Integral Diagnostics Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Integral Diagnostics Limited
ABN:	55 130 832 816
Reporting period:	For the half-year ended 31 December 2019
Previous period	For the half-year ended 31 December 2018

2. Results for announcement to the market

			$'000
Revenues from ordinary activities	up	14.9% to	132,499
Profit from ordinary activities after tax attributable to the owners of Integral Diagnostics Limited	up	2.12% to	10,880
Profit for the half-year attributable to the owners of Integral Diagnostics Limited	up	2.12% to	10,880

Dividends

Dividends were declared and paid in respect of FY19 of 10.0 cents per share.

The Directors' declared a dividend of 5.5 cents per share (1H19: 5.0 cents per share) on the 19 February 2020 payable on 7 April 2020.

Comments

Statutory net profit after tax was up 1.9% to $10.9m (1H19: $10.7m). After adjusting for transaction, customer contract amortisation and other costs of $3.3m (1H19: $2.2m transaction costs and customer contract amortisation), operating net profit after tax was up 10.1% to $14.2m (1H19: $12.9m).

Revenue for 1H20 was up 14.9% to $132.5m (1H19: $115.3m).

The 1H20 results delivered growth both organically across all business units, and through acquisitions. The average fee per exam increased by 1.3% driven by the continuing move to higher end modalities. The half-year result has been impacted by:

- the loss of a trading day compared to the prior corresponding period;
- the North Melbourne Specialist and Research Centre being in ramp up phase, breaking even at EBITDA;
- major refurbishments at John Flynn Hospital on the Gold Coast and St John of God Hospital in Ballarat; and
- Australian acquisition of Imaging Queensland, included for two months in the 1H20.

IDX continues to provide patients and referrers with excellence in diagnostic imaging across Australia and New Zealand.

Acquisition integration

The acquisition of Imaging Queensland was completed effective 1 November 2019 with integration and operating performance being in line with expectations.

Cash flow and capital management

Equity was increased by $72.0m (net of costs $68.6m) through the successful, 1 for 5.91 pro rata accelerated non-renounceable entitlement offer in September 2019.

The proceeds from the entitlement offer were used to fund the acquisition of Imaging Queensland, and having allowed for reduction of the leverage of IDX to 2.0X trailing EBITDA/Net Debt as at 31 December 2019, provide capacity to fund additional acquisitions.

Cash flow and capital management (continued)

Free cash flow conversion, net of replacement capital expenditure was $30.4m (1HFY19 $28.2m). The weighted average cost of capital continues to decline and net debt/EBITDA ratio at 31 December 2019 was 2.0x (1HFY19: 2.2x).

Dividend

A first half, fully franked dividend of 5.5c per share (1H19: 5.0c per share) has been declared. The Company has implemented a dividend reinvestment plan (DRP) which will operate for the first time for 1H20 interim dividend.

Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(83.80)	(47.77)

Control gained over entities

Effective 1 November 2019, the group acquired the Imaging Queensland Group and its controlled entities, comprising:

- Imaging Queensland Pty Ltd
- IQ Radiology Pty Ltd
- SC Radiology Pty Ltd
- Sunshine Coast Radiology Pty Ltd
- CQ Radiology Pty Ltd
- Central Queensland Radiology Pty Ltd
- IQ Radiology Services Pty Ltd
- Bodyscreen Pty Ltd
- Integrated Pain Management Pty Ltd
- Queensland Nuclear Medicine Pty Ltd
- Radiology 24/7 Pty Ltd
- Imaging Queensland IP Pty Ltd
- Advanced Women's Imaging Pty Ltd

Loss of control over entities

Not applicable.

Dividends

Current period

	Declared Date	Amount per security Cents	Franked amount per security Cents
Dividend declared to shareholders of the Company	19 Feb 2020	5.5	5.5

Dividends (continued)

Previous period

	Date Paid	Amount per security Cents	Franked amount per security Cents
Interim Dividend paid to shareholders of the Company	2 Apr 2019	5.0	5.0
Final Dividend paid to shareholders of the Company	2 Oct 2019	5.0	5.0

Details of associates and joint venture entities

Not applicable.

