT was impact by the impairment of goodwill from the merger of \$130m. NPAT underlying excludes this impact.

¹⁴ Underlying results exclude asset impairments, exceptional costs and income items in order to facilitate year on year comparison. Underlying EBITDA is reported after excluding acquisition and restructuring costs, and includes ongoing share based payments and site closure costs.

¹⁵ EPS was impact by the impairment of goodwill from the merger of \$130m.

Directors' Report

For the period ended 1 July 2018

Remuneration Report

2. Remuneration Governance and Policy

2.1 Remuneration Governance

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

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

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

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

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

Committee members in FY 2018 were Christina Boyce (Chair), Stuart James and Christopher Knoblanche.

During FY 2018, the Committee met 4 times with full attendance by all member. The Chief Executive Officer and Chief Human Resources Officer have a standing invitation to attend all Committee meetings to assist in deliberations (excluding matters relating to their own employment). All Directors have a standing invitation to attend all Committee meetings.

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

2.2 External Remuneration Advice

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

Directors' Report

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Remuneration Report

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

2.3 Remuneration Policy and Key Principles

Policy purpose

The purpose of the Remuneration Policy is to establish a framework for remuneration that will:

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

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

Executive Remuneration Policy

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

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

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

Non-Executive Director Remuneration Policy

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

Directors' Report

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Remuneration Report

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

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

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

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

3. Chief Executive and Other Executive KMP Remuneration

3.1 Executive KMP Remuneration Structure

Executive KMP remuneration has a fixed component and an 'at risk' component that varies with performance. The 'at risk' component comprises a Short Term Incentive ("STI") and a Long Term Incentive ("LTI"). Maximum STI and LTI are set as a percentage of each executive's Total Fixed Remuneration.

3.2 Framework Summary

The table below summarises the framework, performance requirements and performance outcomes for FY 2018. The framework is reviewed each year. There have been no substantive changes from prior year.

Total Fixed Remuneration ("TFR")

Comprises:

- Cash salary;
- Salary sacrifice items; and
- Employer superannuation contributions in line with statutory obligations.

TFR is determined by reference to the following:

- the market 25th to 75th percentile to accommodate the range of incumbent skills and experience;
- individual's skills and experience relative to the position's requirements; and
- in the case of internal promotions, policy is consistent with market convention in setting initial TFR below median.

Short Term Incentive

Up to an agreed percentage¹⁶ of TFR ("maximum STI") awarded, 50% in cash and 50% in Performance Rights ("Deferred STI"). The Performance Conditions and their weighting, threshold and maximum targets, and actual achievements are as follows:

- 25% - Underlying EBITDA (threshold = \$110m, maximum = \$115m, achievement = 0%)
 - 25% - Comparative (Like for Like) Sales Growth (threshold hurdle = 3.5%, maximum = 4.5%, achievement = 25%)
 - 25% - Cash Generation Percentage (threshold hurdle = 60.10%, maximum = 75.2%, achievement = 24.3%)
 - 8.33% - Vet Vacancy Rate (threshold hurdle = 9%, maximum = 8%, achievement = 8.33%)
 - 8.33% - Retail Net Promoter Score (threshold hurdle = 57%, maximum = 59%, achievement = 8.33%)
-

¹⁶ 75% for Mr Hickey (CEO as of 5 March 2018), and 50% for Mr Nicholas (CEO until 5 March 2018) and other Executive KMPs.

Directors' Report

For the period ended 1 July 2018

Remuneration Report

-
- 8.33% - Cross Shopper Percentage (threshold hurdle = 11.5%, maximum = 12.5%, achievement = 8.33%)

Threshold hurdles are set relative to budget.

Payment scale of 30% at threshold and 100% at maximum.

Deferred STI vests immediately following FY19 full year results announcement, and converts to shares upon exercise by participant. The Board has discretion to settle exercise in cash equivalent rather than shares for the Deferred STI.

STI payouts achieved vary with performance¹⁷.

Long Term Incentive

Grant value of an agreed percentage¹⁸ of TFR ("maximum LTI") in Performance Rights. Vesting of the maximum LTI (100%) is dependent on achieving Key Performance Indicators during a three year performance period:

EPS

- 50% of maximum LTI dependent on achieving EPS growth hurdle (averaged over 3 year performance period) based on predefined growth rates
- Vesting scale of 30% at threshold and 100% at EPS target
- Threshold hurdle is 6.5%.

ROIC

- 30% of maximum LTI dependent on achieving ROIC target.
- Vesting scale of 30% at threshold and 100% at ROIC Target
- Threshold hurdle is higher than the weighted average cost of capital.
- Threshold hurdle is 9.2%.

Total Shareholder Return

- 20% of maximum LTI dependent on total shareholder return of the Company measured compared to the ASX 200 consumer discretionary accumulation index return over a period of 3 years.
 - Vesting scale of 50% at threshold and 100% at TSR target.
 - Threshold hurdle: TSR equal to the index return.
 - TSR target: TSR equal to or greater than the index return plus 5 percentage points per annum.
-

¹⁷ STI payouts have been 29% and 69% of maximum opportunity in FY 2016 and FY 2017 respectively. For FY 2018, the Board exercised its discretion not to make any awards to KMPs for whom it retained discretion as it considered overall company performance did not meet expectations.

¹⁸ 75% for Mr Hickey, and 50% for Mr Nicholas and other Executive KMPs.

Directors' Report

For the period ended 1 July 2018

Remuneration Report

3.3 Company's Ownership Philosophy

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

3.4 Executive KMP Total Fixed Remuneration

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

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

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

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

3.5 Executive KMP Short Term Incentive

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

The following summarises the key features of the 2018 STI Plan:

Who is eligible to participate in STI awards?

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

How are STI rewards set?

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

What are the performance conditions?

The six performance conditions and the maximum potential STI payment that can be awarded in respect of each is set out in Section 3.2.

What is the method of assessment against performance conditions?

The amount of the maximum STI awarded will depend on the extent to which the performances conditions are met. Testing is to occur following the Company's announcement of audited results for the year ended 1 July 2018.

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

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

What is the form of payment?

For FY 2018, for all Executive KMPs, the STI outcome is payable 50% in cash and 50% in deferred share rights. The vesting date for the deferred share rights is after the Company's announcement of audited results for the year ended 30 June 2019. In relation to Mr Hickey, any grant of deferred share rights would be subject to Shareholder approval at the 2018 Annual General Meeting of Shareholders.

Can any of the STI be clawed back or forfeited?

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

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

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

Can the board exercise discretion in relation to STI awards?

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

For FY 2018, the Board exercised its discretion not to make any awards to KMP executives for whom it retained discretion¹⁹. This decision was taken despite the fact that comparative sales growth, cash generation and non-financial targets (vet vacancy rate, retail NPS and cross shopper percentage) were fully or partially achieved. The reason for exercising negative discretion was that threshold EBITDA was not achieved. The Board is considering the

¹⁹ Excluding Mr Nicholas, the former CEO. The separation agreement with the Mr Nicholas was agreed prior to the Board's decision not to award STI payments. Therefore, he will receive a STI payment based on comparative sales growth, cash generation and non-financial targets being fully or partially met.

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introduction of a financial gateway to the STI structure in FY 2019 to reflect the Board's belief that STI awards should be contingent on the delivery of acceptable financial outcomes.

STI payments vary with performance. STI payouts for KMPs and other senior executives have been 49% in FY 2015 for all KMPs except the CEO, 0% for the CEO in FY2015, 29% in FY 2016 and 69% in FY 2017 as a percentage of maximum opportunity.

3.6 Executive KMP Long Term Incentive

The following summarises the key features of the 2018 LTI Plan.

Who is eligible to participate in the LTI plan?

Select senior Executives (including all KMP Executives) were eligible. Mr Nicholas as the Chief Executive Officer at the start of the financial year had Shareholder approval to participate in the plan.

The participation in the plan of Mr Hickey (recently appointed Chief Executive Officer) is pro-rated having regard to his commencement date (being 5 March 2018) and is subject to Shareholder approval at the 2018 Annual General Meeting of Shareholders.

What Securities are Offered?

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

How do Rights Vest?

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

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

What is the Performance Period?

A three (3) year Performance Period will apply. The Performance Period for the FY 2018 LTI is 1 July 2017 to 30 June 2020.

When are performance conditions tested?

The performance conditions are tested following the announcement of the FY 2020 full year result, in or around August 2020 for the EPS and ROIC components. The performance period for the TSR component is be the period from the end of the first business day following the announcement of the full year results for the financial year ended 30 June 2017 through to the end of the first business day following the announcement of the full year results for the financial year ended 30 June 2020, inclusive.

How do you determine the number of performance rights?

The number of performance rights each participant receives is determined by dividing an agreed percentage of the Executive's 2018 financial year TFR by the Allocation Price. The Allocation Price is the volume weighted average

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price (VWAP) of the Company's shares over ten days after the FY17 results were announced on 22 August 2017, which was \$5.75.

What are the performance conditions? The three Performance Conditions and the maximum potential LTI payment that can be awarded in respect of each is set out in Table 3.

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

- **EPS** is a measure of profitability, a direct determinant of dividends and a measure of the Company's long-term success. It reflects the company's focus on profitable growth. Underlying EPS may, at the discretion of the board, exclude any exceptional non-repeating or non-comparable income or costs that are not relevant to the long term performance of the Group including acquisition costs, restructuring and the impact of significant acquisitions and disposals. Any judgement to exercise discretion will be disclosed.
- **ROIC** is a measure of capital efficiency. It reflects the company's focus on ensuring an attractive return from capital invested in new stores, clinics, and online growth as well as from capital invested in inventory and business improvement such as the recent supply chain investments. It takes into account both the cost of equity and debt. It ensures that earnings growth is achieved on a sustainable basis. Underlying ROIC may, at the discretion of the board, exclude any exceptional non-repeating or non-comparable income or costs that are not relevant to the long term performance of the Group including acquisition costs, share based payments, restructuring and site closure costs and the impact of significant acquisitions and disposals. Any judgement to exercise discretion will be disclosed.
- **Relative TSR** is a measure of share price appreciation and dividends paid to show the total return to the shareholder expressed as a percentage. Relative TSR growth measures success in providing return to shareholders relative to alternative investments. Relative TSR helps align remuneration of management with returns to shareholders. However, the company recognises that management has less ability to directly impact this metric than other metrics used in the LTI. For this reason, relative TSR receives a weighting of only 20% of total opportunity. The Company measures performance by comparison against the total shareholder returns of the ASX200 consumer discretionary accumulation index of companies over a period of 3 years. This index is considered appropriate because Company success depends on, in effect, taking a greater "share of wallet" from others in this sector.

Details of the EPS performance condition

Fifty percent (50%) of the rights will only vest under the FY 2018 Grant to the extent a reported EPS growth condition is satisfied over the Performance Period. Broadly, EPS measures the earnings generated by the Company attributable to each share on issue. The EPS growth hurdle is based on the 3-year average annual growth over the Performance Period. Vesting of FY 2018 grants will be based on average EPS growth for FY 2018, FY 2019 and FY 2020.

The target and threshold hurdle are set with reference to the group's average annual EPS growth achieved over the Performance Period. The threshold hurdle is 6.5%. The vesting scale is 30% vesting at threshold and 100% at the maximum performance hurdle.

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

Details of the ROIC performance condition

Thirty percent (30%) of the FY 2018 Grant will be subject to an underlying ROIC hurdle, based on the Company's underlying ROIC performance over the Performance Period.

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

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

Details of the Relative TSR performance condition

Twenty percent of the FY 2018 Grant will be subject to a Relative TSR hurdle, based on the Company's performance over the Performance Period.

The Company measures performance by comparison against the total shareholder returns of the ASX200 consumer discretionary accumulation index of companies over a period of 3 years. The threshold hurdle TSR is equal to the index return. The vesting scale is 50% vesting at threshold and 100% at the maximum performance hurdle.

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

Is there a testing of performance conditions?

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

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

Testing will occur following the announcement of the Company's full year results and before 30 August 2020.

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

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

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

Are there restrictions on Hedging of LTIs?

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

Is there a real risk of Forfeiture?

A Performance right granted will lapse if:

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

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- The employee purports to transfer, mortgage, charge or otherwise dispose of any right or interest in a performance right other than in accordance with the terms of the LTI Plan.

Change in Control

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

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

An "Event" means where:

- a Takeover Bid is made for the Company and the Board resolves to recommend the bid to Shareholders of the Company;
- a court convenes a meeting of Shareholders to be held to vote on a proposed scheme of arrangement pursuant to which control of the majority of the Shares in the Company may change;
- a notice is sent to Shareholders of the Company proposing a resolution for the winding up of the Company; or
- any transaction or event is proposed that, in the opinion of the Board, may result in a person becoming entitled to exercise control over the Company,

and each Event is a separate event that allows the Board to exercise its discretion.

How do Rights vest?

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

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

Can any of the LTI be clawed back or forfeited?

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

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

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

3.7 Executive KMP Shareholding Guideline

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

3.8 Executive Service Contracts

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

A summary of the key contractual provisions for each of the Executive KMPs is set out in Table 4 below. All Executive KMPs were employed by Greencross Limited.

Table 4 – Key Contractual Provisions for FY 2018 KMP Executives

	Contract Duration	Termination Notice Period (Company)	Termination Notice Period (Employee)
Simon Hickey Managing Director and Chief Executive Officer (from 5 March 2018)	No fixed term	6 Months	6 Months
Martin Nicholas Managing Director and Chief Executive (until 5 March 2018)	No fixed term	12 Months	12 Months
Lucas Barry Chief Financial Officer (from 18 June 2018)	No fixed term	6 Months	6 Months
Warwick Thresher Chief Financial Officer (until 1 March 2018)	No fixed term	6 Months	6 Months

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Tanya Houghton Chief Operating Officer	No fixed term	6 Months	6 Months
Darren Maier Chief Operating Officer - Vet Services (until 8 June 2018)	No fixed term	6 Months	6 Months

3.9 Executive Remuneration Received and Statutory Tables

Managing Director and Chief Executive Officer

Mr Nicholas

The total annual fixed remuneration of the former Chief Executive Officer (Mr Nicholas) for FY 2018 was \$780,000. In accordance with his separation arrangements, Mr Nicholas stepped down as Chief Executive Officer on 5 March 2018 but remained employed by the company to 5 August 2018 to support the transition process.

As the former Chief Executive Officer, Mr Nicholas, was eligible to participate in the Executive Short Term Incentive Plan and Long Term Incentive Plan in FY 2018; up to an aggregate of 50% of his total annual fixed remuneration for each Plan. Mr Nicholas' benefits under the FY 2017 and FY 2018 STI Plans are preserved as part of his separation arrangements, and the Company is obligated to make an award if the relevant performance and service conditions are met, FY 2018 STI payments in accord with comparative sales growth, cash generation and non-financial targets being fully or partially met.

In relation to all current LTI Plans in which Mr Nicholas is a participant, the Board has exercised its discretion to cancel all Rights granted under those Plans.

Mr Hickey

The total annual total fixed remuneration (TFR) of the current Chief Executive Officer (Mr Hickey) for FY 2018 is \$950,000. Mr Hickey's experience developing the Qantas loyalty and data businesses as well as driving the turnaround in performance at Qantas International was critical to his appointment. His direct involvement in the redefining the consumer experience to increase loyalty and engagement were critical skills sets sought by the company. The increase in CEO TFR as a result of this appointment reflects the skills and experience of the new appointee. The previous incumbent had been an internal appointment from the CFO role. Prior to agreeing his remuneration, this TFR was benchmarked at the time of Mr Hickey's appointment relative to companies of comparable size, retail peers and against Mr Hickey's compensation in previous roles and found to be appropriate. It sits close to median for Industrial and Services companies of comparable size. CEO remuneration was also adjusted to increase the proportion of variable pay, reflecting the focus on driving growth and redefinition of the customer experience.

Mr Hickey was eligible to participate in the FY 2018 Executive Short Term Incentive Plan up to an aggregate of 75% of his total annual fixed remuneration (pro-rated from 5 March 2018). Prior to agreeing his remuneration, the STI opportunity was benchmarked at the time of Mr Hickey's appointment relative to companies of comparable size, retail peers and against Mr Hickey's compensation in previous roles and found to be appropriate. The grant of the deferred share rights component are subject to shareholder approval. Note that Mr Hickey's pro-rata payments under this STI Plan have been forfeited as a result of the Board exercising its discretion not to make any FY2018 awards under this Plan.

Subject to Shareholder approval, Mr Hickey will also be eligible to participate in the FY 2018 Long Term Incentive Plan (pro-rated from 5 March 2018) up to an aggregate of 75% of his total annual fixed remuneration. Prior to agreeing his remuneration, the LTI opportunity was benchmarked at the time of Mr Hickey's appointment relative

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to companies of comparable size, retail peers and against Mr Hickey's compensation in previous roles and found to be appropriate.

Chief Financial Officer

Mr Thresher

The total annual fixed remuneration for the former Chief Financial Officer (Mr Thresher) for FY 2018 was \$350,000, prorated for time in the role.

As Chief Financial Officer, Mr Thresher was eligible to participate in the Executive Short Term Incentive Plan and Long Term Incentive Plan in FY 2018; up to an aggregate of 50% of his total annual fixed remuneration for each plan. Mr Thresher forfeited all benefits under these plans upon termination of his employment due to resignation. Mr Thresher's benefits under the FY 2017 STI Plan were preserved as part of his separation arrangements.

Mr Thresher ceased to be employed by the Company in FY 2018, and, at the end of his employment, received his statutory and contractual entitlements.

Mr Barry

The total annual fixed remuneration for the current Chief Financial Officer (Mr Barry) for FY 2018 was \$470,049, prorated for time in the role. Prior to agreeing his remuneration, it was confirmed that this sits close to median for Industrial and Services Companies of comparable size.

As Chief Financial Officer, Mr Barry will be eligible to participate in future Executive Short Term Incentive Plans and Long Term Incentive Plans up to an aggregate of 50% of his total annual fixed remuneration for each plan. Prior to agreeing his remuneration, it was confirmed that this is consistent with the opportunity offered to other KMPs and members of the Executive Team more broadly, excluding the CEO. Mr Barry was not eligible to participate in the FY 2018 Plans.

Chief Operating Officer

The total annual fixed remuneration for the Chief Operating Officer (formerly Chief Operating Officer, Retail) for FY 2018 was \$440,049.

