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 2018
Previous period	For the half-year ended 31 December 2017

2. Results for announcement to the market

			$'000
Revenues from ordinary activities	up	23.26% to	115,341
Profit from ordinary activities after tax attributable to the owners of Integral Diagnostics Limited	up	29.12% to	10,654
Profit for the half-year attributable to the owners of Integral Diagnostics Limited	up	29.12% to	10,654

Dividends

Dividends were declared and paid in respect of FY18 of 4.0 cents per share.

The Directors' declared a dividend of 5.0 cents per share on the 20th February 2019 payable on the 2nd April 2019.

Comments

Statutory net profit after tax was up 29.12% to $10.654m (1H18: $8.251m). After adjusting for transaction, customer contract amortisation and other costs of $2.2m (1H18: $1.3m transaction and take over response costs and customer contract amortisation), operating net profit after tax was up 34.4% to $12.9m (1H18: $9.6m).

Operating revenue for 1H19 was up 23.2% to $114.3m (1H18: $92.8m).

The 1H19 results delivered a strong organic performance with further cost efficiencies and revenue synergies achieved from a leveraged platform with the successful integration of significant acquisitions. The average fee per exam increased by 1.1% driven by the continuing move to higher end modalities. In addition, the result has benefited from the introduction of a Medicare rebate for MRI of the prostate for a full 6 months and also an extra trading day compared to the prior corresponding period. IDX continues to provide patients and referrers with excellence in Diagnostic Imaging across Australia and New Zealand.

Acquisition integration

The acquisitions in New Zealand and Geelong have been successfully integrated into the IDX group.

The first half financial performance of the acquisitions are slightly ahead of expectations. The operational integration of the acquisitions has been completed and the quality of the operations and personnel are adding benefit to IDX.

Cash Flow and Capital Management

Debt facilities were restructured with a consortium of major banks to provide increased facilities, flexible access to debt draw downs and improved terms that will lower the cost of capital and provide greater flexibility for M&A activity.

Free cash flow conversion, net of replacement capital expenditure was $28.2m (1HFY18 $20.0m).
The weighted average cost of capital has lowered in the 1H as a result of the expanded debt facility, the restructured facility will provide additional leverage.

Dividend

A first half, fully franked dividend of 5c per share has been declared. The increase reflects the first half improved performance.

Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	(51.19)	(6.98)

Control gained over entities

On 2nd July 2018, the group acquired the assets and liabilities of the Specialist Radiology Group, Trinity MRI and Cavendish Radiology.

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	20/02/2019	5.0	5.0

Previous period

	Date Paid	Amount per security Cents	Franked amount per security Cents
Interim Dividend paid to shareholders of the Company	5/03/2018	4.0	4.0
Final Dividend paid to shareholders of the Company	04/10/2018	4.0	4.0

Details of associates and joint venture entities

Not applicable.

Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Financial Report.

Attachments

Details of attachments (if any):

The Interim Financial Report of Integral Diagnostics Limited for the half-year ended 31 December 2018 is attached.

Signed

Signed

Date: 20 February 2019

Helen Kurincic
Independent - Non-Executive Chairman
Melbourne

Integral Diagnostics Limited

ABN 55 130 832 816

Interim Financial Report - 31 December 2018

Contents

Auditor’s Independence Declaration 6
Consolidated Statement of Profit or Loss 7
Consolidated Statement of Comprehensive Income 8
Consolidated Statement of Financial Position 8
Consolidated Statement of changes in equity 10
Notes to the Financial Statements 12
Directors’ Declaration 23
Independent Auditor's Review Report 24

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 2018.

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)

Dr Ian Kadish (Managing Director and Chief Executive Officer)

Dr Chien Ping Ho (Executive Director)

Dr Sally Sojan (Executive Director)

John Atkin (Independent Non-Executive Director)

Rupert Harrington (Independent Non-Executive Director)

Raelene Murphy (Independent Non-Executive Director)

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

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 New Zealand's leading specialists in musculoskeletal radiology and neuroradiology
- Have a projected EBITDA contribution of NZ$13m to NZ$14m (A$12m to A$13m[1]) for FY19
- High growth profile with strong margins
- 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 5 years
- 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.

Also 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.

[1] Based on forecast average weighted exchange rate of $NZ1 to $AUD0.93

The key terms of the acquisition include:

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

See Note 13 to the financial statements for full detail of these transactions.

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 29.12% to $10.654m (1H18: $8.251m). After adjusting for transaction, customer contract amortisation and other costs of $2.2m (1H18: $1.3m transaction and take over response costs and customer contract amortisation), operating net profit after tax was up 34.4% to $12.9m (1H18: $9.6m).