Audit qualification or review

Details of audit/review dispute or qualification (if any)

This report is based on the half year financial report for the half year ended 31 December 2019, which has been reviewed by PricewaterhouseCoopers.

Additional Appendix 4D disclosures can be found in the attached half year financial report, which contains the Director's Report, the Director's declaration and the consolidated financial statements for the half year ended 31 December 2019.

This information should be reviewed in conjunction with the 2019 annual financial report and public announcements made in the period by Integral Diagnostics Limited, in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and ASX Listing Rules.

Attachments

Details of attachments (if any):

The Interim Financial Report of Integral Diagnostics Limited for the half-year ended 31 December 2019 is attached.

Signed

Signed

Date: 19 February 2020

Helen Kurincic
Independent - Non-Executive Chairman
Melbourne

Integral Diagnostics Limited

ABN 55 130 832 816

Interim Financial Report - 31 December 2019

Contents

Directors Report

The directors present their report, together with the financial statements, of the consolidated entity (referred to hereafter as the 'Group') consisting of Integral Diagnostics Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

Directors

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

Helen Kurincic (Independent Non-Executive Chairman)

John Atkin (Independent Non-Executive Director)

Rupert Harrington (Independent Non-Executive Director)

Raelene Murphy (Independent Non-Executive Director)

Dr Ian Kadish (Managing Director and Chief Executive Officer)

Dr Chien Ping Ho (Executive Director)

Dr Sally Sojan (Executive Director) – Resigned 1 November 2019

Dr Jacqueline Milne (Executive Director) – Appointed 1 November 2019

Principal activities

During the half-year, the principal continuing activity of the Group was the provision of diagnostic imaging services.

Significant changes in the state of affairs

Effective 1 November 2019, the Group acquired the shares of the Imaging Queensland Group (“IQ”) which is:

- A scale provider of diagnostic imaging services primarily operating in the major centres along Sunshine Coast, Moreton Bay, Rockhampton and Gladstone;
- A high quality, multi-brand portfolio with 19 strategically located radiology sites;
- Has a projected EBITDA contribution of $13m to $14m for CY2020;
- Has an experienced team of 16 long-tenured radiologists and approximately 270 employees; and
- Has 3 full and 2 partial MRI licenses

The key terms of the acquisition included:

- Upfront purchase consideration of $94.3 million on a cash and debt free basis, comprising $67.9m in cash and $26.4m in escrowed ordinary IDX shares;
- 80% of the equity will be held in escrow for up to five years; and
- A five-year staged earn-out for vendor radiologists based on earnings outperformance.

See Note 13 to the financial statements for full detail of this transaction.

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

Review of operations

Statutory net profit after tax was up 1.9% to $10.9m (1H19: $10.7m). After adjusting for transaction, acquisition integration, customer contract amortisation and other non-recurring costs of $3.3m (1H19: $2.2m transaction and other costs and customer contract amortisation), operating net profit after tax was up 10.1% to $14.2m (1H19: $12.9m).

Operating revenue for 1H20 was up 14.9% to $132.5m (1H19: $115.3m).

The 1H20 results delivered growth both organically across all business units, and through acquisitions. The average fee per exam increased by 1.3% driven by the continuing move to higher end modalities. The half-year result has been impacted by:

- the loss of a trading day compared to the prior corresponding period;
- the North Melbourne Specialist and Research Centre being in ramp up phase, breaking even at EBITDA;
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IDX continues to provide patients and referrers with excellence in diagnostic imaging across Australia and New Zealand.

Acquisition & integration

The acquisition of Imaging Queensland was completed effective 1 November 2019 with integration and operating performance being in line with expectations.

Cash Flow and Capital Management

Equity was increased by $72.0m (net of costs $68.6m) through the successful, 1 for 5.91 pro rata accelerated non-renounceable entitlement offer in September 2019.