Ms Houghton was eligible to participate in the Executive Short Term Incentive Plan and Long Term Incentive Plan in FY 2018; up to an aggregate of 50% of her total annual fixed remuneration for each plan. Ms Houghton's benefits under this STI Plan have been forfeited as a result of the Board exercising its discretion not to make any awards under this Plan.

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

Chief Operating Officer - Vet Services

The total annual fixed remuneration for the Chief Operating Officer – Vet Services for FY 2018 was \$360,309.

Mr Maier was eligible to participate in the Executive Short Term Incentive Plan and Long Term Incentive Plan in FY 2018; up to an aggregate of 50% of his total annual fixed remuneration for each plan. Mr Maier's benefits under this STI Plan have been forfeited as a result of the Board exercising its discretion not to make any awards under this Plan. Mr Maier's benefits under this LTI Plan are preserved as part of his separation arrangements.

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

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Table 5 details the nature and amount of remuneration of the Chief Executive and other KMP Executives for the period ended 1 July 2018:
Table 5 – Remuneration of KMP Executives

	Fixed Term Remuneration			Variable Remuneration			Total Remuneration in Accordance with Accounting Standards \$	Performance Related %	STI Forfeiture %
	Short Term Benefits		Post Employment Benefits	Short Term Benefits		Long Term Benefits			
	Salary, Fees and Allowances \$	Non-Monetary \$	Super \$	STI Award (Cash) \$	Fair Value of Deferred Shares/Rights Under STI Awards ²⁰ \$	Fair Value of Equity Grants Under LTI Plan \$			
Simon Hickey ²¹	2018	286,139	-	6,169	-	-	292,308	-	100%
	2017	-	-	-	-	-	-	-	-
Martin Nicholas ²²	2018	1,229,060	-	20,049	144,833	227,927	1,621,869	23%	26%
	2017	760,390	-	19,616	135,018	51,795	966,819	19%	31%
Lucas Barry ²³	2018	17,308	-	790	-	-	18,097	-	-
	2017	-	-	-	-	-	-	-	-
Warwick Thresher ²⁴	2018	380,125	-	13,880	-	-	394,005	-	100%
	2017	330,375	-	19,616	60,585	23,216	433,792	19%	31%
Tanya Houghton	2018	420,000	-	20,049	-	35,597	475,646	7%	100%
	2017	417,612	-	24,809	76,164	29,125	547,710	19%	31%
Darren Maier ²⁵	2018	540,049	-	20,049	-	-	560,098	-	100%
	2017	326,693	-	19,616	62,370	23,850	432,529	19%	31%
Scott Charters	2018	-	-	-	-	-	-	-	-
	2017 ²⁶	105,315	-	1,229	-	-	106,544	-	-
Total	2018	2,872,681	-	80,986	144,833	263,524	3,362,024	12%	76%
	2017	1,940,385	-	84,886	334,137	127,986	2,487,394	19%	31%

²⁰ In FY 2017 all short-term benefits classified under deferred shares/rights under STI were awarded in relation to the FY 2017 Deferred STI Plan. In FY 2018 all short-term benefits classified under deferred shares/rights under STI were awarded in relation to the FY 2018 Deferred STI Plan. The FY2018 amount also includes deferred shares/rights that vested during the year relating to previous deferred shares/rights issued.

²¹ Mr Hickey - pro rata for the period in role from 5 March 2018 to 1 July 2018.

²² Mr Nicholas - inclusive of payments up to 1 July 2018 and inclusive of statutory entitlements and separation payment of \$469,105.

²³ Mr Barry - pro rata for the period in role from 18 June 2018 to 1 July 2018.

²⁴ Mr Thresher - pro rata for the period from 3 July 2017 to his leaving date of 1 March 2018, inclusive of statutory entitlements and separation payment of \$81,500.

²⁵ Mr Maier - pro rata for the period from 3 July 2017 to his leaving date of 8 June 2018, inclusive of statutory entitlements and separation payment of \$213,789.

²⁶ Mr Charters - formerly the COO with pro rata for the period from 1 July 2016 to his leaving date of 5 July 2016, inclusive of statutory entitlements.

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STI Awards for 2018

STI payments to the Chief Executive and other KMP Executives for the 2018 financial year are set out in Table 6 below. The amounts reflect STI awards awarded but not yet paid or granted in respect of the 2018 financial year. With the exception of Mr Nicholas, the Board exercised its discretion to not make any awards under the STI Plan for FY 2018. An award was made to Mr Nicholas under the FY 2018 STI Plan as part of his negotiated separation from the Company. His separation arrangements were negotiated and agreed prior to the Board decision to not make awards under the STI Plan.

Table 6 – STI Awards FY 2018 for KMP Executives

		STI Cash\$	STI Deferred Share Rights \$	% of maximum STI awarded	% of maximum STI forfeited
Simon Hickey ²⁷	2018	-	-	-	100%
	2017	-	-	-	-
Martin Nicholas	2018	144,833	144,833	74%	26%
	2017	135,018	135,018	69%	31%
Lucas Barry ²⁸	2018	-	-	-	-
	2017	-	-	-	-
Warwick Thresher ²⁹	2018	-	-	-	100%
	2017	60,585	60,585	69%	31%
Tanya Houghton	2018	-	-	-	100%
	2017	76,164	76,164	69%	31%
Darren Maier	2018	-	-	-	100%
	2017	62,370	62,370	69%	31%
Total	2018	144,833	144,833	24%	76%
	2017	334,137	334,137	69%	31%

²⁷ Mr Hickey - pro rata for the period in role from 5 March 2018 to 2 July 2018.

²⁸ Mr Barry - commenced employment on 18 June 2018 and was not eligible for participation in the FY 2018 STI Plan.

²⁹ Mr Thresher - pro rata to reflect the period from 2 July 2017 to his leaving date of 1 March 2018 inclusive.

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Movement in Long-Term Incentives

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

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

	Type	FY 2016			
		Performance period 1 Jul 2015 - 30 June 2018			
		Granted	Vested	Lapsed/Forfeited	Unvested
Martin Nicholas ³⁰	Rights	60,653	-	60,653	-
Warwick Thresher ³¹	Rights	12,220	-	12,220	-
Tanya Houghton	Rights	32,955	-	-	32,955

	Type	FY 2017			
		Performance period 1 Jul 2016 - 30 June 2019			
		Granted	Vested	Lapsed/Forfeited	Unvested
Martin Nicholas ³²	Rights	58,471	-	58,471	-
Warwick Thresher ³³	Rights	26,237	-	26,237	-
Tanya Houghton	Rights	32,955	-	-	32,955
Darren Maier ³⁴	Rights	28,059	-	-	28,059

³⁰ Mr Nicholas' Rights were forfeited as a result of the exercise of the Board's discretion, permitted under the LTI offer conditions, and the separation agreement.

³¹ Mr Thresher ceased to be employed by the Company from 1 March 2018 and his Rights were forfeited.

³² Mr Nicholas' Rights were forfeited as a result of the exercise of the Board's discretion to do so.

³³ Mr Thresher ceased to be employed by the Company from 1 March 2018 and his Rights were forfeited.

³⁴ Mr Maier' benefits under this LTI Plan are preserved as part of his separation arrangements.

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	Type	FY 2018			
		Performance period 1 Jul 2017 - 30 June 2020			
		Granted	Vested	Lapsed/Forfeited	Unvested
Simon Hickey ³⁵	Rights	51,630	-	-	51,630
Martin Nicholas ³⁶	Rights	67,826	-	67,826	-
Warwick Thresher ³⁷	Rights	30,435	-	30,435	-
Tanya Houghton	Rights	38,227	-	-	38,227
Darren Maier ³⁸	Rights	31,331	-	-	31,331

FY 2015 Executive Long-Term Incentive Plan Retrospective Disclosure

The Company has committed to retrospectively disclose the threshold and stretch hurdles for the performance conditions of long term incentive plans once those plans have concluded. In relation to the FY 2015 Executive Long Term Incentive Plan (details of which were disclosed in the FY 2015 Remuneration Report, the performance condition hurdles and actuals were as follows: Underlying EPS Growth (threshold: 20%; stretch 27%; actual 18.3%), and ROIC (threshold: 8%; stretch 9%; actual 8.5%).

The following table sets out the final details of the FY 2015 Long Term Incentive Plans in which KMPs reported in last years' Remuneration Report participated:

	Type	FY 2015			
		Performance period 1 Jul 2014 - 30 June 2017			
		Granted	Vested	Lapsed/Forfeited	Unvested
Martin Nicholas	Rights	23,874	4,286	19,588	-
Warwick Thresher ³⁹	Rights	7,838	7,838	-	-

4. Non-Executive Directors' Remuneration

4.1 Non-Executive Directors' Remuneration Structure and Fee Pool

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

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

³⁵ Mr Hickey commenced employment on 5 March 2018. His grant is prorated and subject to shareholder approval at the 2018 AGM.

³⁶ Mr Nicholas' Rights were forfeited as a result of the exercise of the Board's discretion to do so.

³⁷ Mr Thresher ceased to be employed by the Company from 1 March 2018 and his Rights were forfeited.

³⁸ Mr Maier' benefits under this LTI Plan are preserved as part of his separation arrangements.

³⁹ Issued under FY 2015 Senior Managers LTI Plan when Mr Thresher was Group Financial Controller. The details of this Plan were not required to be disclosed in the relevant Remuneration Report as it does not relate to Executive KMPs.

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Director fees are benchmarked and reviewed against market data provided by independent external advisers. Main board fees are broadly in line with fees for Industrial and Services Companies with similar market capitalisation as are fees for Committee membership. Fees for Committee Chairman are closer to the 75th percentile for similar companies.

In FY 2018, the Board approved a 5% increase in Director fees with effect from 15 August 2017. The last increase was 5% in October 2015. On an annualised basis, increases have been under the general rate of board fee market increases in recognition of the relative market positioning of fees.

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

Position	Board \$
Chairman of the Board	220,500
Non-Executive Director	110,250

Position	Audit and Risk Management Committee \$	Remuneration and Nomination Committee \$
Committee Chairman	28,613	28,613
Committee Member	11,025	11,025

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

4.2 Non-Executive Directors' Remuneration Statutory Tables

Details of the nature and amount of remuneration of Greencross's Non-Executive Directors for FY 2018 are set out in Table 9.

Table 9 – Remuneration of Non-Executive Directors

		Non-monetary benefits	Cash Fees (including superannuation) \$
Christina Boyce	2018	-	147,884
	2017	-	141,749
Andrew Geddes ⁴⁰	2018	-	40,736
	2017	-	104,364
Rebekah Horne	2018	-	109,544
	2017	-	105,000
Stuart James	2018	-	230,176
	2017	-	220,500

⁴⁰ Mr Geddes retired as a director at last year's AGM and his directors fees and other statutory and contractual payments were paid up to and including his date of retirement at the AGM last year.

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		Non-monetary benefits	Cash Fees (including superannuation) \$
Christopher Knoblanche	2018	-	147,884
	2017	-	141,749
Glen Richards	2018	-	108,979
	2017	-	105,000
Paul Wilson	2018	-	108,938
	2017	-	105,000
Total	2018	-	894,141
	2017	-	923,362

4.3 Non-Executive Director Shareholding Guideline

All Non-Executive Directors are encouraged to build and maintain a minimum shareholding equal to one times fixed remuneration. Section 5.2 outlines current director shareholdings.

5. Additional disclosures relating to key management personnel

5.1 Related Party Transactions

The following transactions occurred with related parties:

	Consolidated	
	FY 2018	FY 2017
	\$	\$
Payment for other expenses:		
Rent and outgoings paid to Greencross Properties Pty Ltd, an entity controlled by director Dr Glen Richards	90,626	101,062
Rent and outgoings paid to KCORM Property Trust, an entity controlled by director Dr Glen Richards.	-	131,535
Fees paid to Paul Wilson for his role as Chairman of Animates NZ Holdings Limited	28,272	26,250

Loans to/from related parties

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

Greencross has strong disciplines to avoid any real or perceived conflict of interest with respect to related party transactions. Dr Richards has no involvement in the evaluation, negotiation or management of leases of the properties in which he has an interest. All rental agreements on all properties are managed by the Company's central property department on an arms-length basis and are maintained in a real property information system to ensure visibility. All veterinary services related properties were transitioned onto this information system during FY 2015. All contract renewals, market reviews and new leases are negotiated and reviewed by the General Manager, Property, who reports to the Chief Operating Officer. All lease renewal and new leases also come to the

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CFO for formal approval. Dr Richards has no executive role in the Group so is not involved in this process. The related party properties are treated identically to all other properties. Full disclosure is made in the Financial Report. The Company will continue to disclose the position on these properties. As they come up for renewal, the attractiveness of these properties will be reviewed, their fit within the real estate portfolio assessed and, if retained, market rate rents will be negotiated on an arm's length basis.

In FY18, the rental agreement between Greencross and KCORM Property Trust expired and was not renewed.

5.2 KMP Shareholdings

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

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

Table 10 – KMP Shareholdings

KMP	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Directors					
Stuart James	2,266,004	-	233,700	-	2,499,704
Simon Hickey	-	-	58,112	-	58,112
Martin Nicholas	35,549	-	4,592	-	40,141
Christina Boyce	19,000	-	10,000	-	29,000
Andrew Geddes	267,632	-	-	-	267,632
Rebekah Horne	-	-	-	-	-
Christopher Knoblanche	6,000	-	12,000	-	18,000
Dr Glen Richards	2,356,770	-	-	-	2,356,770
Paul Wilson	3,194,837	-	50,000	-	3,244,837
Other KMPs					
Warwick Thresher	-	-	-	-	-
Lucas Barry	-	-	23,000	-	23,000
Tanya Houghton	91,646	-	-	-	91,646
Darren Maier	-	-	-	-	-

This concludes the remuneration report, which has been audited

Directors' Report

For the period ended 1 July 2018

Shares under performance rights

There were no unissued ordinary shares of Greencross Limited under performance rights outstanding at the date of this report.

Shares issued on the exercise of performance rights

There were no ordinary shares of Greencross Limited issued on the exercise of performance rights during the year ended 1 July 2018 or up to the date of this report.

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 32 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 32 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are partners or former partners of PricewaterhouseCoopers

There are no officers of the company who are former partners of PricewaterhouseCoopers.

Rounding of amounts

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 98.

Directors' Report

For the period ended 1 July 2018

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

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

On behalf of the directors

A handwritten signature in blue ink, appearing to read 'Simon Hickey', is written over a light blue horizontal line.

Simon Hickey
Managing Director

20 August 2018
Sydney

Corporate Governance Statement

For the period ended 1 July 2018

This statement reports on the Company's key governance framework, principles and practices as at 2 July 2018 with respect to the Company and its controlled entities (together, the **Group**), and has been approved by the Board. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and best practice in corporate governance.

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

1.0 Compliance with ASX Corporate Governance Principles and Recommendations

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

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

The Company's corporate governance practices were in place throughout the period ended 2 July 2018, and comply in all material respects with the ASX Recommendations, unless otherwise stated.

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

2.0 The Board of Directors and Management

2.1 The Board Charter

ASX Recommendation 1.1

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

In particular, the Charter details the:

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

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

2.2 The role of the Board

ASX Recommendation 1.1

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

The primary role of the Board is to:

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

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

Corporate Governance Statement

For the period ended 1 July 2018

2.3 The responsibilities of the Board

ASX Recommendation 1.1

Broadly, the Board is responsible for:

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

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

Strategy

The Board is responsible for:

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

Risk Management and Reporting

The Board is responsible for:

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

Relationship with Management

The Board is responsible for:

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

Monitoring of Performance

The Board is responsible for:

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

Corporate Governance Statement

For the period ended 1 July 2018

- where appropriate, engaging external facilitators to conduct its performance evaluations.

Corporate Governance

The Board is responsible for:

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

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

2.4 Board Delegation to Managing Director and Management

ASX Recommendation 1.1

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

Mr Simon Hickey was appointed Managing Director on 5 March 2018, succeeding Mr Martin Nicholas who ceased to occupy the position of Managing Director from the same date. The Managing Director is responsible for running the day to day affairs of the Group and to implement the policies and strategies set by the Board. In carrying out these responsibilities, the Managing Director must report to the Board in a timely and clear manner.

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

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

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

2.5 Responsibilities of Chairman

ASX Recommendations 2.5

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

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

The Chairman is responsible for:

- chairing meetings of the Board and providing effective leadership to the Board;
- maintaining ongoing dialogue with the Managing Director and providing appropriate mentoring and guidance;

Corporate Governance Statement

For the period ended 1 July 2018

and

- being a respected ambassador for the Group, including chairing meetings of shareholders and dealing with key stakeholders including investors, customers and regulatory bodies.

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

2.6 Responsibilities of Company Secretary

ASX Recommendation 1.4

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

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

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

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

2.7 Composition of the Board

ASX Recommendations 2.2, 2.4

The Board Charter requires that:

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

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

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

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

A review of Board composition and skills is undertaken annually by the Board which enables the Board to assess the skills and the experience of each Director and the combined capabilities of the Board. The results of this review are considered in the context of the Group's operations and strategy. Further information on the skills assessment conducted in FY 2018 is set out in paragraph 2.9 below. The results of this review are then incorporated into the selection process for new Directors.

2.8 Independence of Directors

ASX Recommendations 2.3, 2.4

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

Corporate Governance Statement

For the period ended 1 July 2018

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

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

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

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

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

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

2.9 Board Skills Matrix

ASX Recommendation 2.2

The Board has identified particular qualifications, attributes, skills and experience ("Skills") that it believes important to be represented on the Board as a whole, in light of the Company's current and expected future business needs. Each year, on behalf of the Board, the Remuneration and Nomination Committee reviews these Skills to ensure that they are still relevant and appropriate in enabling the Board to provide constructive challenge to the Company's strategy, evaluate company performance, execute the required governance functions and assess capital markets risks and opportunities. Each year, the Committee also reviews the capabilities of each current Director against these Skills. The table immediately below (the "Skills Matrix") sets out the Skills confirmed in FY 2018 and an assessment of each current Director against those Skills. A cross indicates that the particular Director has skill, or experience, at an advanced level arising from experience across multiple organisations and over an extended period. As an executive or an advisor, the individual has had deep engagement in this area and accountability for outcomes.

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

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

Corporate Governance Statement

For the period ended 1 July 2018

Skills Matrix

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

2.10 Appointment and re-election of Board members

ASX Recommendations 1.3

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

The process for appointing a Director is:

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

Corporate Governance Statement

For the period ended 1 July 2018

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

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

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

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

2.11 Board meetings

Directors are expected to prepare adequately for, attend and participate at Board meetings and meetings of Committees.