Operating revenue for 1H19 was up 23.2% to $114.3m (1H18: $92.8m).

The 1H19 results delivered a strong organic performance with further cost efficiencies and revenue synergies achieved from a leveraged platform with the successful integration of significant acquisitions. The average fee per exam increased by 1.1% driven by the continuing move to higher end modalities. In addition, the result has benefited from the introduction of a Medicare rebate for MRI of the prostate for a full 6 months and also an extra trading day compared to the prior corresponding period. IDX continues to provide patients and referrers with excellence in Diagnostic Imaging across Australia and New Zealand.

Acquisition integration

The acquisitions in New Zealand and Geelong have been successfully integrated into the IDX group.

The first half financial performance of the acquisitions are slightly ahead of expectations. The operational integration of the acquisitions has been completed and the quality of the operations and personnel are adding benefit to IDX.

Cash Flow and Capital Management

Debt facilities were restructured with a consortium of major banks to provide increased facilities, flexible access to debt draw downs and improved terms that will lower the cost of capital and provide greater flexibility for M&A activity.

Free cash flow conversion, net of replacement capital expenditure was $28.2m (1HFY18 $20.0m).
The weighted average cost of capital has lowered in the 1H as a result of the expanded debt facility, the restructured facility will provide additional leverage.

Dividend

A first half, fully franked dividend of 5c per share has been declared. The increase reflects the first half improved performance.

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 the following page.

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

20 February 2019
Melbourne

Auditor's Independence Declaration

As lead auditor for the review of Integral Diagnostics Limited for the half-year ended 31 December 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 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
20 February 2019

PricewaterhouseCoopers, ABN 52 780 433 757
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Consolidated Statement of Profit or Loss

For the half-year ended 31 December 2018

	Note	31 Dec 2018 $'000	31 Dec 2017 $'000
Revenue			
Revenue	4	115,341	93,577
Interest and other income		167	179
Total revenue and other income		115,508	93,756
Expenses			
Consumables		(5,115)	(4,321)
Employee benefits		(64,633)	(53,544)
Depreciation		(5,329)	(4,596)
Amortisation		(1,495)	(325)
Transaction costs and takeover response costs		(811)	(1,321)
Equipment		(4,354)	(3,841)
Occupancy		(7,432)	(6,496)
Other		(7,720)	(6,427)
Finance costs		(3,063)	(1,292)
Total expenses		(99,953)	(82,163)
Profit before income tax expense		15,555	11,593
Income tax expense		(4,901)	(3,342)
Profit for the half-year from continuing operations		10,654	8,251
Profit is attributable to:			
Owners of Integral Diagnostics Limited		10,654	8,251
		Cents	Cents
Earnings per share attributable to the owners of Integral Diagnostics Limited			
Basic earnings per share		6.86	5.69
Diluted earnings per share		6.82	5.69

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 2018

	Note	31 Dec 2018 $'000	31 Dec 2017 $'000
Profit for the half-year		10,654	8,251
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations, net of tax		800	-
Net (loss)/gain on cash flow hedges		53	-
Other comprehensive income for the half-year, net of tax		11,507	8,251
Total comprehensive income for the half-year		11,507	8,251
Total comprehensive income for the half-year is attributable to:			
Owners of Integral Diagnostics Limited		11,507	8,251

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	31 Dec 2018 $'000	30 Jun 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	5	24,224	20,844
Trade and other receivables		8,446	5,622
Other assets		4,424	3,516
Inventory		361	346
Total current assets		37,455	30,328
Non-current assets			
Property, plant and equipment	6	61,572	54,084
Intangibles	7	203,283	103,542
Deferred tax assets		7,586	7,578
Total non-current assets		272,441	165,204
Total assets		309,896	195,532
Liabilities			
Current liabilities			
Trade and other payables		14,419	12,112
Borrowings	8	12,079	12,820
Income tax payable		733	318
Provisions		11,418	10,644
Total current liabilities		38,649	35,894
Non-current liabilities			
Borrowings	8	128,961	52,503
Derivative financial instruments		41	122
Deferred tax liability		8,492	4,740
Provisions		8,915	8,851
Other payables		1,100	-
Total non-current liabilities		147,509	66,216
Total liabilities		186,158	102,110
Net assets		123,738	93,422
Equity			
Contributed capital	9	108,245	83,425
Reserves		(10,769)	(11,827)
Retained profits		26,262	21,824
Total equity		123,738	93,422