The proceeds from the entitlement offer were used to fund the acquisition of Imaging Queensland, and having allowed for reduction of the leverage of IDX to 2.0X trailing EBITDA/Net Debt as at 31 December 2019, provide additional capacity to fund additional acquisitions.

Free cash flow conversion, net of replacement capital expenditure was $30.4m (1H19 $28.2m). The weighted average cost of capital continues to decline and net debt/EBITDA ratio at 31 December 2019 was 2.0x (1H19: 2.2x).

Dividend

A first half, fully franked dividend of 5.5c per share (1H19: 5.0c per share) has been declared. The Company has implemented a dividend reinvestment plan (DRP) which will operate for the first time for the 1H20 interim dividend.

Rounding of amounts

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

Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

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 6.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Helen Kurincic
Independent Non-Executive Chairman

Dr Ian Kadish
Managing Director and Chief Executive Officer

19 February 2020
Melbourne

Auditor's Independence Declaration

As lead auditor for the review of Integral Diagnostics Limited for the half-year ended 31 December 2019, 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Jason Perry
Partner
PricewaterhouseCoopers

Melbourne
19 February 2020

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
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Consolidated Statement of Profit or Loss

For the half-year ended 31 December 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Revenue			
Revenue	4	132,499	115,341
Interest and other income		194	167
Total revenue and other income		**132,693**	**115,508**
Expenses			
Consumables		(5,775)	(5,115)
Employee benefits		(75,541)	(64,224)
Depreciation		(6,494)	(5,329)
Amortisation of customer contracts		(869)	(1,495)
Amortisation of right of use asset		(3,907)	-
Transaction and integration costs		(2,971)	(1,016)
Equipment		(4,153)	(4,354)
Occupancy		(2,918)	(7,432)
Other		(9,682)	(7,720)
Share-based payment expense		(534)	(205)
Finance costs		(4,056)	(3,063)
Total expenses		**(116,900)**	**(99,953)**
Profit before income tax expense		**15,793**	**15,555**
Income tax expense		(4,913)	(4,901)
Profit for the half-year from continuing operations		**10,880**	**10,654**
Profit is attributable to:			
Owners of Integral Diagnostics Limited		10,880	10,654
		Cents	Cents
Earnings per share attributable to the owners of Integral Diagnostics Limited			
Basic earnings per share		6.18	6.86
Diluted earnings per share		6.14	6.82

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

Consolidated Statement of Comprehensive Income

For the half-year ended 31 December 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Profit for the half-year		**10,880**	**10,654**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations, net of tax		85	800
Net (loss)/gain on cash flow hedges		20	53
Other comprehensive income for the half-year, net of tax		**105**	**853**
Total comprehensive income for the half-year		**10,985**	**11,507**
Total comprehensive income for the half-year is attributable to:			
Owners of Integral Diagnostics Limited		10,985	11,507

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	31 Dec 2019 $'000	30 Jun 2019 $'000
Assets			
Current assets			
Cash and cash equivalents	5	26,824	20,967
Trade and other receivables		11,804	9,025
Other assets		6,205	3,452
Inventory		390	390
Total current assets		45,223	33,834
Non-current assets			
Property, plant and equipment		104,206	70,782
Right-of-use assets		88,168	-
Intangibles	7	300,520	202,253
Deferred tax assets		11,602	7,798
Total non-current assets		504,496	280,833
Total assets		**549,719**	**314,667**
Liabilities			
Current liabilities			
Trade and other payables		18,084	15,282
Derivative financial instrument		-	20
Deferred consideration		600	680
Borrowings	8	13,913	8,929
Lease liabilities	14	9,075	-
Income tax payable		1,375	1,724
Provisions		15,259	12,193
Total current liabilities		58,306	38,828
Non-current liabilities			
Borrowings	8	146,836	130,120
Deferred consideration		13,179	1,519
Lease liabilities	14	85,618	-
Deferred tax liability		11,145	7,952
Provisions		8,985	9,029
Total non-current liabilities		265,763	148,620
Total liabilities		**324,069**	**187,448**
Net assets		**225,650**	**127,219**
Equity			
Contributed capital	9	206,886	109,507
Reserves		(10,431)	(11,070)
Retained profits		29,195	28,782
Total equity		**225,650**	**127,219**