The number of Board meetings and each Director's attendance at those meetings are set out in the 'Meetings of Directors' section in the Directors' Report of this Financial Report.

2.12 Performance of Board, its Committees and individual Directors

ASX Recommendation 1.6

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

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

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

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

In FY18 the Board conducted a comprehensive assessment of the performance and effectiveness of the Board as a whole, which included an assessment of the functioning of the Board Committees as well as the contribution and skill set of individual directors involving peer assessment. Specific feedback sessions were held with each director. The

Corporate Governance Statement

For the period ended 1 July 2018

performance review of the Chairman was conducted by the Chair of the Remuneration and nomination committee.

2.13 Conflicts of interest

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

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

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

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

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

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

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

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

Corporate Governance Statement

For the period ended 1 July 2018

2.14 Access to management

ASX Recommendation 1.1

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

2.15 Access to independent professional advice

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

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

2.16 Remuneration arrangements

ASX Recommendation 8.2

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

2.17 Senior executives

ASX Recommendations 1.7, 8.2

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

3.0 Board Committees

3.1 Board Committees and Membership

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

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

Corporate Governance Statement

For the period ended 1 July 2018

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

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

* Rebekah Horne succeeded Andrew Geddes as a member of the Audit and Risk Management Committee, following Mr Geddes' retirement from the Board and the Audit and Risk Management Committee on 25 October 2017..

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

3.2 Committee Charters and Governance

ASX Recommendations 2.1, 4.1, 7.1 & 8.1

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

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

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

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

3.3 Committee access to Management

Each Board Committee may, within the scope of its responsibilities, have access to the management team of the Group, information and external professional advice it needs to the carrying out of its responsibilities under its Charter.

3.4 Audit and Risk Management Committee

ASX Recommendations 4.1 and 7.1

3.4.1 Role of the Audit and Risk Management Committee

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

Corporate Governance Statement

For the period ended 1 July 2018

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

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

3.4.2 Responsibility of the Audit and Risk Management Committee

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

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

3.4.3 Composition of the Audit and Risk Management Committee

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

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

* Rebekah Horne succeeded Andrew Geddes as a member of the Audit and Risk Management Committee, following Mr Geddes' retirement from the Board and the Audit and Risk Management Committee on 25 October 2017.

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

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

3.4.4 Access to the Audit and Risk Management Committee

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

- Managing Director;

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

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

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

3.4.5 External auditor

ASX Recommendation 4.3

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

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

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

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

3.4.6 Internal audit function

ASX Recommendation 7.3

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

3.5 Remuneration and Nomination Committee

ASX Recommendations 2.1 and 8.1

3.5.1 Role of the Remuneration and Nomination Committee

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

3.5.2 Composition of the Remuneration and Nomination Committee

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

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The Members of the Remuneration Committee are:

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

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

3.5.3 Responsibilities and Charter

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

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

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

3.5.4 Equity-Based Remuneration Scheme

ASX Recommendation 8.3

Under the Group's Remuneration Policy, remuneration for executive Directors and senior executives may incorporate equity-based remuneration which includes participation in employee share and option schemes. Participants in these schemes are not permitted to enter into any transactions which are designed to limit the economic risk of participating in those schemes.

3.5.5 Induction of new Directors

ASX Recommendation 2.6

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

4.0 Risk Management and Internal Control

ASX Recommendations 7.1 and 7.4

4.1 Approach to Risk Management

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

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

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

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

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

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

4.2 Risk Management Roles and Responsibilities

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

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

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

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

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

ASX Recommendations 4.2

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

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

The statement confirms:

- the integrity of the Company's financial statements;
- that the notes to the financial statements are based on a sound system of risk management and internal compliance and control (which implement the policies approved by the Board);

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- that the Company's risk management and internal compliance and control systems, to the extent they relate to financial reporting, are operating efficiently and effectively in all material respects.

This statement also includes:

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

4.4 Economic, Environmental and Social Sustainability

ASX Recommendations 7.4

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

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

- **Animal Welfare:** As the leading pet care company in Australasia, the Company is focused on ensuring all animals in its care, regardless of which part of the network they are in, receive the highest and safest standard of care and attention. This is delivered through multiple channels and programs:
 - Delivery of a clinical governance framework to ensure accountability for continuous improvement via Chief Veterinary Officer and Regional Clinical Director team.
 - A national clinical accreditation program to ensure consistent delivery of high standards of care.
 - A focus on legislative requirements to ensure compliance eg S8 management.
 - Ongoing commitment and investment in continuing professional development and training for clinic and services teams.
 - Superior delivery of product and pet care training in stores.
 - Ongoing assessment of products to ensure our range aligns with current best practice and safety standards.
 - Collaborative partnerships with animal welfare organisations such as the RSPCA, Vets Beyond Borders and AMRRIC.dav
- **Work Health & Safety:** The Company operates a multitude of sites within Australia and in New Zealand. Employees, contractors and customers all attend these sites on a frequent basis, and if not managed appropriately can be exposed to potential health and safety risks. Both the retail and veterinary businesses share common risks however the predominant risk in each business differs. In retail, the predominant risk remains manual handling, which is common within the retail industry. This is being addressed through the development and implementation of manual handling education programs and through manual handling equipment. Cat scratches are the most common risk within the veterinary business. Whilst cat scratches are the leading cause of injury in the veterinary business, the severity of these are minimal, often requiring no to minimal treatment. Mental health within the veterinary business is also an identified risk. Mental health risks in Veterinary clinics is being addressed through a partnership with the Australian Veterinary Association that has assisted in facilitating the establishment of Mental Health First Aid Officers being positioned in each clinic nationally. The Safety and Risk Manager reports directly to the Chief Human Resources Officer and oversees all work health and safety practices across the Company. The Company's strong emphasis on safety has assisted in continued year-on-year improvements in key performance indicators such as lost time injury frequency rates and new claims frequency rate. The current LTIFR of the business compares favorably to industry benchmarks. Performance against agreed targets is reviewed at every Audit & Risk Management Committee Meeting and Board meeting.
For reporting and management purposes, the following definitions are used within the Company:
 - Lost Time Injury (LTI) – When a team member is injured and loses a minimum of one full rostered shift as a result of the injury. This is supported by an unfit certificate of capacity issued by the treating practitioner.

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- Lost Time Injury Frequency Rate (LTIFR) – The number of lost time injuries per 1 million hours worked
- New Claim – When a team member is injured and requires medical intervention above that of first aid.
- New Claim Frequency Rate (NCFR) – The number of new claims per million hours worked.

For the FY 2018 reporting period, the LTIFR and NCFR targets and achievements were as follows:

- In Retail, an LTIFR of 5.68 against a target of 11.79 and a NCFR of 16.15 against a target of 33.67.
- LTIFR in Retail has decreased by 40.27% and NCFR by 29.69% compared to the previous year.
- In Vet, an LTIFR of 7.9 against a target of 11.79 and a NCFR of 31.6 against a target of 33.67.
- LTIFR in Vet has decreased by 48.2% and NCFR by 5.28% compared to the previous year.

- **Product Manufacturing - Ethical Labour Management, Environmentally Friendly Practices & Quality Control:** With respect to any product manufactured, particularly in third world countries, there is a risk that the manufacturer and/or factory employs child or slave labour, or employees work in conditions of modern slavery. There is also a risk with any manufacturer that their manufacturing practices are not environmentally friendly nor their quality control of a high enough standard. The Company sources products for resale direct from manufacturers and through wholesalers. The Company mitigates the risks referred to through due diligence and factory audits. Where a manufacturer or wholesaler directly or indirectly manages the relationship with the factory in which the product is produced, the Company places the onus on the manufacturer and/or wholesaler to ensure that the products are produced in an ethical manner (particularly in relation to labour management) and that appropriate consideration is given to environmental sustainability issues (e.g., pollution control, waste management, power consumption) and quality control. Prior to entering into contractual arrangements for the supply of products for resale with a manufacturer, wholesaler or directly from a factory, the Company will perform due diligence and only enter into such arrangements if satisfied that the products are being produced in an ethical manner and with due consideration given to environmental sustainability and quality control.
- **Energy Consumption:** The Company is a substantial consumer of electricity. The Company's aim in 2018 was to reduce electricity consumption by identifying areas where it can be more efficient. This included:
 - Conducting an electricity usage study of 19 of our high usage sites and implementing measures to reduce usage
 - Monitoring usage data to identify and reduce unusual energy usage including air conditioning running outside of recommended hours.
 - Identifying energy efficient fridges and freezers which will be used for new stores and replacement of older failing units and for replacing older units
 - Implementation of LED lighting upgrades in four stores with the aim to complete lighting updates in vet clinics which require them in F19.
 - Trial of an energy control and monitoring system to reduce electricity usage in store through air conditioning and lighting
 - In January we installed solar panels in our first store to assess the feasibility of rolling out solar panels to a larger number of sites. This trial has been successful and we aim to assess this as an option on sites after the implementation of the energy control and monitoring system.
 - On a monthly basis, the Company produces a sustainability scorecard at a site and company level to track progress.
- **Waste Management:** Due to the supply of product and associated packaging to its sites, the Company is in possession of a substantial amount of waste each day, predominantly cardboard and plastic. The Company continues to identify areas in which it can reduce general waste and maximise recycling. We have maximized the number of sites where we are able to recycle all soft plastic as well as cardboard packaging, which is the bulk of its waste. This has resulted in an overall reduction in general waste. The Company currently reuses cardboard boxes that are delivered to its Distribution Centre, and use them to package items for delivery to sites. At a store level, these boxes are then offered to customers to carry their goods instead of plastic bags. The Company's primary focus has been on the education of team members to ensure that they are correctly recycling whenever possible.
- **Plastic Bags:** Due to the number of transactions at its sites each day, the Company has historically been a substantial consumer of plastic bags. In FY2018, the Company phased out single use plastic bags throughout

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its sites in Australian. Initially, the Company introduced a 5 cent charge per plastic bag to remind customers of the impact that single use plastic bags have on the environment. To provide an alternative carry bag option, the Company launched fun reusable jute bags for customers to purchase, with graphics designed by our store team members.

- **Attraction, Recruitment, Training & Development, and Retention:** As a large employer and growth company in a specialized sector, it has become increasingly more challenging to recruit individuals with the required skills and experience, particularly vets and dog groomers. For this reason, the Company invests significantly in both attraction, recruitment, training and development, and retention programs. In attraction, the Company offers competitive remuneration and career opportunities. In recruitment, the Company has developed the necessary expertise and practices to seek out and attract individuals with the right experience and skills, including through a network of recruitment channels both locally and internationally. In training and development, the Company provides continuing professional development to its employees and has established graduate programs and training programs to develop the necessary levels of professional skills, particularly for Vets entering the workforce and employees wishing to become groomers. In retention, the Company regularly reviews its employee management practices, remuneration and benefits, and wellness programs to provide an environment that fosters high employee engagement. This also includes investment in philanthropic activities through the Company's Petbarn Foundation and employee volunteer programs with organisations such as the SPCA and Vets Beyond Borders. An employee engagement survey completed at the end of FY 2017 indicated high levels of employee engagement across the organization. The Company intends to conduct a company-wide employee engagement survey at least once every two years.
- **Service Excellence and Care:** As a provider of specialty products and services, it is imperative that the Company's employees in stores and clinics present with a high level of knowledge and expertise and are able to engage with customers and clients in a very friendly and helpful manner. The Company invests significantly in training and development, and continuous professional education, to ensure its employees are able to deliver service and care to a very high level. Through an active field management team, customer and client satisfaction surveying, mystery shopping audits and the application of Net Promoter Score measuring and practices, the Company is able to assess areas of strength and weakness and respond accordingly. The company Net Promoter Results have continued to improve throughout FY 2018 supporting the implementation of a new customer satisfaction program. This program allows us to effectively manage customer feedback, and continually evolve our service model based on their needs. The integration of this program with our Learning and Development platform also allows us to support our team with continued professional development and coaching to deliver on this.
- **Acquisition Integration:** As a growth company, the Company is often involved in the integration of businesses that it has acquired, more often stores, clinics or hospitals. Over the years, it has established processes and procedures to ensure these businesses and their teams are quickly and effectively welcomed and integrated.
- **Product Integrity:** As a provider of products and medication sourced through third parties, there is a risk that a product will be supplied to the Company for on-sale which is defective. The Company has processes and procedures in place to quickly and effectively respond to any defect and particularly any defect that could cause harm to humans or animals. Where necessary, the Company will not hesitate to remove a product from sale if such a defect is suspected or found to exist. The withdrawal for sale of the BFF brand of cat food in FY 2017 is an example of this. In situations like this, the Company then works closely with the manufacturer, supplier and effected customers to address any adverse impacts to the customer, and to ensure that the situation is rectified and risk of reoccurrence mitigated.

5.0 Communicating with shareholders

5.1 Strategy

ASX Recommendation 6.1, 6.2

The Group aims to be open and transparent with all stakeholders, including the shareholders. Information is

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communicated to shareholders regularly through a range of forums and publications. These include:

- the Group's annual general meeting;
- notices and explanatory memoranda of annual general meetings;
- the annual financial report (for those shareholders who have requested a copy), which is also located on the Company's website;
- trading updates and market/investor briefings;
- disclosures to the ASX (on which the Group's securities are listed);
- the Group's website (<http://www.greencrosslimited.com.au>), where there is an Investor Relations Centre providing access to Group announcements, media releases, previous years' financial results, investor presentations and corporate governance materials, including the charters governing each Board Committee and the Group's corporate governance policies.

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

5.2 Meetings and briefings

ASX Recommendation 6.3

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

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

The Company's Constitution requires a poll to be utilized for all resolutions considered at the meetings of shareholders.

5.3 Electronic Communications

ASX Recommendation 6.4

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

5.4 Continuous disclosure

ASX Recommendation 5.1

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

As well as ensuring compliance with the Company's legal obligations, the Continuous Disclosure Policy promotes the provision of timely, balanced, direct and equal shareholder access to Group information and investor confidence in the integrity of the Group and its securities. The Continuous Disclosure Policy contains detailed procedures regarding the

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preparation and release of Company announcements, how the Company proposes to respond to media and market speculation regarding the Group and the conduct of briefings or meetings with investors or analysts.

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

6.0 Promoting Ethical and Responsible Behaviour

ASX Recommendation 3.1

6.1 Code of conduct

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

The Code of Conduct covers:

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

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

6.2 Whistleblower Policy and Escalation

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

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

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

Employees are also encouraged to escalate any issues they believe could have a material impact on the Group's

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profitability, reputation, governance or compliance.

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

6.3 Restrictions on dealing in securities

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

The Group has an established policy relating to trading in the Group's securities by Directors, officers and certain other employees of the Group. These Directors, officers and employees are prohibited from trading in the Group's securities during prescribed prohibited periods (blackout periods) which include the period prior to the release of the Group's annual and half-yearly results announcements. The Securities Trading Policy does allow for Directors, officers and other restricted employees to trade in Company securities during these blackout periods in some very limited circumstances. Such limited circumstances include where the trading in Company securities occurs as a result of the exercise of options or rights under employee incentive schemes, accepting a takeover offer and the transfer of securities into a superannuation fund of the Director or restricted employee. There is also provision for trading to occur during blackout periods where there are found to be exceptional circumstances which justify the trading of Company securities during such periods.

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

6.4 Anti-Bribery Policy

The Group's anti-bribery policy recognises its commitment to promoting and supporting ethical behavior, consistent with the principles of honesty, integrity, fairness and respect. The policy expands on the Group's Code of Conduct and applies to any director, secretary, officer, employee, secondee or contractor of the Group (Relevant Person). The policy requires that any known, suspected or potential cases of monetary or non-monetary bribery be vigilantly reported. The policy also states that under no circumstances can any Relevant Person give, offer, accept or request bribes, facilitation payments, secret commissions or other prohibited payments, or cause such activity to occur.

Relevant Persons must not offer or receive any gifts, entertainment or hospitality to or from public officials, government officials or politicians without approval from the General Counsel, with such approval being subject to the Group's obligations under the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. All dealings with government officials and politicians which relate to the Group must also be conducted at arm's length to avoid any perception of attempting to gain an advantage. Political donations are permitted only if authorised by the Board of Directors if the Board of Directors believe that the donation would enable the political party to perform its functions better and to improve the democratic process.

The policy prohibits any business courtesies which go beyond common courtesies associated with the ordinary and proper course of business, or could be considered to cause improper inducement. Business courtesies including gifts, entertainment or hospitality are only permitted where they are done for the purpose of general relationship building only, where they cannot reasonably be construed as an attempt to improperly influence the performance of the role or function of the recipient, where they comply with local law and are given in an open and transparent manner. Business courtesies do not include cash, loans or cash equivalents. Any gift, entertainment or other personal favour or assistance given or received which has a value in excess of \$300 must be approved and entered into the Group's gifts register by the General Counsel. Relevant Persons must also comply with all reporting and approval processes for business courtesies as part of maintaining complete and accurate records of dealings with third parties.

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6.5 Environmental Policy

The Group is committed to promoting and supporting a culture of environmental protection and sustainability and its Environmental Policy outlines environmental principles to be adhered to in order to protect the natural environment and promote sustainability. The policy requires that each business unit of the Group implement procedures and controls that, as a minimum standard, comply with environmental law, regulatory requirements, environmental licence conditions and industry best practice.

Each business unit is also required to operate the Group's businesses sustainably to the extent reasonably possible having regard to all prevailing factors. This is to be achieved by, amongst other things, each business unit promoting environmental awareness throughout the Group, reducing the amount of waste material produced, recycling all waste material possible, and implementing strategies to effectively manage and reduce environmental risks and impacts. Where relevant and practical, each business unit must also protect natural systems in regions in which it operates and support the use of materials that are safe, recycled, have low embodied energy or a reduced impact on resource depletion. The policy also extends to the Group's suppliers.

The Group's business units must also report all material risks to the environment. These reports will be investigated by the Group's relevant executive or Company Secretary on a timely basis and appropriate corrective action and disclosure warranted by the investigation will be taken.

6.6 Ethical Sourcing Policy

The Group is committed to ethical, socially responsible and environmentally sustainable business practices in all aspects of its operations and has developed an Ethical Sourcing Policy which applies to all of the Group's Relevant Persons. All business units of the Group must adopt procedures to ensure that suppliers engaged by the Group are contractually obliged to take all reasonable steps to comply with certain minimum standards. These include ensuring no forced or bonded labour, no child labour, and providing wages and work conditions which comply with applicable laws. The policy also requires all business units to encourage suppliers to exceed these minimum standards and promote best practice and continuous improvement. Suppliers are also regularly monitored by each of the Group's business units to ensure compliance with the policy's minimum standards.