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 2018

	Contributed capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2017	**83,866**	**(11,862)**	**18,348**	**90,352**
Profit for the half-year after income tax expense	-	-	8,251	8,251
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income for the period	-	-	**8,251**	**8,251**
Transactions with owners in their capacity as owners:				
Performance rights issue	-	62	-	62
Unwinding of deferred tax asset in equity	(84)	-	-	(84)
Dividends Paid (Note 10)	-	-	(5,800)	(5,800)
	(84)	**62**	**(5,800)**	**(5,822)**
Balance at 31 December 2017	**83,782**	**(11,800)**	**20,799**	**92,781**

	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 FV 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**

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 2018

	Note	31 Dec 2018 $'000	31 Dec 2017 $'000
Cash flows from operating activities			
Receipts from customers		114,362	103,468
Payments to suppliers and employees		(90,524)	(83,677)
Transaction costs relating to acquisition of subsidiaries		(811)	-
Interest and other finance costs paid		(3,063)	(1,292)
Interest received		167	179
Income taxes paid		(4,859)	(3,004)
Net cash from operating activities		15,272	15,674
Cash flows from investing activities			
Payments for purchase of subsidiary, net of cash acquired		(76,841)	-
Payments for property, plant and equipment		(5,250)	(3,600)
Proceeds from disposal of property, plant and equipment		-	223
Net cash used in investing activities		(82,091)	(3,377)
Cash flows from financing activities			
Proceeds from borrowings		131,334	335
Repayment of borrowings		(55,270)	(5,641)
Dividends paid to Company shareholders	10	(6,216)	(5,800)
Net cash used in financing activities		69,848	(11,106)
Net increase/(decrease) in cash and cash equivalents		3,029	1,191
Cash and cash equivalents at the beginning of the half-year		20,844	24,210
Effects of exchange rate changes on cash and cash equivalents		351	-
Cash and cash equivalents at the end of the half-year		24,224	25,401

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:

Level 8
14-20 Blackwood Street
North Melbourne VIC 3051

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 20th February 2019.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 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 2018 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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

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 9 Financial Instruments

'AASB 9 Financial Instruments' has been adopted in the current period. AASB 9 Financial Instruments, the AASB equivalent of IFRS 9 Financial Instruments, introduces a new model for classification and measurement of financial assets and liabilities, an 'expected credit loss' ("ECL") impairment model and reformed approach to hedge accounting.

Trade receivables are now presented as a percentage of the expected credit loss. This has not had a material financial impact, as the level of bad debts has historically not been material.

The methodology for testing hedge effectiveness has changed in AASB 9. The Group has made the assessment that all hedging instruments are 100% effective. Any ineffectiveness is considered immaterial and will be recognised in the Consolidated Statement of Profit or Loss or the Consolidated Statement of Other Comprehensive Income and effectiveness will be recognised in the Statement of Changes in Equity.

The accounting policy for impairment of financial assets and hedge accounting has been updated and is applicable from 1 July 2018:

Investments and other financial assets.

Classification

From 1 July 2018, the group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets at amortised cost

Loans and receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method less any allowance under the ECL model.

All loans and receivables with maturities greater than 12 months after the balance date are classified as non-current assets.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement when determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss ("ECL"). The Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience, current market conditions as well as forward looking estimates at the end of each reporting period.

Debts that are known to be uncollectable are written off when identified.

Derivatives and hedge accounting

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. Fair value is determined with reference to quoted market prices. The method of recognising the resulting gain or loss depends on whether the derivative is designated and effective as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow Hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in other income or other expenses. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining the quantum and timing of revenue recognition. The AASB equivalent of IFRS 15 Revenue from Contract with Customers replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The group has adopted AASB 15 from 1 July 2018, which resulted in changes to accounting policies.

The principals in AASB 15 must be applied using the following 5-step model:

Step 1: Identify the contract
Step 2: Identify separate performance obligations
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the separate performance obligations
Step 5: Recognise revenue when the entity satisfies a performance obligation

On adoption of the new standard the Group reviewed the potential performance obligations which may arise under revenue contracts and has identified that there was not a material impact on the Group's interim financial statements for the six months ended 31 December 2018.

The accounting policy for the recognition of revenue has been updated and is applicable from 1 July 2018:

Revenue

Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control requires judgement. The Group recognises revenue when:

- The amount of revenue can be reliably measured;
- It is probable the economic benefit will flow to the Group; and
- The criteria for revenue recognition for each revenue stream has been satisfied.

The adoption of AASB 15 has not had an impact on how revenue has been recognised.

Rendering of services

Rendering of services revenue is recognised when the service is rendered for the provision of medical imaging services as described below.

Patient fee income

The patient fee income performance obligation is satisfied at a point in time when the medical image is taken.