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

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2019

	Contributed capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2018	**83,425**	**(11,827)**	**21,824**	**93,422**
Profit for the half-year after income tax expense	-	-	10,654	10,654
Movement in the fair value of derivative financial instrument	-	53	-	53
Movement on translation of foreign operations	-	800	-	800
Total comprehensive income for the period	**-**	**853**	**10,654**	**11,507**
Transactions with owners in their capacity as owners:				
Performance rights issue	-	205	-	205
Unwinding of deferred tax asset in equity	37	-	-	37
Issue of ordinary shares as consideration for a business combination, net of transaction costs and tax	24,783	-	-	24,783
Dividends Paid (Note 10)	-	-	(6,216)	(6,216)
	24,820	**205**	**(6,216)**	**18,809**
Balance at 31 December 2018	**108,245**	**(10,769)**	**26,262**	**123,738**

	Contributed capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2019	**109,507**	**(11,070)**	**28,782**	**127,219**
Adjustment on first time adoption of AASB 16, net of tax effects	-	-	(2,624)	(2,624)
Adjusted balance at 1 July 2019	**109,507**	**(11,070)**	**26,158**	**124,595**
Profit for the half-year after income tax expense	-	-	10,880	10,880
Movement in fair value of derivative financial instrument	-	20	-	20
Movement on translation of foreign operations	-	85	-	85
Total comprehensive income for the period	**-**	**105**	**10,880**	**10,985**
Transactions with owners in their capacity as owners:				
Shares issued under radiologist incentive scheme	1,460	-	-	1,460
Shares issued under shareholder entitlement offers	72,023	-	-	72,023
Share based payments	-	534	-	534
Net deferred tax asset impact of transaction costs in equity	882	-	-	882
Shares issued as consideration for a business combination	26,484	-	-	26,484
Costs associated with issue of equity	(3,470)	-	-	(3,470)
Dividends paid (Note 10)	-	-	(7,843)	(7,843)
	97,379	**534**	**(7,843)**	**90,070**
Balance at 31 December 2019	**206,886**	**(10,431)**	**29,195**	**225,650**

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

Consolidated Statement of Cash Flows

For the half-year ended 31 December 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Cash flows from operating activities			
Receipts from customers		135,206	114,362
Payments to suppliers and employees		(101,705)	(90,524)
Transaction and integration costs relating to acquisition of subsidiaries		(2,971)	(811)
Interest and other finance costs paid		(4,056)	(3,063)
Interest received		194	167
Income taxes paid		(6,100)	(4,859)
Net cash from operating activities		**20,568**	**15,272**
Cash flows from investing activities			
Payments for purchase of subsidiaries, net of cash acquired	13	(66,277)	(76,841)
Payments in settlement of deferred consideration		(420)	-
Payments for property, plant and equipment		(17,033)	(5,250)
Proceeds from disposal of property, plant and equipment		-	-
Net cash used in investing activities		**(83,730)**	**(82,091)**
Cash flows from financing activities			
Proceeds from issue of share capital		73,483	-
Transaction costs on issued equity		(3,470)	-
Proceeds from borrowings drawn		15,000	131,334
Repayment of borrowings		(4,026)	(55,270)
Repayment of lease liabilities		(3,761)	-
Dividends paid to Company shareholders	10	(7,843)	(6,216)
Net cash used in financing activities		**69,383**	**69,848**
Net increase in cash and cash equivalents		6,221	3,029
Cash and cash equivalents at the beginning of the half-year		20,967	20,844
Effects of exchange rate changes on cash and cash equivalents		(364)	351
Cash and cash equivalents at the end of the half-year		**26,824**	**24,224**

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

Notes to the Financial Statements

Note 1. General information

The financial report covers Integral Diagnostics Limited as a Group consisting of Integral Diagnostics Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year (collectively referred to as the 'Group'). The financial statements are presented in Australian dollars, which is Integral Diagnostics Limited's functional and presentation currency and are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

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

Suite 9.02, Level 9
45 William Street
Melbourne VIC 3000

A description of the nature of the Group's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 19th February 2020.