Business units must also monitor and regularly review the effectiveness of the minimum standards having regard to risk factors including country risk and product risk. Business units must report any instances where they consider that the minimum standards do not fully support the Group's commitment to ethical, socially responsible and environmentally sustainable business practices. The executive may then investigate the claim further and suggest appropriate changes to the CEO including amending the minimum standards.

6.7 Work Health & Safety Policy

The Group's Work Health & Safety Policy recognises that the Group is committed to promoting and supporting a culture of work health and safety.

The policy highlights that optimal work health and safety standards are only possible with the ongoing commitment of the Group's Relevant Persons and as such requires each of them to comply with laws, external requirements and Group processes. All Relevant Persons are required to familiarise themselves with all safety requirements for their respective roles, comply with all reasonable safety instructions from management or authorised representatives, arrive fit and ready for work and apply risk management to prevent injuries and illnesses. Any incidents or hazards must also be immediately reported to management.

As part of the Group's commitment to the continuous improvement of work health and safety, the Group sets measurable occupational health and safety objectives over the year, provides information or supervision so that all employees can carry out their work safely and engages and consults to receive feedback on work health and safety.

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For the period ended 1 July 2018

7.0 Diversity

ASX Recommendation 1.5

7.1 Diversity Objectives

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

The Group is committed to:

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

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

7.2 Diversity Policy

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

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

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

Corporate Governance Statement

For the period ended 1 July 2018

7.3 Diversity Achievements

The Board has an objective of employing a high proportion of women in the Group distributed evenly across all levels of management. The Group has maintained this objective throughout FY18.

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

	FY18 Actual		FY17 Actual	
	No.	%	No.	%
Number of male employees in the whole organisation	1,173	23%	1,173	24%
Number of female employees in the whole organisation	3,936	77%	3,779	76%
Number of male in senior management ¹ positions	21	54%	29	60%
Number of female in senior management ¹ positions	18	46%	19	40%
Number of male in executive ² positions	4	57%	5	71%
Number of female in executive ² positions	3	43%	2	29%
Number of male non-executive directors on the Board	4	66%	5	71%
Number of female non-executive directors on the Board	2	33%	2	29%

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

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

Board Composition

In 2016, the Company made a commitment to the Australian Institute of Company Directors to work towards a minimum of 30% of females on the Board by 2018. In FY 2018, as a result of the decision by Andrew Geddes to retire from the Board at the 2017 AGM and the Board's decision not to appoint a new Director to fill the resulting vacancy, 33% of non-executive directors are now female and 66% male.

Employee Engagement

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

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

In response to these survey results, the Company has implemented a number of Programs to further improve employee engagement. The employee engagement survey will be repeated in FY 2019 to measure the impact of those programs and to determine priorities for further improvement.

Key data in the Workplace Gender Equality Agency Report

Each year the Company is required to file a prescribed report with the Workplace Gender Equality Agency. The following tables highlight key data with respect to gender diversity in the Company for FY 2017, as the report filed in FY 2018 relates to FY 2017.

Corporate Governance Statement

For the period ended 1 July 2018

% of employees who returned from parental leave

	No. who went on leave	No. who returned	% who returned from leave
Retail	56	55	98%
Vet	42	41	98%
Total	98	96	98%

% of promotions awarded to men and women

	% of promotions awarded to women	% of promotions awarded to men
Retail	67%	33%
Vet	89%	11%
Total	74%	26%

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

Principle	ASX Corporate governance Principles and Best Practice Recommendations	CGCS Reference	Compliance
1.0	Lay solid foundations for management and oversight A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.		
1.1	A listed entity should disclose: a) The respective roles and responsibilities of its board and management; and b) Those matters expressly reserved to the board and those delegated to management.	2.1, 2.2, 2.3, 2.4, 2.5, 2.14 2.1, 2.2, 2.3, 2.4, 2.5, 2.6, 2.14	Comply Comply
1.2	A listed entity should: a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a director; and b) Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	2.10 2.10	Comply Comply
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	2.10	Comply
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	2.6	Comply
1.5	A listed entity should: a) Have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; b) Disclose that policy or a summary of it; and	7.0 7.0	Comply Comply

Corporate Governance Statement

For the period ended 1 July 2018

Principle	ASX Corporate governance Principles and Best Practice Recommendations	CGCS Reference	Compliance
	c) Disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either: <ol style="list-style-type: none"> 1) The respective proportions of men and women on the board in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or 2) If the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act. 	7.0	Comply
1.6	A listed entity should: <ol style="list-style-type: none"> a) Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. 	2.3, 2.12	Comply
		2.3, 2.12	Comply
1.7	A listed entity should: <ol style="list-style-type: none"> a) Have and disclose a process for periodically evaluating the performance of its senior executives; and b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. 	2.17	Comply
		2.17	Comply
2.0	Structure the board to add value		
	<i>A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.</i>		
2.1	The board of a listed entity should: <ol style="list-style-type: none"> a) Have a nomination committee which: <ol style="list-style-type: none"> 1) Has at least three members, a majority of whom are independent directors; and 2) Is chaired by an independent director, and disclose: <ol style="list-style-type: none"> 1) The charter of the committee; 2) The members of the committee; and 3) As at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or 	3.1, 3.5	Comply
		3.1, 3.5	Comply
		3.1, 3.5	Comply
		3.1, 3.5	Comply
		3.1, 3.5	Comply

Corporate Governance Statement

For the period ended 1 July 2018

Principle	ASX Corporate governance Principles and Best Practice Recommendations	CGCS Reference	Compliance
	b) If it does not have a nomination committee disclose that fact and processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	N/A	The Company has nomination committee.
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	2.9	Comply
2.3	A listed entity should disclose:		
	a) The names of the directors considered by the board to be independent directors;	2.8	Comply
	b) If a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and	N/A	Comply
	c) The length of service of each director.	2.7	Comply
2.4	A majority of the board of a listed entity should be independent directors.	2.7, 2.8	Comply
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	2.5	Comply
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	3.5.5	Comply
3.0	A listed entity should act ethically and responsibly		
	<i>A listed entity should act ethically and responsibly.</i>		
3.1	A listed entity should:		
	a) Have a code of conduct for its directors, senior executives and employees; and	6.1	Comply
	b) Disclose that code or a summary of it.	6.1	Comply
4.0	Safeguard integrity in corporate reporting		
	<i>A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.</i>		
4.1	The board of a listed entity should:		
	a) Have an audit committee which:	3.4	Comply
	1) Has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and	3.4.3	Comply
	2) Is chaired by an independent director, who is not the chair of the board	3.4.3	Comply
	And disclose:		

Corporate Governance Statement

For the period ended 1 July 2018

Principle	ASX Corporate governance Principles and Best Practice Recommendations	CGCS Reference	Compliance
	3) The charter of the committee	3.4	Comply
	4) The relevant qualifications and experience of the members of the committee; and	3.4	Comply
	5) In relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	3.1	Comply
	b) If it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	N/A	The Company has a audit committee.
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	4.3	Comply
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	3.4.5	Comply
5.0	Make timely and balanced disclosure A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.		
5.1	A listed entity should: a) Have a written policy for complying with its continuous disclosure obligations under Listing Rules; and b) Disclose that policy or a summary of it.	5.4	Comply
6.0	Respect the rights of security holders A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.		
6.1	A listed entity should provide information about itself and its governance to investors via its website	5.1	Comply
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	5.1	Comply
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	5.2	Comply
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	5.3	Comply

Corporate Governance Statement

For the period ended 1 July 2018

Principle	ASX Corporate governance Principles and Best Practice Recommendations	CGCS Reference	Compliance
	<ul style="list-style-type: none"> 2) Is chaired by an independent director and disclose: <ul style="list-style-type: none"> 3) The charter of the committee; 4) The members of the committee; and 5) As at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or 	3.1	
8.2	<ul style="list-style-type: none"> b) If it does not have a remuneration committee disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive. <p>A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.</p>	2.16	Comply
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <ul style="list-style-type: none"> a) Have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and b) Disclose that policy or a summary of it. 	3.5.4	Comply



Auditor's Independence Declaration

As lead auditor for the audit of Greencross Limited for the period 3 July 2017 to 1 July 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

Nicholas James
Partner
PricewaterhouseCoopers

Sydney
20 August 2018

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Consolidated statement of profit or loss and other comprehensive income

For the period ended 1 July 2018

		Consolidated	
	Note	2018 52 weeks \$'000	2017 53 weeks \$'000
Revenue	5	878,926	817,888
Expenses			
Cost of sales of goods		(383,989)	(364,509)
Employee benefits expense		(257,525)	(212,926)
Depreciation and amortisation expense	6	(27,928)	(23,140)
Marketing costs		(12,697)	(12,676)
Occupancy costs		(92,097)	(88,782)
Administration costs		(43,174)	(37,073)
Impairment of assets	6	(13,034)	-
Acquisition costs		(1,412)	(1,751)
Finance costs	6	(14,411)	(14,264)
Profit before income tax expense		32,659	62,767
Income tax expense	7	(8,696)	(15,419)
Profit after income tax expense for the period		23,963	47,348
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		144	904
Foreign currency translation		641	(128)
Other comprehensive income for the period, net of tax		785	776
Total comprehensive income for the period		<u>24,748</u>	<u>48,124</u>
Profit for the period is attributable to:			
Non-controlling interest		3,306	5,293
Owners of Greencross Limited	26	20,657	42,055
		<u>23,963</u>	<u>47,348</u>
Total comprehensive income for the period is attributable to:			
Non-controlling interest		3,306	5,293
Owners of Greencross Limited		21,442	42,831
		<u>24,748</u>	<u>48,124</u>
		Cents	Cents
Basic earnings per share	43	17.52	36.21
Diluted earnings per share	43	17.44	35.92

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

Consolidated statement of financial position

As at 1 July 2018

	Note	Consolidated 2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	45,818	57,683
Trade and other receivables	9	12,719	11,545
Inventories	10	98,094	97,503
Other	11	4,215	2,187
Total current assets		<u>160,846</u>	<u>168,918</u>
Non-current assets			
Other financial assets	12	165	785
Property, plant and equipment	13	211,654	187,783
Intangibles	14	596,116	578,374
Deferred tax	15	7,942	7,296
Total non-current assets		<u>815,877</u>	<u>774,238</u>
Total assets		<u>976,723</u>	<u>943,156</u>
Liabilities			
Current liabilities			
Trade and other payables	16	104,564	100,752
Borrowings	17	11,572	679
Current tax liabilities	18	1,106	6,963
Provisions	19	25,435	21,739
Total current liabilities		<u>142,677</u>	<u>130,133</u>
Non-current liabilities			
Borrowings	20	302,416	292,535
Derivative financial instruments	21	129	194
Provisions	23	20,516	21,501
Total non-current liabilities		<u>323,061</u>	<u>314,230</u>
Total liabilities		<u>465,738</u>	<u>444,363</u>
Net assets		<u>510,985</u>	<u>498,793</u>
Equity			
Contributed equity	24	564,103	552,328
Reserves	25	2,045	2,776
Accumulated losses	26	(81,490)	(79,178)
Equity attributable to the owners of Greencross Limited		<u>484,658</u>	<u>475,926</u>
Non-controlling interest	27	26,327	22,867
Total equity		<u>510,985</u>	<u>498,793</u>

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

Consolidated statement of changes in equity

For the period ended 1 July 2018

Consolidated	Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 27 June 2016	530,537	2,208	(99,350)	19,603	452,998
Profit after income tax expense for the period	-	-	42,055	5,293	47,348
Other comprehensive income for the period, net of tax	-	782	-	-	782
Total comprehensive income for the period	-	782	42,055	5,293	48,130
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 24)	21,791	-	-	-	21,791
Share-based payment expense	-	(214)	-	-	(214)
Dividends paid (note 28)	-	-	(21,883)	(2,029)	(23,912)
Balance at 2 July 2017	552,328	2,776	(79,178)	22,867	498,793
Consolidated	Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 3 July 2017	552,328	2,776	(79,178)	22,867	498,793
Profit after income tax expense for the period	-	-	20,657	3,306	23,963
Other comprehensive income for the period, net of tax	-	785	-	-	785
Total comprehensive income for the period	-	785	20,657	3,306	24,748
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 24)	11,775	-	-	154	11,929
Share-based payment expense	-	736	-	-	736
Non-controlling interest transaction reserve	-	(2,252)	-	-	(2,252)
Dividends paid (note 28)	-	-	(22,969)	-	(22,969)
Balance at 1 July 2018	564,103	2,045	(81,490)	26,327	510,985

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

Consolidated statement of cash flows

For the period ended 1 July 2018

	Note	Consolidated	
		2018 52 weeks \$'000	2017 53 weeks \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		967,686	899,917
Payments to suppliers and employees (inclusive of GST)		(874,755)	(802,303)
		92,931	97,614
Interest received		192	392
Interest and other finance costs paid		(12,788)	(11,027)
Acquisition costs		(1,412)	(1,751)
Income taxes paid		(13,310)	(10,241)
Net cash from operating activities	41	65,613	74,987
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	37	(13,043)	(17,609)
Payments for property, plant and equipment		(44,791)	(45,639)
Payments for intangibles		(16,744)	(13,418)
Net cash used in investing activities		(74,578)	(76,666)
Cash flows from financing activities			
Share issue transaction costs		-	(98)
Proceeds from borrowings		22,000	-
Repayment of borrowings		(13,290)	(737)
Refinance costs		(170)	(41)
Repayment of finance leases		(250)	(322)
Dividends paid	28	(11,190)	-
Dividends paid to non-controlling interests in subsidiaries		-	(2,023)
Net cash used in financing activities		(2,900)	(3,221)
Net decrease in cash and cash equivalents		(11,865)	(4,900)
Cash and cash equivalents at the beginning of the financial period		57,683	62,583
Cash and cash equivalents at the end of the financial period	8	45,818	57,683

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

Notes to the consolidated financial statements

1 July 2018

Note 1. General information

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

The 2018 Greencross Limited Financial Report reflects the company's financial performance for the 52 week period between 3 July 2017 and 1 July 2018. The 2017 comparative information reflects the company's financial performance for the 53 week period between 1 July 2016 and 2 July 2017.

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

5/28 Balaclava Street
Woolloongabba QLD 4102

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 20 August 2018. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New and amended Accounting Standards and Interpretations adopted by the group

The group has applied the following standards and amendments for the first time for their financial reporting period commencing 3 July 2017:

- AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses,
- AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107, and
- AASB 2017-2 Amendments to Australian Accounting Standards - Further Annual Improvements 2014-2016 Cycle.

The amendments to AASB 107 require disclosure of changes in liabilities arising from financial activities.

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

Basis of preparation

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

Historical cost convention

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

Critical accounting estimates

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

Parent entity information

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

Investments in subsidiaries and associates

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

Tax consolidation legislation

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

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

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

Any wholly owned entities acquired subsequent to 31 January 2014 is added to the tax consolidated group on the date of acquisition and also enters into the same tax funding agreement as detailed above. During the period ended 1 July 2018, Greencross acquired Coreen Avenue Pty Ltd which formed part of the tax consolidated group at 15 January 2018.

The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

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

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Greencross Limited ('company' or 'parent entity') as at 1 July 2018 and the results of all subsidiaries for the period then ended. Greencross Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity' or 'Group'.

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

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

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

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

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

Operating segments

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

The Board of Greencross has been identified as the chief operating decision maker.

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

Group companies

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

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

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

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

Revenue recognition

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

Sale of goods

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

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

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

Revenue from the award points is recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points expire 12 months after the initial sale. These award points are also convertible into vouchers which expire 4 weeks after the date of conversion.

Rendering of services

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

Interest

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

Other revenue

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

Dividends

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

Income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

Research and development grants

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

Current and non-current classification

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

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

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

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

Cash and cash equivalents

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

Trade and other receivables

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

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

Inventories

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

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

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

Derivative financial instruments

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

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

Cash flow hedges

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

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

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

Leasehold improvements	10-15 years
Plant and equipment	4-15 years
Motor vehicles	3 years
Office equipment	5 years

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

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

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

Leases

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

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

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

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

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

Intangible assets

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

Goodwill

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

Brand names and customer relationships

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

Internally-generated software

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

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

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

Internally generated intangibles assets are amortised on a straight line basis over the period of their expected benefit being their finite useful life of 3-10 years.

Investments and other financial assets

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

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

Financial assets at fair value through profit or loss

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

Impairment of financial assets

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

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

Impairment of non-financial assets

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

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

Trade and other payables

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

Borrowings

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

Transaction costs relating to the setup of banking facilities, including facility fees and associated costs have been capitalised. These transaction costs have been offset against the facility in note 20 and are being expensed over the period of the loan.

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

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

Finance costs

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

Other long-term employee benefits

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

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

Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates:

- (a) when the group can no longer withdraw the offer of those benefits; and
- (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Defined contribution superannuation expense

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

Bonus Plans

The group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based payments

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

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

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

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

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

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

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

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

Business Associate

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

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

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

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

Fair value measurement

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

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

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

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

Issued capital

Ordinary shares are classified as equity.

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

Dividends

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

Business combinations

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

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

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

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

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

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

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

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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

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

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

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

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

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

Rounding of amounts

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

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the financial reporting period ended 1 July 2018. 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

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

The consolidated entity will adopt this standard and the amendments from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity. The adjustment on adoption of this standard is not expected to be significant.

AASB 15 Revenue from Contracts with Customers

The consolidated entity will adopt this standard on 1 July 2018. This will replace AASB118 which covers revenue arising from the sale of goods and the rendering of services.

The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

At the reporting date, the group has assessed the impact that the initial application of AASB 15 will have on the financial statements:

- a) Sale of goods and services: The timing of revenue to be recognised for retail sales and the delivery of pet grooming and veterinary services is not expected to change under AASB 15. However, the consideration received from customers will be allocated to the separate performance obligations owed to the customer on the basis of their stand-alone selling prices.
- b) Promotions: The group has identified the possibility that some of its promotional activities may give rise to a right in the hands of its customers to acquire additional goods or services from the group that they otherwise wouldn't receive. Revenue allocated to these options will be deferred until the option expires or is exercised by the customer.
- c) Right of Return: Under AASB 15, the group's basis for estimating the impact of returns from customers will better predict the amount of revenue to which it will be entitled, and a corresponding adjustment will be made to Cost of Goods Sold to reflect the consolidated entity's right to recover goods from the customer on settling the refund liability.

The group plans to adopt AASB 15 using the retrospective method and present adjusted comparative information in the year of adoption.

Notes to the consolidated financial statements

1 July 2018

Note 2. Significant accounting policies (continued)

AASB 16 Leases

This lease standard is applicable to financial reporting periods beginning on or after 1 January 2019. However, early application of this standard is applicable for entities that apply AASB 15 Revenue from Contracts with Customers.

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

As at the reporting date, the group has an undiscounted operating lease commitments of \$346,705,000 (refer to note 34). The group continues to determine the extent to which these commitments will result in the recognition of an asset and a liability for future payments.

The lease liability will be measured at the present value of the remaining lease payments (less incentives received) through the application of an appropriate discount rate. The discount rate used will be the incremental cost of borrowing.

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

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

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

The Australian Senior Debt Facility financial covenant clauses cater for changes to accounting standards and consequently the new leasing standard will not have an adverse impact on our financial ratios for the purposes of compliance with our bank covenants.

Note 3. Critical accounting judgements, estimates and assumptions

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

Recoverable amount of inventory (note 10)

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

Goodwill and other indefinite life intangible assets (note 14)

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

Notes to the consolidated financial statements

1 July 2018

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

Impairment of property, plant and equipment (note 13)

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

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

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

Internally generated software - reassessment of useful life (note 14)

In accordance with its policy, the consolidated entity reviews the estimated useful lives of its internally-generated intangible assets on an annual basis. During the current year, the directors have reassessed that the useful lives of certain internally-generated intangibles, namely the legacy ERP and components of the supply chain system, should be shortened.

As a result, effective 1 January 2018, the consolidated entity changed its estimates of the useful lives of these assets to better reflect the estimated periods during which these assets will provide benefit to the consolidated entity. The estimated useful lives that were previously 10 - 15 years have been reduced to 3 – 10 years. The financial impact for the period ended 1 July 2018 is \$1m and estimated future financial impact to be an additional depreciation charge of \$2.1m for the 2019 financial period.

Impairment of intangible assets (note 14)

Management assess whether any indicators of impairment of intangibles exist, to ensure no assets are held at more than their recoverable amounts. An impairment loss is recognised for the amount by which the assets' carrying amount exceeds their recoverable amount.

Note 4. Operating segments

Identification of reportable operating segments

In the prior year the consolidated entity's Chief Executive Officer and Chief Financial Officer examined the group's performance from both a product and geographical perspective and had identified two reportable segments of its business, being retail and veterinary.

Due to growth in the New Zealand operations in the current year the consolidated entity's new Chief Executive Officer and Chief Financial Officer identified three reportable segments of its business, being Retail, Veterinary and New Zealand. The Corporate segment consists of the Group's other various support functions including other central overhead costs as these costs are not fully allocable across the other operating segments. Comparative disclosures have been restated on a consistent basis.

These reportable segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. The information reported to the CODM is on a monthly basis.

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

Types of products and services

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

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

Notes to the consolidated financial statements

1 July 2018

Note 4. Operating segments (continued)

Operating segment information

	Retail	Veterinary	New Zealand	Corporate	Total
Consolidated - 2018					
52 weeks	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Revenue from external customers	532,278	240,848	105,608	-	878,734
Interest income	75	41	76	-	192
Total revenue	532,353	240,889	105,684	-	878,926
EBITDA *					
EBITDA *	56,059	20,385	13,213	(14,851)	74,806
Depreciation and amortisation **	(17,194)	(6,500)	(4,234)	-	(27,928)
Interest income	-	-	-	192	192
Finance costs	-	-	-	(14,411)	(14,411)
Profit/(loss) before income tax expense	38,865	13,885	8,979	(29,070)	32,659
Income tax expense					(8,696)
Profit after income tax expense					23,963
Assets					
Segment assets	559,295	310,138	53,530	-	922,963
<i>Unallocated assets:</i>					
Cash and cash equivalents					45,818
Deferred tax asset					7,942
Total assets					976,723
<i>Total assets includes:</i>					
Acquisition of non-current assets	2,144	130	-	-	2,274
Liabilities					
Segment liabilities	94,110	40,470	16,064	-	150,644
<i>Unallocated liabilities:</i>					
Provision for income tax					1,106
Borrowings					313,988
Total liabilities					465,738

* including \$22,775,000 of exceptional costs split between Retail (\$18,344,000), Veterinary (\$4,247,000), and New Zealand (\$184,000).

** including \$1,441,000 of exceptional costs split between Retail (\$1,346,000), Veterinary (\$95,000), and New Zealand (\$nil).

Notes to the consolidated financial statements

1 July 2018

Note 4. Operating segments (continued)

	Retail (Restated)	Veterinary (Restated)	New Zealand (Restated)	Corporate (Restated)	Total
Consolidated - 2017					
53 weeks	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Revenue from external customers	505,159	214,377	97,960	-	817,496
Interest income	180	108	104	-	392
Total revenue	505,339	214,485	98,064	-	817,888
EBITDA *					
Depreciation and amortisation	(15,505)	(4,291)	(3,344)	(9,718)	(23,140)
Interest income	-	-	-	392	392
Finance costs	-	-	-	(14,264)	(14,264)
Profit/(loss) before income tax expense	51,733	24,500	10,124	(23,590)	62,767
Income tax expense					(15,419)
Profit after income tax expense					47,348
Assets					
Segment assets	531,567	304,557	42,053	-	878,177
<i>Unallocated assets:</i>					
Cash and cash equivalents					57,683
Deferred tax asset					7,296
Total assets					943,156
<i>Total assets includes:</i>					
Acquisition of non-current assets	699	5,623	-	-	6,322
Liabilities					
Segment liabilities	97,889	34,757	11,540	-	144,186
<i>Unallocated liabilities:</i>					
Provision for income tax					6,963
Borrowings					293,214
Total liabilities					444,363

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

For comparability, the operating segments for the year ended 2 July 2017 has been restated to reflect New Zealand as a separate operating segment. New Zealand was previously included in Retail. The corporate segment was also restated to include central overheads of the Group.

Geographical information

	Sales to external customers		Geographical non-current assets	
	2018	2017	2018	2017
	52 weeks \$'000	53 weeks \$'000	\$'000	\$'000
Australia	773,126	719,536	780,069	741,379
New Zealand	105,608	97,960	41,426	38,684
	878,734	817,496	821,495	780,063

Notes to the consolidated financial statements

1 July 2018

Note 4. Operating segments (continued)

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

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

	Consolidated	
	2018	2017
	52 weeks	53 weeks
	\$'000	\$'000
Profit/(loss) for the period	23,963	47,348
Less: Interest received	(192)	(392)
Add: Interest expense	14,411	14,264
Add: Depreciation and amortisation expense	27,928	23,140
Add: Income tax expense	8,696	15,419
EBITDA	<u>74,806</u>	<u>99,779</u>

Note 5. Revenue

	Consolidated	
	2018	2017
	52 weeks	53 weeks
	\$'000	\$'000
Sale of goods	660,176	632,510
Rendering of services	218,121	183,983
Other sales revenue	437	1,003
Interest	192	392
Revenue	<u>878,926</u>	<u>817,888</u>

Notes to the consolidated financial statements

1 July 2018

Note 6. Expenses

	Consolidated	
	2018 52 weeks \$'000	2017 53 weeks \$'000
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Leasehold improvements	8,063	5,868
Plant and equipment	16,325	15,004
Motor vehicles	158	384
Office equipment	80	103
Total depreciation	<u>24,626</u>	<u>21,359</u>
<i>Amortisation</i>		
Brand names	159	160
Customer relationships	208	208
Internally generated software	2,935	1,413
Total amortisation	<u>3,302</u>	<u>1,781</u>
Total depreciation and amortisation	<u>27,928</u>	<u>23,140</u>
<i>Impairment</i>		
Leasehold improvements	532	-
Plant and equipment	1,398	-
Internally generated software	10,078	-
Other impairments	1,026	-
Total impairment	<u>13,034</u>	<u>-</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	13,122	13,169
Amortisation of borrowing costs	1,462	1,245
Amount capitalised	<u>14,584</u>	<u>14,414</u>
	(173)	(150)
Finance costs expensed	<u>14,411</u>	<u>14,264</u>
<i>Occupancy costs</i>		
Rental expense relating to operating leases	73,595	70,471
Electricity	11,681	9,631
Onerous lease movement	(3,011)	(1,105)
Other	9,832	9,785
Total occupancy costs relating to operating leases	<u>92,097</u>	<u>88,782</u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	<u>18,229</u>	<u>15,806</u>
<i>Redundancy and restructuring expense</i>		
Redundancy and restructuring expense	<u>2,734</u>	<u>1,898</u>
<i>Share-based payments expense</i>		
Share-based payments expense	<u>736</u>	<u>(214)</u>

Notes to the consolidated financial statements

1 July 2018

Note 7. Income tax expense (continued)

Note 7. Income tax expense

	Consolidated	
	2018	2017
	52 weeks	53 weeks
	\$'000	\$'000
<i>Income tax expense</i>		
Current tax	8,912	12,237
Deferred tax - origination and reversal of temporary differences	918	5,766
Adjustment recognised for prior periods	(1,134)	(708)
Recognition of previously unrecognised losses	-	(1,876)
	<u>8,696</u>	<u>15,419</u>
Aggregate income tax expense		
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax assets (note 15)	<u>918</u>	<u>5,766</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	<u>32,659</u>	<u>62,767</u>
Tax at the statutory tax rate of 30%	9,798	18,830
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	-	69
Acquisition costs	-	208
Recognition of previously unrecognised losses	-	(1,876)
Sundry items	<u>19</u>	<u>(911)</u>
	9,817	16,320
Adjustment recognised for prior periods	(1,134)	(708)
Difference in overseas tax rates	<u>13</u>	<u>(193)</u>
Income tax expense	<u>8,696</u>	<u>15,419</u>
	Consolidated	
	2018	2017
	52 weeks	53 weeks
	\$'000	\$'000
<i>Amounts charged directly to equity</i>		
Deferred tax assets (note 15)	<u>43</u>	<u>440</u>

Notes to the consolidated financial statements

1 July 2018

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2018	2017
	\$'000	\$'000
Cash on hand	463	440
Cash at bank	45,355	57,243
	<u>45,818</u>	<u>57,683</u>

Note 9. Current assets - trade and other receivables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade and other receivables	13,230	12,333
Less: Provision for impairment of receivables	(511)	(788)
	<u>12,719</u>	<u>11,545</u>

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

Impairment of receivables

The consolidated entity has recognised a loss of \$346,000 (2017: loss of \$233,000) in profit or loss in respect of impairment of receivables for the period ended 1 July 2018.

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

	Consolidated	
	2018	2017
	\$'000	\$'000
3 to 6 months overdue	239	674
Over 6 months overdue	272	114
	<u>511</u>	<u>788</u>

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Opening balance	788	906
Additional provisions recognised	346	233
Receivables written off during the year as uncollectable	(623)	(351)
Closing balance	<u>511</u>	<u>788</u>

Past due but not impaired

Customers with balances past due but without provision for impairment of receivables amount to \$1,862,000 as at 1 July 2018 (\$2,574,000 as at 2 July 2017).

Notes to the consolidated financial statements

1 July 2018

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

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

	Consolidated	
	2018 \$'000	2017 \$'000
0 to 3 months overdue	1,158	2,017
3 to 6 months overdue	606	514
Over 6 months overdue	98	43
	<u>1,862</u>	<u>2,574</u>

Note 10. Current assets - inventories

	Consolidated	
	2018 \$'000	2017 \$'000
Stock in transit	3,798	1,729
Stock on hand	94,296	95,774
	<u>98,094</u>	<u>97,503</u>

Write-downs of inventories to net realisable value is primarily related to slow moving stock which will be required to be discounted in the future to below cost to clear existing quantities on hand. The expense recognised during the year ended 1 July 2018 amounted to \$11,882,000 or 1.4% of revenue (2017: \$10,095,000 or 1.2% of revenue). The expense has been included in 'Cost of sales of goods' in the income statement of profit or loss and other comprehensive income.

Note 11. Current assets - other

	Consolidated	
	2018 \$'000	2017 \$'000
Accrued revenue	2,500	20
Prepayments	1,527	1,978
Security deposits	188	189
	<u>4,215</u>	<u>2,187</u>

Note 12. Non-current assets - other financial assets

	Consolidated	
	2018 \$'000	2017 \$'000
Shares in unlisted entities - at cost	<u>165</u>	<u>785</u>

The Group impaired its investment in an associate entity by \$500,000 during the year ended 1 July 2018.

Notes to the consolidated financial statements

1 July 2018

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Land and buildings - at cost	2,530	2,530
Leasehold improvements - at cost	129,595	100,786
Less: Accumulated depreciation	(26,875)	(20,008)
	<u>102,720</u>	<u>80,778</u>
Plant and equipment - at cost	191,219	174,973
Less: Accumulated depreciation	(86,049)	(71,177)
	<u>105,170</u>	<u>103,796</u>
Motor vehicles - at cost	1,913	1,822
Less: Accumulated depreciation	(1,592)	(1,438)
	<u>321</u>	<u>384</u>
Office equipment - at cost	3,768	3,087
Less: Accumulated depreciation	(2,855)	(2,792)
	<u>913</u>	<u>295</u>
	<u><u>211,654</u></u>	<u><u>187,783</u></u>

Reconciliations

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

Consolidated	Leasehold improvements \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Office equipment \$'000	Property \$'000	Total \$'000
Balance at 27 June 2016	59,166	96,576	800	325	-	156,867
Additions	25,530	20,035	1	73	-	45,639
Additions through business combinations	1,643	2,035	-	-	2,530	6,208
Disposals	(135)	(150)	(38)	(1)	-	(324)
Exchange differences	442	304	5	1	-	752
Depreciation expense	(5,868)	(15,004)	(384)	(103)	-	(21,359)
Balance at 2 July 2017	80,778	103,796	384	295	2,530	187,783
Additions	30,990	17,483	95	698	-	49,266
Additions through business combinations (note 37)	-	2,270	-	-	-	2,270
Disposals	(561)	(761)	-	-	-	(1,322)
Exchange differences	108	105	-	-	-	213
Impairment	(532)	(1,398)	-	-	-	(1,930)
Depreciation expense	(8,063)	(16,325)	(158)	(80)	-	(24,626)
Balance at 1 July 2018	<u>102,720</u>	<u>105,170</u>	<u>321</u>	<u>913</u>	<u>2,530</u>	<u>211,654</u>

Property, plant and equipment secured under finance leases

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

Notes to the consolidated financial statements

1 July 2018

Note 14. Non-current assets - intangibles

	Consolidated	
	2018	2017
	\$'000	\$'000
Goodwill	560,512	548,497
Brand names	1,304	1,304
Less: Accumulated amortisation	(631)	(472)
	<u>673</u>	<u>832</u>
Internally generated software	39,264	30,254
Less: Accumulated amortisation	(4,992)	(2,076)
	<u>34,272</u>	<u>28,178</u>
Customer relationships	1,454	1,454
Less: Accumulated amortisation	(795)	(587)
	<u>659</u>	<u>867</u>
	<u><u>596,116</u></u>	<u><u>578,374</u></u>

Reconciliations

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

Consolidated	Goodwill	Brand names	Internally generated software	Customer relationships	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 27 June 2016	534,203	992	16,957	1,075	553,227
Additions	-	-	12,634	-	12,634
Additions through business combinations	14,294	-	-	-	14,294
Amortisation expense	-	(160)	(1,413)	(208)	(1,781)
	<u>548,497</u>	<u>832</u>	<u>28,178</u>	<u>867</u>	<u>578,374</u>
Balance at 2 July 2017	548,497	832	28,178	867	578,374
Additions	-	-	19,107	-	19,107
Additions through business combinations (note 37)	10,969	-	-	-	10,969
Exchange differences	1,046	-	-	-	1,046
Impairment of assets	-	-	(10,078)	-	(10,078)
Amortisation expense	-	(159)	(2,935)	(208)	(3,302)
	<u>560,512</u>	<u>673</u>	<u>34,272</u>	<u>659</u>	<u>596,116</u>
Balance at 1 July 2018	<u><u>560,512</u></u>	<u><u>673</u></u>	<u><u>34,272</u></u>	<u><u>659</u></u>	<u><u>596,116</u></u>

Impairment testing for goodwill

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

Notes to the consolidated financial statements

1 July 2018

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

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

	Consolidated	
	2018 \$'000	2017 \$'000
Vet	198,457	189,509
Retail	344,764	342,743
New Zealand	17,291	16,245
	<u>560,512</u>	<u>548,497</u>

Key assumptions used for value-in-use calculations

The group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit ('CGU') is determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections over a five year period (the first period being 2019, based on the financial budget approved by the Board. Cash flow projections for periods beyond the 2019 financial period are extrapolated using the estimated growth rates stated below. These growth rates do not exceed the long-term average growth rates for the industry in which each CGU operates.

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

Vet

Period of cash flows: 5 years (2017: 5 years)
Average revenue growth rate during the forecast period: 4% (2017: 4%)
Pre-tax discount rate: 11.7% (2017: 11.9%)
Terminal value growth rate of 2.5% (2017: 2.5%)

Retail

Period of cash flows: 5 years (2017: 5 years)
Average revenue growth rate during the forecast period: 5% (2017: 5%)
Pre-tax discount rate: 11.9% (2017: 11.9%)
Terminal value growth rate of 2.5% (2017: 2.5%)

New Zealand

Period of cash flows: 5 years (2017: 5 years)
Average revenue growth rate during the forecast period: 4% (2017: 4%)
Pre-tax discount rate: 12.4% (2017: 12.3%)
Terminal value growth rate of 2.5% (2017: 2.5%)

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

Impairment charge

For the period ended 1 July 2018 there has been no impairment charge (2017: \$0).

Notes to the consolidated financial statements

1 July 2018

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

Impact of possible changes in key assumptions

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

The sensitivities that have been separately modelled are as follows:

- (a) a 1% increase in the pre-tax discount rate; or
- (b) 10% under performance against forecast EBITDA.