Note 2. Significant accounting policies

These general-purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 *'Interim Financial Reporting'* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *'Interim Financial Reporting'*.

These general-purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Except for the adoption of the new and amended accounting standards as described below, the principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Basis of preparation

The financial report has been prepared on a going concern basis.

New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

New accounting standards adopted during the year

AASB 16 Leases

The group has adopted AASB 16 retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019 outlined in Note 14.

The accounting policy for leases has been updated and is applicable from 1 July 2019:

Property leases

From 1 July 2019, property leases are recognised as a right-of-use asset and a corresponding liability at the date at which the property is available for use by the group. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from property leases are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the Group's incremental borrowing rate of 3.5%, being the rate that would be paid to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Extension and termination options are included in most property leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. Most extension and termination options held are exercisable only by the group and thus it has been assumed that these are to be exercised in the measurement of lease liabilities and right of use assets.

Note 3. Segment information

Identification of reportable operating segments

The Group comprises the single reportable operating segment of the operation of diagnostic imaging facilities.

Accounting policy for 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) which includes the KMP of the Company. The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

Other information

Revenue is attributable to the country where the service was transacted. The consolidated entity operates in two main geographical areas, being Australia and New Zealand.

	31 Dec 2019 $'000	31 Dec 2018 $'000
Total revenue and other income from continuing operations		
Australia	119,333	103,116
New Zealand	13,166	12,225
	132,499	115,341
Total non-current assets		
Australia	398,942	172,215
New Zealand	105,554	100,226
	504,496	272,441

Note 4. Revenue

	Consolidated	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Sales revenue		
Services revenue	131,828	114,340
Other revenue		
Other revenue	671	1,001
Revenue	132,499	115,341

Accounting policy for revenue recognition

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

Rendering of services

Rendering of services revenue is recognised when medical imaging services are provided. The point of sale is deemed to be at the time an image is taken.

Note 5. Current assets - cash and cash equivalents

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Cash on hand	21	15
Cash at bank	26,803	20,952
	26,824	20,967

Note 6. Non-current assets - property, plant and equipment

Acquisitions and Disposals

During the six months ended 31 December 2019, the Group acquired assets and work in progress with a cost of $16.5m (six months ended 31 December 2018: $4.9m).

Note 7. Non-current assets - intangibles

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Goodwill – at cost	272,548	184,112
Brand names – at cost	25,039	17,246
Customer contracts – at cost	9,278	6,359
Less: Accumulated amortisation	(6,345)	(5,464)
	2,933	895
Total Intangible Assets	300,520	202,253

Reconciliations:

Reconciliation of the written down values at the beginning and end of the half year are set out below:

Consolidated	Note	Goodwill $'000	Brand names $'000	Customer contracts $'000	Total $'000
Balances at 1 July 2019		184,112	17,246	895	202,253
Acquisitions	13	88,042	7,900	2,900	98,842
Amortisation expense		-	-	(869)	(869)
Write off expense		-	(155)	-	(155)
Foreign exchange differences		394	48	7	449
Balance at 31 December 2019		272,548	25,039	2,933	300,520

Reconciliations of the carrying values by geographic segment are set out below:

Consolidated	Australia $'000	New Zealand $'000	Total $'000
Goodwill	190,515	82,033	272,548
Brand names	15,070	9,969	25,039
Customer contracts	2,797	136	2,933
Balance at 31 December 2019	208,382	92,138	300,520

Goodwill and brand names are tested for impairment annually (as at 30 June) and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill and intangible assets with indefinite lives is based on value in use calculations. The key assumptions used to determine the recoverable amount of goodwill were disclosed in the annual consolidated financial statements for the year ended 30 June 2019.