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

Notes to the consolidated financial statements

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Note 15. Non-current assets - deferred tax

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Impairment of receivables	153	236
Property, plant and equipment	(7,088)	(6,489)
Employee benefits	4,834	4,936
Provision for lease make good	2,001	1,226
Accrued expenses	2,586	2,882
Provisions	1,274	2,230
Cash flow hedges	-	(4)
Deferred lease incentives	3,032	3,320
Acquisition costs	278	739
Losses	4,527	4,685
Set-off of deferred tax liabilities (note 22)	(3,698)	(6,824)
	<u>7,899</u>	<u>6,937</u>
Amounts recognised in equity:		
Transaction costs on share issue	<u>43</u>	<u>359</u>
Net deferred tax asset	<u>7,942</u>	<u>7,296</u>
Amount expected to be recovered within 12 months	7,778	6,950
Amount expected to be recovered after more than 12 months	<u>164</u>	<u>346</u>
	<u>7,942</u>	<u>7,296</u>
<i>Movements:</i>		
Opening balance	7,296	11,501
Charged to profit or loss (note 7)	(918)	(5,766)
Charged to equity (note 7)	(43)	(440)
Additions through business combinations (note 37)	40	114
Credited/(charged) to other comprehensive income	(97)	58
Adjustment with respect to prior periods	1,664	(47)
Previously unrecognised losses	-	1,876
Closing balance	<u>7,942</u>	<u>7,296</u>

Notes to the consolidated financial statements

1 July 2018

Note 16. Current liabilities - trade and other payables

	Consolidated	
	2018	2017
	\$'000	\$'000
Trade payables	59,542	52,937
GST and withholding tax payable	6,768	3,990
Accrued expenses	34,680	29,149
Dividend payable to non-controlling interest	962	1,002
Unearned income	2,612	2,679
Other payables - supplier finance	-	10,995
	<u>104,564</u>	<u>100,752</u>

Refer to note 29 for further information on financial instruments.

Other Payable while we paid during the year and the repayment has been included in the cash flow.

Note 17. Current liabilities - borrowings

	Consolidated	
	2018	2017
	\$'000	\$'000
Bank loans	11,905	-
Capitalised borrowing costs	(1,197)	-
Business Associate loan	590	481
Lease liability	274	198
	<u>11,572</u>	<u>679</u>

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

Refer to note 29 for further information on financial instruments.

Refer to note 40 for further information on the refinancing of the New Zealand loan.

Note 18. Current liabilities - current tax liabilities

	Consolidated	
	2018	2017
	\$'000	\$'000
Provision for income tax	<u>1,106</u>	<u>6,963</u>

Notes to the consolidated financial statements

1 July 2018

Note 19. Current liabilities - provisions

	Consolidated	
	2018	2017
	\$'000	\$'000
Employee benefits	16,427	14,373
Deferred lease incentives	2,614	2,476
Lease make good	829	300
Onerous lease	438	762
Customer loyalty	3,775	3,270
Business Associate	1,352	558
	<u>25,435</u>	<u>21,739</u>

Employee benefits

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

Amounts not expected to be settled within the next 12 months

The current portion of this liability includes all of the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of \$16,427,000 (2017: \$14,373,000) is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations.

Deferred lease incentives

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

Lease make good

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

Onerous lease

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

Customer loyalty

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

Revenue from the award points is recognised when the points are redeemed against the provision. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points expire 12 months after the initial sale. These award points are also convertible to vouchers which expire within 4 weeks from the date of conversion.

Business Associate

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

Notes to the consolidated financial statements

1 July 2018

Note 19. Current liabilities - provisions (continued)

Movements in provisions

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

Consolidated - 2018	Deferred lease incentives \$'000	Lease make good \$'000	Onerous lease \$'000	Business Associate \$'000	Customer loyalty \$'000
Carrying amount at the start of the period	2,476	300	762	558	3,270
Additional provisions recognised	2,170	807	239	285	1,674
Amounts transferred (to)/from non-current	(868)	(193)	199	605	-
Amounts used	(1,164)	-	(299)	-	(1,169)
Amounts released	-	-	(463)	-	-
Payments made	-	(85)	-	(96)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount at the end of the period	<u>2,614</u>	<u>829</u>	<u>438</u>	<u>1,352</u>	<u>3,775</u>

Note 20. Non-current liabilities - borrowings

	Consolidated	
	2018	2017
	\$'000	\$'000
Bank loans	303,569	295,877
Capitalised borrowing costs	(1,585)	(4,100)
Lease liability	432	758
	<hr/>	<hr/>
	<u>302,416</u>	<u>292,535</u>

Refer to note 29 for further information on financial instruments.

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

Total secured liabilities

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

	Consolidated	
	2018	2017
	\$'000	\$'000
Bank loans	315,474	295,877
Capitalised borrowing costs	(2,782)	(4,100)
Lease liability	706	956
	<hr/>	<hr/>
	<u>313,398</u>	<u>292,733</u>

Notes to the consolidated financial statements

1 July 2018

Note 20. Non-current liabilities - borrowings (continued)

Maturity Profiles on Facilities	Facility limit 1 July 2018 AUD \$'000	Expiry Date
<i>Australian Senior Debt Facility</i>		
A1 - Bullet Rollover	75,000	Nov-2020
A2 - Bullet Rollover	235,000	Oct-2020
B - Accordion	50,000	Oct-2020
Animal Referral Hospital Joint Venture	1,700	Sep-2019
	NZD \$'000	Expiry Date
<i>New Zealand Senior Debt Facility</i>		
New Zealand*	15,000	Dec-2018

* During August 2018, the Group undertook a refinance of the NZ\$15.0 million senior facility with the Bank of New Zealand ("BNZ") facility through the 50% owned subsidiary Animates NZ Holdings Limited, maintaining the current facility of NZ\$15m and providing increased tenor. The renewed facility will now expire on 31 December 2021 and has a bullet repayment due at expiry.

Assets pledged as security

Borrowings are secured by a fixed and floating charge over the assets of the consolidated entity.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

Financing arrangements

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

	Consolidated	
	2018 \$'000	2017 \$'000
Total facilities		
Bank loans	375,520	415,986
Used at the reporting date		
Bank loans	315,474	295,877
Unused at the reporting date		
Bank loans	60,046	120,109

Note 21. Non-current liabilities - derivative financial instruments

	Consolidated	
	2018 \$'000	2017 \$'000
Interest rate swap contracts - cash flow hedges	129	194

Refer to note 29 for further information on financial instruments.

Refer to note 30 for further information on fair value measurement.

Notes to the consolidated financial statements

1 July 2018

Note 22. Non-current liabilities - deferred tax

	Consolidated	
	2018 \$'000	2017 \$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Prepayments	109	46
Development costs	1,239	495
Intangibles	2,350	5,283
Other	-	1,000
Set-off of deferred tax liabilities (note 15)	(3,698)	(6,824)
Deferred tax liability	-	-

Note 23. Non-current liabilities - provisions

	Consolidated	
	2018 \$'000	2017 \$'000
Employee benefits	2,128	1,778
Deferred lease incentives	7,494	8,592
Lease make good	6,617	3,788
Onerous lease	332	2,991
Business Associate	3,945	4,352
	20,516	21,501

Employee benefits

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

Deferred lease incentives

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

Lease make good

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

Onerous lease

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

Business Associate

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

Notes to the consolidated financial statements

1 July 2018

Note 23. Non-current liabilities - provisions (continued)

Movements in provisions

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

	Deferred lease incentives \$'000	Lease make good \$'000	Onerous lease \$'000	Business Associate \$'000
Consolidated - 2018				
Carrying amount at the start of the period	8,592	3,788	2,991	4,352
Additional provisions recognised	-	2,636	40	802
Amounts transferred (to)/from current	869	193	(199)	(605)
Amounts used	(1,967)	-	(180)	(604)
Amounts released	-	-	(2,320)	-
Carrying amount at the end of the period	<u>7,494</u>	<u>6,617</u>	<u>332</u>	<u>3,945</u>

Note 24. Equity - contributed equity

	2018 Shares	Consolidated 2017 Shares	2018 \$'000	2017 \$'000
Ordinary shares - fully paid	<u>119,499,292</u>	<u>117,285,540</u>	<u>564,103</u>	<u>552,328</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$'000
Balance	27 June 2016	113,720,770		530,537
Share issue - Employee Share Plan	24 August 2016	168,018	\$0.00	-
Share issue - Dividend Reinvestment Plan	23 September 2016	512,119	\$6.05	3,098
Share issue - Dividend Reinvestment Plan	23 September 2016	1,258,519	\$6.17	7,765
Share issue - Employee Share Plan	17 November 2016	17,797	\$0.00	-
Share issue - Dividend Reinvestment Plan	24 March 2017	619,244	\$6.78	4,198
Share issue - Dividend Reinvestment Plan	24 March 2017	989,073	\$6.91	6,834
Share issue transaction costs		-	\$0.00	(104)
Balance	2 July 2017	117,285,540		552,328
Share issue - Employee Share Plan	30 August 2017	23,178	\$5.86	136
Share issue - Employee Share Plan	11 December 2017	4,592	\$5.97	27
Share issue - Dividend Reinvestment Plan	23 March 2018	447,662	\$5.30	2,373
Share issue - Dividend Reinvestment Plan	23 March 2018	1,738,320	\$5.41	9,404
Share issue transaction costs		-	\$0.00	(165)
Balance	1 July 2018	<u>119,499,292</u>		<u>564,103</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the legal parent company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the legal parent company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Notes to the consolidated financial statements

1 July 2018

Note 24. Equity - contributed equity (continued)

Dividend reinvestment plan

The legal parent company has a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a discount to the market price, as the Directors may determine.

Share buy-back

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

Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

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

Note 25. Equity - reserves

	Consolidated	
	2018	2017
	\$'000	\$'000
Foreign currency reserve	560	(82)
Capital profits reserve	(423)	(423)
Hedging reserve - cash flow hedges	8	(136)
Share-based payments reserve	4,152	3,417
Non-controlling interest transaction reserve	(2,252)	-
	<u>2,045</u>	<u>2,776</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Capital profits reserve

The reserve was created on the reorganisation of Mammoth Pet Pty Limited on 18 October 2010 when Mammoth Holdings Pty Limited purchased Mammoth Pet Pty Limited and Freddy Holdings Pty Limited, a shareholder of Mammoth Pet Pty Limited.

Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial period are set out below:

Notes to the consolidated financial statements

1 July 2018

Note 25. Equity - reserves (continued)

Non-controlling interest transaction reserve

This reserve is used to record the differences which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

	Foreign currency \$'000	Capital profits \$'000	Hedging reserve - cash flow hedges \$'000	Share-based payments \$'000	Non- controlling transaction reserve \$'000	Total \$'000
Consolidated						
Balance at 27 June 2016	40	(423)	(1,039)	3,630	-	2,208
Foreign currency translation	(121)	-	-	-	-	(121)
Changes in fair value of cash flow hedges	-	-	903	-	-	903
Share-based payment expense	-	-	-	(214)	-	(214)
Balance at 2 July 2017	(81)	(423)	(136)	3,416	-	2,776
Foreign currency translation	641	-	-	-	-	641
Changes in fair value of cash flow hedges	-	-	144	-	-	144
Share-based payment expense	-	-	-	736	-	736
Transaction with NCI reserve	-	-	-	-	(2,252)	(2,252)
Balance at 1 July 2018	560	(423)	8	4,152	(2,252)	2,045

Note 26. Equity - accumulated losses

	Consolidated	
	2018 \$'000	2017 \$'000
Accumulated losses at the beginning of the financial period	(79,178)	(99,350)
Profit after income tax expense for the period	20,657	42,055
Dividends paid (note 28)	(22,969)	(21,883)
Accumulated losses at the end of the financial period	(81,490)	(79,178)

Note 27. Equity - non-controlling interest

	Consolidated	
	2018 \$'000	2017 \$'000
Issued capital	312	312
Reserves	(74)	(74)
Retained profits	26,089	22,629
	26,327	22,867

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Note 28. Equity - dividends

Dividends

Dividends paid during the financial period were as follows:

	Consolidated	
	2018	2017
	52 weeks	53 weeks
	\$'000	\$'000
Final dividend for the period ended 2 July 2017 of 9.5 cents per ordinary share (2016: 9.5 cents)	11,190	10,849
Interim dividend for the period ended 1 July 2018 of 10 cents per ordinary share (2017: 9.5 cents)	11,779	11,034
	<u>22,969</u>	<u>21,883</u>

The final dividend for the period ended 2 July 2017 was not be subject to the company's Dividend Reinvestment Plan ('DRP') and was paid in cash. At the date of signing the financial report, the consolidated entity has declared a final dividend of 5.5 cents per share at a record date of 28 August 2018, which is expected to be paid on 12 October 2018.

No dividends were paid to non-controlling interest in respect of their dividends in the underlying entities during the period ended 1 July 2018 (2017: \$2,203,000). There are no proposed dividends for non-controlling interest as at signing date.

Franking credits

	Consolidated	
	2018	2017
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>1,344</u>	<u>4,458</u>

The above amounts represent the balance of the franking account as at the end of the financial period, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

The franking credits available for the period ended 1 July 2018 does not include the franking credits that will arise on receipt of any income tax refund on lodgement of the income tax return.

Note 29. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Notes to the consolidated financial statements

1 July 2018

Note 29. Financial instruments (continued)

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

Consolidated	Assets		Liabilities	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
New Zealand dollars	59,341	56,464	30,541	33,328

The consolidated entity had net assets denominated in foreign currencies of \$28,800,000 (assets \$59,341,000 less liabilities \$30,541,000) as at 1 July 2018 (2017: net assets of \$23,136,000 (assets \$56,464,000 less liabilities \$33,328,000)). Based on this exposure, with all other variables held constant, the following could have occurred:

Consolidated - 2018	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit	Effect on equity		Effect on profit	Effect on equity
New Zealand dollars	10%	(556)	(1,270)	10%	679	1,558

Consolidated - 2017	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit	Effect on equity		Effect on profit	Effect on equity
New Zealand dollars	10%	(650)	(734)	10%	793	899

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings and interest rate swap contracts. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised. In the period ended 1 July 2018 a gain of \$nil (2017: \$nil) was reclassified into profit or loss and included in finance costs.

Notes to the consolidated financial statements

1 July 2018

Note 29. Financial instruments (continued)

As at the reporting date, the consolidated entity had the following variable rate borrowings and interest rate swap contracts outstanding:

Consolidated	2018		2017	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank loans	4.53%	315,474	4.73%	295,877
Interest rate swaps (notional principal amount)	4.06%	<u>(140,000)</u>	3.90%	<u>(140,000)</u>
Net exposure to cash flow interest rate risk		<u>175,474</u>		<u>155,877</u>

An analysis by remaining contractual maturities is shown in 'liquidity risk' management below.

An official increase/decrease in interest rates would have the following effect on profit before tax and equity per annum (note that the impact on interest rate swap contracts is nil as the hedge is effective):

Consolidated - 2018	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Bank loans	100	(1,755)	(1,229)	100	1,755	1,229
Interest rate swap contracts	100	<u>-</u>	<u>-</u>	100	<u>-</u>	<u>-</u>
		<u>(1,755)</u>	<u>(1,229)</u>		<u>1,755</u>	<u>1,229</u>

Consolidated - 2017	Basis points increase			Basis points decrease		
	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Bank loans	100	(1,559)	(1,091)	100	1,559	1,091
Interest rate swap contracts	100	<u>-</u>	<u>-</u>	100	<u>-</u>	<u>-</u>
		<u>(1,559)</u>	<u>(1,091)</u>		<u>1,559</u>	<u>1,091</u>

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity is not exposed to any significant credit risk given the nature of the consolidated entity's operations generate cash and credit card revenue.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the consolidated financial statements

1 July 2018

Note 29. Financial instruments (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2018 \$'000	2017 \$'000
Bank loans	60,046	120,109

Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time and have an average maturity of 1.94 years (2017: 2.94 years).

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2018	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	58,612	-	-	-	58,612
GST payable	-	6,691	-	-	-	6,691
Other payables	-	2,612	-	-	-	2,612
<i>Interest-bearing - variable</i>						
Bank loans	4.52%	11,905	1,700	301,869	-	315,474
Lease liability	5.49%	274	229	203	-	706
Total non-derivatives		80,094	1,929	302,072	-	384,095
Derivatives						
Interest rate swaps net settled	-	55	55	19	-	129
Total derivatives		55	55	19	-	129

Notes to the consolidated financial statements

1 July 2018

Note 29. Financial instruments (continued)

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated – 2017 (Restated)	%	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-	52,937	-	-	-	52,937
GST payable	-	3,990	-	-	-	3,990
Other payables	-	13,674	-	-	-	13,674
<i>Interest-bearing - variable</i>						
Bank loans	4.73%	-	89,315	206,562	-	295,877
Lease liability	5.89%	198	213	545	-	956
Total non-derivatives		70,799	89,528	207,107	-	367,434
Derivatives						
Interest rate swaps net settled	-	55	55	84	-	194
Total derivatives		55	55	84	-	194

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

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 30. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 2018				
<i>Assets</i>				
Interest rate swap contracts	-	129	-	129
Total assets	-	129	-	129
Consolidated - 2017				
<i>Assets</i>				
Interest rate swap contracts	-	194	-	194
Total assets	-	194	-	194

There were no transfers between levels during the financial year.

Notes to the consolidated financial statements

1 July 2018

Note 30. Fair value measurement (continued)

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature. Bank loans approximate fair value of the carrying amount on the basis of the variable nature of the interest rates associated with the loans.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Bank loans approximate fair value of the carrying amount on the basis of the variable nature of the interest rates associated with the loans.

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

Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

Note 31. Key management personnel disclosures

Compensation

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

	Consolidated	
	2018	2017
	52 weeks	53 weeks
	\$	\$
Short-term employee benefits	3,911,655	3,175,884
Post-employment benefits	80,986	84,886
Share-based payments	263,524	127,986
	<u>4,256,165</u>	<u>3,388,756</u>

The short-term employee benefits provided in FY18 includes a total separation payment of \$764,394 for previous key management personnel.

Notes to the consolidated financial statements

1 July 2018

Note 32. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the company, and its network firms:

	Consolidated	
	2018	2017
	52 weeks	53 weeks
	\$	\$
<i>Audit services - PwC</i>		
Audit or review of the financial statements	549,500	463,000
<i>Other services - PwC</i>		
Other assurance services	168,650	-
Tax advice on research and development	-	85,148
Advisory Service	-	40,000
	<u>168,650</u>	<u>125,148</u>
	<u>718,150</u>	<u>588,148</u>
<i>Audit services - network firms of PwC</i>		
Audit or review of the financial statements	106,482	63,387
<i>Other services - network firms of PwC</i>		
Other assurance services	20,274	-
	<u>126,756</u>	<u>63,387</u>

Note 33. Contingent liabilities

The consolidated entity has provided bank guarantees to various landlords in relation to leases of subsidiaries.

	Consolidated	
	2018	2017
	\$'000	\$'000
Bank guarantees	<u>11,360</u>	<u>8,415</u>

Notes to the consolidated financial statements

1 July 2018

Note 34. Commitments

	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	1,601	2,628
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	76,684	70,979
One to five years	213,687	233,647
More than five years	56,334	35,051
	<u>346,705</u>	<u>339,677</u>
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	321	274
One to five years	439	758
	<u>760</u>	<u>1,032</u>
Total commitment	760	1,032
Less: Future finance charges	(54)	(76)
	<u>706</u>	<u>956</u>
Net commitment recognised as liabilities	<u>706</u>	<u>956</u>
Representing:		
Lease liability - current (note 17)	274	198
Lease liability - non-current (note 20)	432	758
	<u>706</u>	<u>956</u>

Operating lease commitments includes contracted amounts for leased premises, vehicles and forklift equipment under non- cancellable operating leases expiring within 1 to 10 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$1,304,000 (2017: \$1,665,000) under finance leases expiring within 1 to 3 years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Note 35. Related party transactions

Parent entity

Greencross Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 38.

Key management personnel

Disclosures relating to key management personnel are set out in note 31 and the remuneration report included in the directors' report.

Notes to the consolidated financial statements

1 July 2018

Note 35. Related party transactions (continued)

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2018	2017
	52 weeks	53 weeks
	\$	\$
Payment for other expenses:		
Rent and outgoings paid to Greencross Properties Pty Ltd, an entity controlled by director Dr Glen Richards.	90,626	101,062
Rent and outgoings paid to KCORM Property Trust, an entity controlled by director Dr Glen Richards.	-	131,535
Fees paid to Paul Wilson for his role as Chairman of Animates NZ Holdings Limited	28,272	26,250

Receivable from and payable to related parties

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

Loans to/from related parties

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

Terms and conditions

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

Note 36. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2018	2017
	52 weeks	53 weeks
	\$'000	\$'000
Profit after income tax	24,642	25,208
Total comprehensive income	24,642	25,208

Statement of financial position

Notes to the consolidated financial statements

1 July 2018

Note 36. Parent entity information (continued)

	Parent	
	2018 \$'000	2017 \$'000
Total current assets	4,535	4,493
Total assets	571,599	531,226
Total current liabilities	941	(1,062)
Total liabilities	941	(7,886)
Equity		
Contributed equity	708,457	696,678
Share-based payments reserve	(742)	972
Accumulated losses	(138,360)	(158,538)
Profit reserve	1,303	-
Total equity	570,658	539,112

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

The parent entity has provided financial guarantees in respect of the bank overdraft and the bank loans of the subsidiaries amounting to \$301,862,000 (2017: \$279,862,000), secured by a registered charge over the assets of the parent entity and its subsidiaries.

No liability was recognised by the parent entity in relation to these guarantees as the liability for the bank overdraft and the bank loans are recorded in the relevant subsidiaries of the parent entity.

Contingent liabilities

The parent entity had no contingent liabilities as at 1 July 2018 and 2 July 2017.

The parent entity has and will continue to receive dividends from its subsidiaries in order to have appropriate profit reserves given the accumulated losses to be able to pay dividends to its shareholders. There was and is sufficient retained profits in the subsidiaries in order to satisfy dividend payment obligations during the year as well as at 1 July 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 1 July 2018 and 2 June 2017.

Significant accounting policies

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

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.

Note 37. Business combinations

Business combinations

During the financial year the Group acquired a further 3 veterinary clinics in Australia and 2 retail stores in Australia via a combination of share and asset purchases for total consideration of \$13,663,000.

Notes to the consolidated financial statements

1 July 2018

Note 37. Business combinations (continued)

	Fair value \$'000
Cash and cash equivalents	180
Inventories	460
Prepayments	9
Other current assets	14
Plant and equipment	2,270
Deferred tax asset	40
Other non-current assets	3
Other payables	(160)
Employee benefits	(122)
	<hr/>
Net assets acquired	2,694
Goodwill	10,969
	<hr/>
Acquisition-date fair value of the total consideration transferred	<u>13,663</u>
Representing:	
Cash paid or payable to vendor	13,493
Contingent consideration	170
	<hr/>
	<u>13,663</u>

	Consolidated	
	2018 52 weeks \$'000	2017 53 weeks \$'000
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	13,663	18,012
Less: cash and cash equivalents	(180)	-
Less: deferred settlement	(270)	-
Less: contingent consideration	(170)	(403)
	<hr/>	<hr/>
Net cash used	<u>13,043</u>	<u>17,609</u>

Note 38. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
Greencross Operations Pty Ltd *	Australia	100.00%	100.00%
Greencross NSW Pty Ltd *	Australia	100.00%	100.00%
Greencross Townsville Pty Ltd *	Australia	100.00%	100.00%
Seabeach Pty Ltd *	Australia	100.00%	100.00%
Gorrie Veterinary Services Pty Ltd *	Australia	100.00%	100.00%
Chermside Veterinary Hospital Pty Ltd *	Australia	100.00%	100.00%
Veterinary Referral Services Pty Ltd *	Australia	70.00%	70.00%

Notes to the consolidated financial statements

1 July 2018

Note 38. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
Pet Accident and Emergency Pty Ltd *	Australia	90.00%	90.00%
Gold Coast Animal Referral & Emergency Pty Ltd *	Australia	90.00%	90.00%
Animal Emergency Centre Woolloongabba Pty Ltd *	Australia	100.00%	100.00%
Animal Emergency Centre Pty Ltd *	Australia	75.31%	75.31%
Animal Emergency Centre (Frankston) Pty Ltd *	Australia	75.31%	75.31%
Animal Emergency Centre Hallam Pty Ltd *	Australia	75.31%	75.31%
Williamstown Veterinary Holdings Pty Ltd *	Australia	100.00%	100.00%
Williamstown Veterinary Hospital Pty Ltd *	Australia	100.00%	100.00%
Point Cook Animal Hospital Pty Ltd *	Australia	100.00%	100.00%
Point Cook Unit Trust *	Australia	100.00%	100.00%
Pets First Hoppers Crossing Pty Ltd *	Australia	100.00%	100.00%
Anvet Werribee Pty Ltd *	Australia	100.00%	100.00%
Greencross Vets Toowoomba Pty Ltd *	Australia	100.00%	100.00%
Greencross Vets Southcoast Pty. Ltd. *	Australia	100.00%	100.00%
Vepa Labs Pty Ltd *	Australia	100.00%	100.00%
Vetmax Pty Ltd *	Australia	100.00%	100.00%
Animal Emergency Centre Toowoomba Pty. Ltd. *	Australia	65.00%	65.00%
Animal Emergency Centre Central Coast Pty Ltd *	Australia	38.38%	38.38%
Mammoth Pet Holdings Pty Limited	Australia	100.00%	100.00%
Petbarn Pty Limited	Australia	100.00%	100.00%
Mammoth Pet Pty Limited	Australia	100.00%	100.00%
Petbarn Properties Pty Limited	Australia	100.00%	100.00%
Animates NZ Holdings Limited	New Zealand	50.00%	50.00%
Freddy Holdings Pty Ltd	Australia	100.00%	100.00%
Petwise Pty Ltd	Australia	100.00%	100.00%
CF Group Holdings Pty Ltd	Australia	100.00%	100.00%
City Farmers Investments Pty Ltd	Australia	100.00%	100.00%
City Farmers Holdings Pty Ltd	Australia	100.00%	100.00%
CF Intermediate Holdings Pty Ltd	Australia	100.00%	100.00%
City Farmers Finance Pty Ltd	Australia	100.00%	100.00%
City Farmers Services Pty Ltd	Australia	100.00%	100.00%
City Farmers Retail Pty Ltd	Australia	100.00%	100.00%
City Farmers Been Pty Ltd	Australia	100.00%	100.00%
City Farmers Arun Pty Ltd	Australia	100.00%	100.00%
City Farmers Brwn Pty Ltd	Australia	100.00%	100.00%
City Farmers UNDR Pty Ltd	Australia	100.00%	100.00%
City Farmers MITC Pty Ltd	Australia	100.00%	100.00%
City Farmers Bedf Pty Lt	Australia	100.00%	100.00%
City Farmers MALG Pty Ltd	Australia	100.00%	100.00%
City Farmers MIDL Pty Ltd	Australia	100.00%	100.00%
City Farmers Belm Pty Ltd	Australia	100.00%	100.00%
City Farmers Will Pty Ltd	Australia	100.00%	100.00%
City Farmers Kelm Pty Ltd	Australia	100.00%	100.00%
City Farmers Cval Pty Ltd	Australia	100.00%	100.00%
City Farmers Rock Pty Ltd	Australia	100.00%	100.00%
City Farmers Mand Pty Ltd	Australia	100.00%	100.00%
City Farmers Wemb Pty Ltd	Australia	100.00%	100.00%
City Farmers Joon Pty Ltd	Australia	100.00%	100.00%
City Farmers Balc Pty Ltd	Australia	100.00%	100.00%
City Farmers CURR Pty Ltd	Australia	100.00%	100.00%

Notes to the consolidated financial statements

1 July 2018

Note 38. Interests in subsidiaries (continued)

Name	Principal place of business / Country of incorporation	Ownership interest	
		2018 %	2017 %
City Farmers Whit Pty Ltd	Australia	100.00%	100.00%
Flea Boy and Tick Girl Pty Ltd	Australia	100.00%	100.00%
Veterinary Holdings Pty Limited	Australia	50.10%	50.10%
The Animal Referral Hospital Pty Ltd	Australia	50.10%	50.10%
Animal Emergency Centre Canberra	Australia	50.10%	50.10%
Animal Referral Hospital Canberra	Australia	30.06%	30.06%
HMS Software Pty Limited	Australia	100.00%	100.00%
Melbourne Veterinary Specialist Centre *	Australia	72.00%	72.00%
Southern Animal Referral Centre Pty Ltd *	Australia	100.00%	100.00%
Greencross Pet Friends Pty Ltd	Australia	51.00%	51.00%
Greencross White Hills Pty Ltd	Australia	75.00%	75.00%
Petrest Pty Ltd	Australia	100.00%	100.00%
Greencross Western Australia Pty Ltd	Australia	100.00%	100.00%
Inion Pty Ltd	Australia	100.00%	100.00%
Adelaide Animal Emergency Centre Pty Ltd	Australia	46.09%	40.80%
Animal Referral Hospital Brisbane Pty Ltd	Australia	27.56%	27.56%
Animal Emergency Hospital Melbourne	Australia	26.55%	-
Coreen Avenue Pty Ltd	Australia	100.00%	-

* Interests in subsidiaries that were acquired as part of the merger with Mammoth.

Notes to the consolidated financial statements

1 July 2018

Note 38. Interests in subsidiaries (continued)

Summarised financial information

Summarised financial information of the subsidiary with non-controlling interests that is material to the consolidated entity are set out below:

	Animates NZ Holdings Limited	
	2018	2017
	\$'000	\$'000
<i>Summarised statement of financial position</i>		
Current assets	17,915	17,518
Non-current assets	41,426	38,946
Total assets	59,341	56,464
Current liabilities	29,726	18,915
Non-current liabilities	815	14,412
Total liabilities	30,541	33,327
Net assets	28,800	23,137
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	105,684	98,064
Expenses	(97,260)	(88,629)
Profit before income tax expense	8,424	9,435
Income tax expense	(2,359)	(2,636)
Profit after income tax expense	6,065	6,799
Other comprehensive income	-	-
Total comprehensive income	6,065	6,799
<i>Other financial information</i>		
Profit attributable to non-controlling interests	3,035	3,399

Notes to the consolidated financial statements

1 July 2018

Note 39. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Greencross Limited
Greencross Operations Pty Ltd
Greencross NSW Pty Ltd
Greencross Townsville Pty Ltd
Mammoth Pet Holdings Pty Limited
Petbarn Pty Limited
Mammoth Pet Pty Limited
City Farmers Investments Pty Ltd
City Farmers Holdings Pty Ltd
CF Group Holdings Pty Ltd
CF Intermediate Holdings Pty Ltd
City Farmers Finance Pty Ltd
City Farmers Services Pty Ltd
City Farmers Retail Pty Ltd
City Farmers Been Pty Ltd
City Farmers Arun Pty Ltd
City Farmers Brwn Pty Ltd
City Farmers UNDR Pty Ltd
City Farmers MITC Pty Ltd
City Farmers Bedf Pty Ltd
City Farmers MALG Pty Ltd
City Farmers MIDL Pty Ltd
City Farmers Belm Pty Ltd
City Farmers Will Pty Ltd
City Farmers Kelm Pty Ltd
City Farmers Cval Pty Ltd
City Farmers Rock Pty Ltd
City Farmers Mand Pty Ltd
City Farmers Wemb Pty Ltd
City Farmers Joon Pty Ltd
City Farmers Balc Pty Ltd
City Farmers CURR Pty Ltd
City Farmers Whit Pty Ltd
Flea Boy and Tick Girl Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Greencross Limited, they also represent the 'Extended Closed Group'.

Notes to the consolidated financial statements

1 July 2018

Note 39. Deed of cross guarantee (continued)

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

	2018	2017
	52 weeks	53 weeks
	\$'000	\$'000
Statement of profit or loss and other comprehensive income		
Revenue	675,100	648,167
Other income	1,774	1,814
Cost of sales of goods	(315,387)	(297,465)
Employee benefits expense	(175,053)	(160,025)
Depreciation and amortisation expense	(22,262)	(18,579)
Impairment of assets	(11,354)	-
Marketing costs	(9,799)	(10,092)
Occupancy costs	(76,006)	(74,318)
Administration costs	(33,644)	(29,336)
Acquisition costs	(1,307)	(1,512)
Finance costs	(14,219)	(13,636)
	<u>17,843</u>	<u>45,018</u>
Profit before income tax expense	17,843	45,018
Income tax expense	(4,442)	(10,005)
	<u>13,401</u>	<u>35,013</u>
Profit after income tax expense	13,401	35,013
Other comprehensive income for the period, net of tax	-	-
	<u>-</u>	<u>-</u>
Total comprehensive income for the period	<u>13,401</u>	<u>35,013</u>
	2018	2017
	52 weeks	53 weeks
	\$'000	\$'000
Equity - accumulated losses		
Accumulated losses at the beginning of the financial period	(86,359)	(121,372)
Profit after income tax expense	13,401	35,013
	<u>(72,958)</u>	<u>(86,359)</u>
Accumulated losses at the end of the financial period	<u>(72,958)</u>	<u>(86,359)</u>

Notes to the consolidated financial statements

1 July 2018

Note 39. Deed of cross guarantee (continued)

Statement of financial position	2018 \$'000	2017 \$'000
Current assets		
Cash and cash equivalents	21,873	42,434
Trade and other receivables	9,842	28,126
Inventories	84,537	80,655
Current tax assets	3,273	(1,217)
Prepayments	810	1,300
Other	144	139
	<u>120,479</u>	<u>151,437</u>
Non-current assets		
Other financial assets	19,522	19,522
Property, plant and equipment	153,655	143,335
Intangibles	599,202	526,610
Deferred tax	21,434	23,822
	<u>793,813</u>	<u>713,289</u>
Total assets	<u>914,292</u>	<u>864,726</u>
Current liabilities		
Trade and other payables	82,741	75,587
Provisions	20,626	18,968
	<u>103,367</u>	<u>94,555</u>
Non-current liabilities		
Borrowings	299,671	276,285
Derivative financial instruments	129	194
Deferred tax	2,511	4,591
Provisions	17,733	18,962
	<u>320,044</u>	<u>300,032</u>
Total liabilities	<u>423,411</u>	<u>394,587</u>
Net assets	<u>490,881</u>	<u>470,139</u>
Equity		
Contributed equity	564,103	552,324
Reserves	(264)	4,174
Accumulated losses	(72,958)	(86,359)
Total equity	<u>490,881</u>	<u>470,139</u>

Note 40. Events after the reporting period

During August 2018, the Group undertook a refinance of the NZ\$15.0 million senior facility with the Bank of New Zealand ("BNZ") facility through the 50% owned subsidiary Animates NZ Holdings Limited, maintaining the current facility of NZ\$15m and providing increased tenor. The renewed facility will now expire on 31 December 2021 and has a bullet repayment due at expiry.

Apart from the dividend declared as disclosed in Note 28, no other matter or circumstance has arisen since 1 July 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Notes to the consolidated financial statements

1 July 2018

Note 41. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2018 52 weeks \$'000	2017 53 weeks \$'000
Profit after income tax expense for the period	23,963	47,348
Adjustments for:		
Depreciation and amortisation	27,928	23,140
Impairment of property, plant and equipment	13,034	-
Share-based payments	736	(214)
Non-cash finance costs	1,488	1,244
Non-cash movements in reserves	718	(626)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,626)	(2,406)
Increase in inventories	(130)	(4,540)
Decrease in deferred tax assets	505	3,012
Decrease/(increase) in prepayments	461	(866)
Increase in trade and other payables	6,264	7,024
Increase/(decrease) in provision for income tax	(6,242)	2,671
Decrease in other provisions	(1,486)	(800)
Net cash from operating activities	<u>65,613</u>	<u>74,987</u>

Note 42. Non-cash investing and financing activities

	Consolidated	
	2018 52 weeks \$'000	2017 53 weeks \$'000
Shares issued under dividend reinvestment plan	<u>11,779</u>	<u>21,883</u>

Note 43. Earnings per share

	Consolidated	
	2018 52 weeks \$'000	2017 53 weeks \$'000
Profit after income tax	23,963	47,348
Non-controlling interest	(3,306)	(5,293)
Profit after income tax attributable to the owners of Greencross Limited	<u>20,657</u>	<u>42,055</u>

Notes to the consolidated financial statements

1 July 2018

Note 43. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	117,914,136	116,142,197
Adjustments for calculation of diluted earnings per share:		
Performance rights	<u>538,092</u>	<u>934,981</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>118,452,228</u>	<u>117,077,178</u>
	Cents	Cents
Basic earnings per share	17.52	36.21
Diluted earnings per share	17.44	35.92

Note 44. Share-based payments

Executive Short Term Incentive Plan (FY17 'STIP')

The Group has implemented an "at risk" STIP which rewards executives for meeting or exceeding annual performance thresholds. Part of this reward is delivered as deferred share rights, subject to forfeiture conditions, to align rewards with shareholder interests. The performance rights, granted on 11 December 2017 will vest on 1 July 2018 when they automatically convert into one ordinary share each at an exercise price of nil.