The Group considers current performance against expectations, amongst other factors when reviewing for indicators of impairment. As at 31 December 2019 the performance of the Group was in line with expectations, as such management's impairment considerations were limited to a review of potential impairment indicators. There were no potential impairment indicators identified as at 31 December 2019.

Note 8. Borrowings

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Current		
Asset financing facility	13,913	8,929
Non-current		
Asset financing facility	8,557	7,239
Club debt facility	138,279	122,881
	146,836	130,120
Total borrowings	160,749	139,049

At the 30 June 2019, the above asset financing and club facilities were presented as finance leases and borrowings respectively. The above presentation has been adopted to better reflect the nature of these facilities and does not represent a change to Group's financing arrangements.

Note 9. Equity - contributed capital

	Consolidated		Consolidated	
	31 Dec 2019 Shares	30 Jun 2019 Shares	31 Dec 2019 $'000	30 Jun 2019 $'000
Ordinary shares - fully paid	194,544,664	157,065,810	206,886	109,507

Issued capital movements relate to the issuing of shares as part of business combinations (refer note 13 for further details), employee share scheme and entitlement issues. Refer to the statement of changes in equity for further detail in relation to the movement in paid up capital for the period.

Movement in ordinary share capital	Date	Number of shares	Issue price	Total $'000
Balance at 1 July 2019		157,065,810		109,507
Shares issued under radiologist loan share scheme – self-funded[1]	2 Sep 2019	538,745	2.71	1,460
Shares issued under radiologist loan share scheme – loan-funded[1]	2 Sep 2019	590,453	-	-
Shares issued under institutional entitlement offer	4 Sep 2019	15,157,587	2.71	41,077
Shares issued under retail entitlement offer	30 Sep 2019	11,419,345	2.71	30,946
Shares issued as consideration for acquisition	8 Nov 2019	9,772,724	2.71	26,484
Capital raising costs				(3,470)
Net income tax effect of transaction costs in equity				882
Balance at 31 December 2019		194,544,664		206,886

[1] Eligible radiologists have been invited to participate in a loan funded share scheme where participants will be granted fully paid ordinary shares in the Company. Participants are required to make a cash contribution towards the purchase of shares (self-funded shares) and are granted a limited recourse loan from the Company which will be used to fund the acquisition of additional shares (loan-funded shares). The value of the loan shares is not attributable until the loan is fully repaid at the holder's option.

Note 10. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	31 Dec 2019 $'000	30 Jun 2019 $'000
Final Dividend paid 4 cents per share on 4 October 2018	-	6,216
Interim Dividend paid 5 cents per share on 1 April 2019	-	7,809
Final Dividend paid 5 cents per share on 2 October 2019	7,843	-
	7,843	14,025

Note 11. Related party transactions

The following transactions occurred with related parties in the six months ended 31 December 2019 and 2018.

	Consolidated	
	31 Dec 2019 $	31 Dec 2018 $
Payment for goods and services:		
Payment for rental of buildings to Eleven Eleven How Pty Ltd of which Doctor Chien Ho is related to:	149,866	205,225
Payment for rental of buildings to Kiwi Blue Pty Ltd of which Doctor Chien Ho is related to:	137,905	137,501

Terms and conditions

The related party transactions are historic in nature and relate to leases assumed from previous vendors when the business was privately held. Dr Chien Ho has a 6% interest in Eleven Eleven How Pty Ltd and a 9% interest in Kiwi Blue Pty Ltd. The leases cover three properties located in Ballarat, Ocean Grove and Melton. Payments to Eleven Eleven How Pty Ltd were lower than the prior corresponding period due to the timing of payments and are not reflective of any change to the underlying lease agreements.

All transactions with key management personnel are made on normal commercial terms and conditions and in the ordinary course of business. The Board has an established Related Parties Policy, that is overseen by the Audit, Risk and Compliance Committee (ARCC), to ensure that related party transactions are managed and disclosed in accordance with the Corporations Act 2001, ASX Listing Rule 10.1, accounting requirements and good governance practices, to ensure that a financial benefit is not provided to related parties without approval by the Board, and where required, shareholders. It is the Board's policy that independent reviews will be undertaken on any renewals and these reviews will be overseen by the ARCC.