Under the STIP participants are granted performance rights provided certain performance conditions are met in relation to the financial year ended 1 July 2018.

The Board can exercise its discretion to amend any element of the STIP.

At the date of signing this report no performance rights granted to executives have been exercised due to the security trading blackout period guidelines set forth under ASX Listing Rules 12.9-12.12.

Notes to the consolidated financial statements

1 July 2018

Note 44. Share-based payments (continued)

Executive Long Term Incentive Plan ('LTIP')

FY15 LTIP

The Group has implemented an Executive LTIP for key management personnel executives with performance rights granted over ordinary fully paid shares, subject to forfeiture conditions, which will vest to the extent that the Board determines that:

- the performance condition(s) have been satisfied during the performance period; and
- the participant was continuously employed by the Company until the vesting date of the rights

A 3-year performance period will apply (1 July 2014 to 30 June 2017) with performance conditions tested, and any vesting occurring, following the announcement of the FY17 full year result, on or around September 2017. The scheme employs two performance hurdles: EPS Growth and ROIC, both measured over the 3 year performance period against threshold and maximum hurdles.

The number of performance rights each participant receives is determined by dividing the dollar value of the maximum LTIP award by the allocation price. The allocation price in respect of the rights is calculated as the volume weighted average price of the Company's shares over the five trading days immediately before, and the five trading days immediately following, the announcement of the Company's FY14 results.

FY16 LTIP

The Group has implemented an Executive LTIP for key management personnel executives with performance rights granted over ordinary fully paid shares, subject to forfeiture conditions, which will vest to the extent that the Board determines that:

- the performance condition(s) have been satisfied during the performance period; and
- the participant was continuously employed by the Company until the vesting date of the rights

A 3-year performance period will apply (1 July 2015 to 30 June 2018) with performance conditions tested, and any vesting occurring, following the announcement of the FY18 full year result, on or around September 2018. The scheme employs three performance hurdles: EPS Growth, ROIC and total shareholder return (TSR) . All performance hurdles are measured over the 3 year performance period against threshold and maximum hurdles.

The number of performance rights each participant receives is determined by dividing the dollar value of the maximum LTIP award by the allocation price. The allocation price in respect of the rights is calculated as the volume weighted average price of the Company's shares over the five trading days immediately before, and the five trading days immediately following, the announcement of the Company's FY15 results.

FY17 LTIP

The Group has implemented an Executive LTIP for key management personnel executives with performance rights granted over ordinary fully paid shares, subject to forfeiture conditions, which will vest to the extent that the Board determines that:

- the performance condition(s) have been satisfied during the performance period; and
- the participant was continuously employed by the Company until the vesting date of the rights

A 3-year performance period will apply (1 July 2016 to 30 June 2019) with performance conditions tested, and any vesting occurring, following the announcement of the FY19 full year result, on or around September 2019. The scheme employs three performance hurdles: EPS Growth, ROIC and total shareholder return (TSR) . All performance hurdles are measured over the 3 year performance period against threshold and maximum hurdles.

The number of performance rights each participant receives is determined by dividing the dollar value of the maximum LTIP award by the allocation price. The allocation price in respect of the rights is calculated as the volume weighted average price of the Company's shares over the five trading days immediately before, and the five trading days immediately following, the announcement of the Company's FY16 results.

Notes to the consolidated financial statements

1 July 2018

Note 44. Share-based payments (continued)

FY18 LTIP

The Group has implemented an Executive LTIP for key management personnel executives with performance rights granted over ordinary fully paid shares, subject to forfeiture conditions, which will vest to the extent that the Board determines that:

- the performance condition(s) have been satisfied during the performance period; and
- the participant was continuously employed by the Company until the vesting date of the rights

A 3-year performance period will apply (1 July 2017 to 30 June 2020) with performance conditions tested, and any vesting occurring, following the announcement of the FY20 full year result, on or around September 2020. The scheme employs three performance hurdles: EPS Growth, ROIC and total shareholder return (TSR) . All performance hurdles are measured over the 3 year performance period against threshold and maximum hurdles.

The number of performance rights each participant receives is determined by dividing the dollar value of the maximum LTIP award by the allocation price. The allocation price in respect of the rights is calculated as the volume weighted average price of the Company's shares over the five trading days immediately before, and the five trading days immediately following, the announcement of the Company's FY17 results.

Set out below are summaries of performance rights granted under the plan:

2018

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised *	Expired/ forfeited/ other	Balance at the end of the period
30/06/2014	30/06/2017	\$0.00	60,717	-	(4,286)	(56,431)	-
30/06/2015	30/06/2018	\$0.00	85,717	-	-	(52,722)	32,995
30/06/2016	30/06/2019	\$0.00	145,721	-	-	(84,707)	61,014
30/06/2017	30/06/2020	\$0.00	-	219,449	-	(98,261)	121,188
			<u>292,155</u>	<u>219,449</u>	<u>(4,286)</u>	<u>(292,121)</u>	<u>215,197</u>

*Vesting of performance rights granted under FY15 LTIP.

2017

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
30/06/2014	30/06/2017	\$0.00	60,717	-	-	-	60,717
30/06/2015	30/06/2018	\$0.00	129,245	-	-	(43,528)	85,717
30/06/2016	30/06/2019	\$0.00	-	145,721	-	-	145,721
			<u>189,962</u>	<u>145,721</u>	<u>-</u>	<u>(43,528)</u>	<u>292,155</u>

Directors' declaration

For the period ended 1 July 2018

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 1 July 2018 and of its performance for the financial period ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 39 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Simon Hickey
Managing Director

20 August 2018
Sydney



Independent auditor's report

To the members of Greencross Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Greencross Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 1 July 2018 and of its financial performance for the period 3 July 2017 to 1 July 2018
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 1 July 2018
- the consolidated statement of changes in equity for the period 3 July 2017 to 1 July 2018
- the consolidated statement of cash flows for the period 3 July 2017 to 1 July 2018
- the consolidated statement of profit or loss and other comprehensive income for the period 3 July 2017 to 1 July 2018
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Greencross Limited is an Australian company listed on the Australian Stock Exchange that provides pet retail and veterinary services across Australia and New Zealand, with finance functions in both Sydney and Auckland.



<i>Materiality</i>	<i>Audit scope</i>	<i>Key audit matters</i>
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$2.4 million, which represents approximately 5% of the Group's profit before tax adjusted for the impact of unusual or infrequently occurring items (as described below). We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group profit before tax because, in our view, it is the benchmark against which 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. The Group consists of three segments - Retail, Vet and New Zealand, and operates within two geographical locations, being Australia and New Zealand. We decided the nature, timing and extent of work that needed to be performed by us and component auditors operating under our instruction. We then structured our approach as follows: <ul style="list-style-type: none"> We performed audit procedures in relation to the 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> <input type="checkbox"/> Goodwill impairment assessment <input type="checkbox"/> Impairment of software intangible assets <input type="checkbox"/> Capitalisation and amortisation of software <input type="checkbox"/> Inventory valuation and existence These are further described in the <i>Key audit matters</i> section of our report.

the performance of the Group is most commonly measured and is a generally accepted benchmark for profit-oriented entities. We adjusted for the impact of the impairment charges recognised, restructuring expenses, onerous lease provision release and incidental provisions resulting from the strategic review, as these were unusual or infrequently occurring matters impacting the Group's profit before tax.

- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

financially significant components of the Australian and New Zealand reporting units.

- We performed further audit procedures at a Group level, including over the consolidation of the Group's reporting units and the preparation of the financial report
- In cases where audit procedures were performed by component auditors in New Zealand, we decided on the level of involvement required from us to be able to conclude whether sufficient and appropriate audit evidence had been obtained. Our involvement with the component auditors included discussions with them, review of the audit procedures performed by them, written instructions to them and receiving reporting throughout the period from them.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter

How our audit addressed the key audit matter

Goodwill impairment assessment

Refer to Note 14 'Non-current assets – Intangibles' (\$560.5m) and Note 3 'Critical accounting judgements, estimates and assumptions'

We focused on the Group's assessment of the recoverability of goodwill as a key audit matter because of its size and the significant judgements applied by the directors in the assessment of the value in use of the Group's Cash Generating Units (CGUs).

Management have prepared a discounted cash flow model which was used to estimate the recoverable amount of the assets (the impairment model).

Key judgements made by the directors include the determination of the appropriate groups of CGUs, estimating the future cash flows used in the value in use model and determining the appropriate discount rates to be applied to the future cash flow forecasts.

Goodwill has been allocated to three groupings of CGUs representing the Retail Australia, Vet Australia and New Zealand divisions.

We assessed whether the allocation of the Group's intangible assets into groups of CGUs to assess impairment, was consistent with our knowledge of the Group's operations and internal Group reporting.

We assessed whether the forecast cash flows used in the impairment model were consistent with the most up to date budgets formally approved by the Board, and that the cash flows beyond those covered by the formal budgets assumed a reasonable growth rate. In addition we assessed the mathematical accuracy of the impairment model.

We considered the key assumptions applied in the Group's impairment model. In particular, we performed the following, among other things:

- We considered for each group of CGUs whether the cash flows for the five year forecast period for each revenue stream were reasonable and based on supported assumptions using our knowledge of the industry, business and the historical performance of the Group.
- We compared the growth rates for years 2 to 5 to the Group's historical averages and the terminal growth rate in the model to economic and industry forecasts.
- We compared the discount rates used to a range of rates determined by us with assistance from PwC valuation experts.
- We performed sensitivity analyses to assess the impact on the outcome of the model if forecasts and discount rates varied from the assumptions used.
- Given the trading performance of the Vet Australia business during the period, we also considered the assumptions under

- which an impairment would occur and whether this was reasonably possible.
- We assessed the disclosures in the financial statements in light of the requirements of Australian Accounting Standards.

Impairment of software intangible assets

Refer to Note 14 'Non-current assets – intangibles' (\$10.1m) and Note 3 'Critical accounting judgements, estimates and assumptions'

As part of the Group's strategic review of operations, a decision was made to no longer continue development or utilisation of certain software assets which had been previously capitalised.

The Group as a result impaired \$10.1m of software intangible assets during the financial period. This was a key audit matter because of the magnitude of the balance and its non-recurring nature.

We compared the value of the impairment expense to the carrying value of the intangible asset recorded in the intangible asset register immediately prior to the impairment.

We obtained an understanding of the commercial position of management's strategic review for each of the software intangible assets, supporting the impairment expense recognised. We held discussions with the project managers on each of these projects to understand whether the software would be utilised in the future or whether the current form of the software would continue to generate future economic benefits that supports its current carrying value.

Capitalisation and amortisation of software

Refer to Note 14 'Non-current assets – intangibles' (\$34.3m) and Note 3 'Critical accounting judgements, estimates and assumptions'

Greencross has developed and continues to develop software used to operate the systems that support the business such as the inventory ordering and management tools, and those which support the Group's business' interaction with its customers such as the online retail platform.

We focused on this as a key audit matter due to the size of the capitalised balance, and because there was judgement involved in assessing whether the criteria set out in Australian Accounting Standards for the capitalisation of

We obtained a breakdown, by value, of all individual development projects capitalised in the period and reconciled this to the amounts recorded in the general ledger.

For all projects where capitalised costs during the period were in excess of \$0.6m, we considered whether the specific requirements of Australian Accounting Standards were met as follows:

- We obtained an understanding of the nature of the project through discussion
-

such costs (internal employee costs or external third party) have been met, particularly around the technical feasibility of the software development project, the likelihood of the projects delivering sufficient future economic benefits and the ability of the Group to reliably measure the costs directly attributable to the intangible asset.

In addition there was judgement involved in determining the appropriate useful life over which to depreciate capitalised intangible assets.

- with the project manager
- We considered if the completion of the project was technically feasible through discussion with the project manager and based on our industry knowledge
- We obtained information that supports management's assessment that future economic benefits were attainable.

To determine whether capitalised employee costs were directly attributable to projects, for all projects we obtained a summary of hours worked on individual projects during the period, and selected a sample of employees from this list. For this sample we compared the hours worked per the summary to employee timesheets maintained by the project managers and compared the costs capitalised back to the relevant payroll records.

We also selected a sample of individuals who contributed higher value capitalised costs or who had a high proportion of capitalised time relative to their total salary, and met with project managers and employees to understand the employees' involvement in the relevant projects.

Where third parties were used in the development of software, we selected a sample of capitalised costs and inspected their invoices to verify the nature of work performed and the accuracy of costs capitalised to projects.

For existing and new projects, we considered if the estimated useful lives of intangible assets was consistent with our understanding of the nature of the projects and our industry knowledge and experience. For capitalised costs which the Group began to amortise during the period, we verified that the amortisation start date aligned with the availability of the software for use through discussion with project managers.

Inventory valuation and existence

Refer to Note 10 'Current assets – inventories' (\$98.1m) and Note 3 'Critical accounting judgements, estimates and assumptions'

The largest proportion of the Group's inventory at the end of the period related to inventory held by the Retail division in Australia. The Group made

We attended inventory counts throughout the period and at period end, at a sample of the Group's retail stores, veterinary clinics and distribution centres. We further considered and



provisions against this inventory during the financial period for shrinkage and slow-moving inventory.

Retail inventory was counted on a cyclical basis and as a result, the shrinkage provision contained a degree of estimation by the Group based on the historical shrinkage rates for items that were not counted at the period end date.

The provision for slow-moving inventory was based on historical data and assumptions about future sales, requiring judgement about the likely sales prices to be achieved for these items.

Following the strategic review of the business, management has begun implementing a plan around stock rationalisation and discounting which has resulted in an additional expense.

This was a key audit matter because of the magnitude of the balance and the judgements made by the Group when assessing the recoverability of the inventory.

assessed the results of other inventory counts performed throughout the period by the Group to verify inventory was counted and the records updated appropriately.

For the retail inventory identified by the Group as slow-moving, we had discussions with the commercial team regarding their inventory rationalisation plan, their assessment of the likely sales prices to be achieved for these items and the underlying support for them. We also tested the mathematical accuracy of the provision calculation. We compared the provision to the actual historical rates of inventory write-offs.

We tested the mathematical accuracy of the shrinkage provision calculation. To evaluate the reasonableness of the provision, we checked the input for the last count dates back to cycle count records to determine if shrinkage rates were appropriate. We also selected a sample of retail inventory items for which a shrinkage provision was recognised, and compared the shrinkage rates applied in the provision to actual historical rates observed as part of inventory counts.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the period 3 July 2017 to 1 July 2018, including the Directors' report, Corporate Governance Statement and Shareholder information, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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

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



Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 42 to 66 of the directors' report for the period 3 July 2017 to 1 July 2018.

In our opinion, the remuneration report of Greencross Limited for the period 3 July 2017 to 1 July 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.



Price Waterhouse Coopers .

PricewaterhouseCoopers

N. James .

Nicholas James
Partner

Sydney
20 August 2018

Shareholder information

1 July 2018

The shareholder information set out below was applicable as at 16 August 2018.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of ordinary shares
1 to 1,000	6,204	3,011,573
1,001 to 5,000	5,217	12,661,763
5,001 to 10,000	913	6,759,258
10,001 to 100,000	498	12,134,458
100,001 and over	55	85,407,240
	<u>12,887</u>	<u>119,974,292</u>
Holding less than a marketable parcel	<u>830</u>	<u>54,542</u>

Equity security holders

Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	33,000,127	27.51
J P MORGAN NOMINEES AUSTRALIA LIMITED	11,561,866	9.64
CITICORP NOMINEES PTY LIMITED	5,173,922	4.31
BNP PARIBAS NOMINEES PTY LTD	4,327,139	3.61
PREBEST PTY LIMITED	3,906,289	3.26
WILLEESE PTY LIMITED	3,099,349	2.58
JAMES SUPER FUND INV PTY LTD	2,399,704	2.00
MR JOHN DAVID ODLUM + MRS ANN ODLUM	2,292,408	1.91
CS THIRD NOMINEES PTY LIMITED	1,984,388	1.65
JODAV HOLDINGS PTY LTD	1,921,368	1.60
MAXIMUM (NQ) PTY LIMITED	1,896,734	1.58
PAPERBARK PTY LTD	1,473,274	1.23
NATIONAL NOMINEES LIMITED	1,467,076	1.22
BNP PARIBAS NOMS PTY LTD	1,006,571	0.84
MICHAEL ALAN + JOY LORRAINE HUME	618,377	0.52
BYERA PTY LTD	600,000	0.50
CITICORP NOMINEES PTY LIMITED	541,521	0.45
FHHP PTY LTD	532,935	0.44
DEBUSCEY PTY LTD	500,000	0.42
NAVIGATOR AUSTRALIA LTD	426,922	0.36
	<u>78,729,970</u>	<u>65.62</u>

Unquoted equity securities

There are no unquoted equity securities.

Shareholder information

1 July 2018

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Matthews International Capital Management, LLC	10,519,259	9.02
Lazard Asset Management Pacific Co	9,259,707	7.72
Connor, Clark & Lunn Financial Group Ltd	7,241,906	6.04

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

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Corporate directory

Directors

Stuart James – Chairman
Simon Hickey – Chief Executive Officer
Christina Boyce
Rebekah Horne
Chris Knoblanche
Dr Glen Richards
Paul Wilson

Company secretary

Vincent Pollaers

Registered office

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Facsimile: (07) 3435 3536

Principal place of business

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Share register

Link Market Services Limited
Level 12
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Australian Telephone: 1300 554 474
International Telephone: +61 1300 554 474
Facsimile: 02 9287 0303

Auditor

PricewaterhouseCoopers
One International Towers
Watermans Quay Barangaroo
Sydney NSW 2000

Solicitors

Clayton Utz
1 Bligh Street
Sydney NSW 2000

Bankers

Commonwealth Bank of Australia
240 Queen Street
Brisbane QLD 4000

National Australia Bank
255 George Street
Sydney NSW 2000

Stock exchange listing

Greencross Limited shares are listed
on the Australian Securities Exchange
(ASX code: GXL)

Website

greencrosslimited.com.au

Greencross Limited
The Pet Company

greencrosslimited.com.au