Note 12. Contingent liabilities and commitments

The Group has given bank guarantees as at 31 December 2019 of $2.6m (31 December 2018: $2.1m) to various landlords.

The Group has capital commitments for plant and equipment of $1.8m as at 31 December 2019 (31 December 2018: $10.4m).

There has been no other significant change to the substance or value of commitments to those disclosed in the 30 June 2019 financial report.

Note 13. Business combinations

(a) Acquisitions completed in the current period

Effective 1 November 2019, the Group acquired the shares of the Imaging Queensland Group (IQ), which is:

- A scale provider of diagnostic imaging services primarily operating in the major centres along Sunshine Coast, Moreton Bay, Rockhampton and Gladstone;
- A high quality, multi-brand portfolio with 19 strategically located radiology sites;
- Has a projected EBITDA contribution of $13m to $14m for CY 2020;
- Has an experienced team of 16 long-tenured radiologists and approximately 270 employees; and
- Has 3 full and 2 partial MRI licenses.

The key terms of the acquisition include:

- Upfront purchase consideration of $94.4m on a cash and debt free basis, comprising $67.9m in cash and $26.4m in escrowed ordinary IDX shares;
- 80% of the equity will be held in escrow for up to five years; and
- A five-year staged earn-out for vendor radiologists based on earnings outperformance.

The purchase price accounting has not yet been finalised as at the date of this report, the initial values identified in relation to the acquisition are as follows.

Details of the acquisition are as follows:

	Recognised on acquisition fair value $'000
Plant and equipment	23,886
Right of use assets	21,865
Brand names	7,900
Customer contracts	2,900
Deferred tax	(1,993)
Borrowings	(10,942)
Lease liabilities	(21,865)
Employee benefits	(4,069)
Provisions	(2,143)
Cash assets	1,628
Working capital assets	3,843
Working capital liabilities	(2,663)
Net assets acquired	18,347
Goodwill	88,042
Acquisition-date fair value of the total consideration transferred	106,389
Representing:	
Cash paid to vendor	67,905
Integral Diagnostics Limited shares issued to vendor	26,484
Deferred consideration	12,000
	106,389

Note 13. Business combinations *(continued)*

(a) Acquisitions completed in the current period *(continued)*

Net cash acquired with subsidiary	1,628
Cash paid	(67,905)
Net cash flow on acquisition	(66,277)

(b) Acquisitions completed in the prior period

On 2nd July 2018, the Group acquired the assets and liabilities of the Specialist Radiology Group, Trinity MRI, and Cavendish Radiology in Auckland New Zealand (referred to as the New Zealand transaction).

The three businesses combined:

- Comprise the leading specialist radiology clinics in Auckland;
- Employ and contract several of the New Zealand's leading specialists in musculoskeletal radiology and neuroradiology;
- Had a projected EBITDA contribution of NZ$13m to NZ$14m (A$12m to A$13m) for FY19;
- High growth profile with strong margins; and
- Provides a premier platform for Integral Diagnostics to enter and grow in New Zealand.

The key terms of the acquisition included:

- A purchase consideration of NZ$105m (A$98.4m) on a cash and debt free basis, comprising NZ$80m (A$74.7m) in cash and NZ$25m (A$23.7m) in IDX equity;
- 80% of the equity will be held in escrow for up to five-years; and
- A five-year staged earn-out for vendor radiologists based on earnings outperformance.

This strategic acquisition includes four clinics, employing 14 radiologists working in both the public and private sectors. The clinics are market leaders in providing complex modalities including MRI, CT and nuclear medicine, which are high margin services positioned to experience significant future growth. The clinics are fitted with modern, state of the art equipment.

Note 13. Business combinations *(continued)*

(b) Acquisitions completed in the prior period *(continued)*

Details of the acquisition are as follows:

	Recognised on acquisition fair value $'000
Plant and equipment	6,769
Brand Intellectual Property (brand names)	9,817
Customer contracts	3,853
Deferred tax	(3,467)
Working capital assets	2,525
Working capital liabilities	(1,767)
Net assets acquired	17,730
Goodwill	80,702
Acquisition-date fair value of the total consideration transferred	98,432
Representing:	
Cash paid to vendor	74,699
Integral Diagnostics Limited shares issued to vendor	23,733
	98,432

Net cash acquired with subsidiary	986
Cash paid	(74,699)
Net cash flow on acquisition	(73,713)

On 2nd July 2018, the Group acquired the assets and liabilities of Geelong Medical Imaging (GMI), which comprises two radiology clinics in Geelong, Victoria. These clinics comprise a number of modalities, including X-Ray, ultrasound, CT, MRI and nuclear medicine.

The key terms of the acquisition include:

- a purchase consideration of $3.128 million on a cash and debt free basis
- $1.05 million in IDX equity (subject to voluntary escrow); and
- $1.70 million of deferred cash.

The acquisition complements the Group's strengths and further strengthens the Group's position in South West Victoria and has been integrated into Lake Imaging.

Note 13. Business combinations *(continued)*

(b) Acquisitions completed in the prior period *(continued)*

Details of the acquisition are as follows:

	Recognised on acquisition fair value $'000
Plant and equipment	416
Brand names	170
Working capital assets	53
Working capital liabilities	(68)
Deferred tax asset	20
Net assets acquired	591
Goodwill	6,087
Acquisition-date fair value of the total consideration transferred	6,678
Representing:	
Cash paid to the vendor	3,128
Deferred consideration	500
Contingent consideration	2,000
Integral Diagnostics Limited shares issued to vendor	1,050
	6,678
Net cash acquired with subsidiary	-
Cash paid	(3,128)
Net cash flow on acquisition	3,128

Note 14. Leases

(a) Adjustments recognised on adoption of AASB 16

	2019 $'000
Property lease commitments disclosed at 30 June 2019	29,819
Discounting using the lessee's incremental borrowing rate	(2,734)
Adjustment for different treatment of extension options	37,408
Adjustment for changes in indices or rates affecting variable payments	(786)
Lease liability recognised at 1 July 2019	63,707
Representing:	
Current lease liabilities	7,333
Non-current lease liabilities	56,374
Total lease liabilities recognised at 1 July 2019	63,707

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The recognised right-of-use assets all relate to property leases.

(i) Impact on segment disclosures and earnings per share

Adjusted EBITDA, segment assets and segment liabilities for 31 December 2019 all increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

Consolidated	Australia $'000	New Zealand $'000	Total $'000
EBITDA	5,049	300	5,349
Segment assets – Non Current	81,799	6,369	88,168
Segment liabilities – Current $9.0m; Non-Current $85.6m	88,190	6,503	94,693

Earnings per share increased by 0.11c per share for the six months to 31 December 2019 as a result of the adoption of AASB 16.

(ii) Practical expedients applied

In applying AASB 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Note 14. Leases *(continued)*

(b) Reconciliation of movements for the period

	2019 $'000
Lease liabilities recognised at 1 July 2019	63,707
Lease liabilities assumed on acquisition	21,865
New leases entered during the period	12,882
Repayment of lease liabilities, net of interest	(3,761)
Lease liabilities recognised at 31 December 2019	94,693
Representing:	
Current lease liabilities	9,075
Non-current lease liabilities	85,618
Total lease liabilities recognised at 31 December 2019	94,693

Note 15. Events after the reporting period

Dividends of 5.5 cents per share were declared on 19 February 2020.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' Declaration

In the directors' opinion:

- The attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- The attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and

- There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001. On behalf of the directors

Helen Kurincic
Independent Non-Executive Chairman

Dr Ian Kadish
Managing Director and Chief Executive Officer

19 February 2020
Melbourne

Independent auditor's review report to the members of Integral Diagnostics Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Integral Diagnostics Limited (the Company) and the entities it controlled from time to time during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Integral Diagnostics Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Integral Diagnostics Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Jason Perry
Partner

Melbourne
19 February 2020