Service fee income

The service fee income performance obligation is satisfied at a point in time when the medical image is reviewed and report generated by our radiologist.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established. Other revenue largely includes compensation payments received under equipment and leasehold contracts as well as labour cost charges to hospitals and Government (trainees and paid parental leave).

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 2018 $'000
Total revenue and other income from continuing operations	
Australia	103,116
New Zealand	12,225
	115,341
Total non-current assets	
Australia	172,215
New Zealand	100,226
	272,441

Note 4. Revenue

	Consolidated	
	31 Dec 2018 $'000	31 Dec 2017 $'000
Sales revenue		
Services revenue	114,340	92,829
Other revenue		
Other revenue	1,001	748
Revenue	115,341	93,577

Note 5. Current assets - cash and cash equivalents

	Consolidated	
	31 Dec 2018 $'000	30 Jun 2018 $'000
Cash on hand	16	15
Cash at bank	24,208	20,829
	24,224	20,844

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

Acquisitions and Disposals

During the six months ended 31 December 2018, the Group acquired assets and work in progress with a cost of $4.9m (six months ended 31 December 2017: $4.2m).

Note 7. Non-current assets - intangibles

	Consolidated	
	31 Dec 2018 $'000	30 Jun 2018 $'000
Goodwill – at cost	182,849	96,387
Brand names – at cost	18,048	7,155
Customer contracts – at cost	6,338	2,456
Less: Accumulated amortisation	(3,952)	(2,456)
	2,386	-
Total Intangible Assets	203,283	103,542

Reconciliations:

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Brand names $'000	Customer contracts $'000	Total $'000
Balances at 1 July 2018	96,387	7,155	-	103,542
Acquisitions[1]	86,462	10,893	3,882	101,237
Amortisation expense	-	-	(1,496)	(1,496)
Balance at 31 December 2018	182,849	18,048	2,386	203,283

[1] Acquisition amounts are impacted by variances in foreign exchange rates between acquisition date, and reporting date and as such won't agree to Note 13.

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

Consolidated	Australia $'000	New Zealand $'000	Total $'000
Goodwill	101,464	81,385	182,849
Brand Names	7,325	10,723	18,048
Customer Contracts	-	2,386	2,386
Balance at 31 December 2018	108,789	94,494	203,283

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 2018.

The Group considers current performance against expectations, amongst other factors when reviewing for indicators of impairment. As at 31 December 2018 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 which if identified would have resulted in an impairment test being conducted.

Note 8. Borrowings

	Consolidated	
	31 Dec 2018 $'000	30 Jun 2018 $'000
Current		
Lease liability	12,079	12,820
	12,079	12,820
Non-current		
Borrowings	122,572	43,750
Lease liability	6,389	8,753
	128,961	52,503
Total Borrowings	141,040	65,323

Assets pledged as security

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the Consolidated Statement of Financial Position, revert to the lessor in the event of default.

Refinancing of bank debt facilities

On 14 December 2018 the Group restructured its debt facilities with a consortium of major banks to provide increased facilities, flexible access to debt draw downs and improved terms that will lower the cost of capital and provide greater flexibility around M&A activity.

The new debt facilities made available are:

- Cash advance facility limit of up to $240 million. This increases the facility from the previous $100 million;
- Asset finance facility of $65 million including $15 million committed facility and $50 million uncommitted facility;
- Bank guarantee facility of $7 million;

Current cash reserves, ongoing operating cash flows and the extended facility will provide the Group with certainty in relation to its funding for the next three years to allow the Group to

- Maintain cash reserves for working capital and debt servicing;
- Fund forecast maintenance and growth capital expenditure; and
- Fund acquisitions.

In accordance with Australian Accounting Standards, Loan Establishment fees have been capitalised and will be amortised over the life of the debt facilities.

Note 9. Equity - contributed capital

	Consolidated		Consolidated	
	31 Dec 2018 Shares	30 June 2018 Shares	31 Dec 2018 $'000	30 June 2018 $'000
Ordinary shares - fully paid	155,399,525	145,044,157	108,245	83,425

Issued capital movements relate to the issuing of shares as part of business combinations (refer note 13 for further details) and employee share scheme.

There has been movement in issued capital between 1 July 2018 and the current reporting period. Refer to the statement of changes in equity for an explanation of the movement in paid up capital for the period.

Note 10. Equity - dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	31 Dec 2018 $'000	30 June 2018 $'000
Final Dividend paid 4 cents per share on 4 October 2017	-	5,801
Interim Dividend paid 4 cents per share on 5 March 2018	-	5,801
Final Dividend paid 4 cents per share on 4 October 2018	6,216	-
	6,216	11,602

Note 11. Related Party Transactions

The following transactions occurred with related parties in the six months ended 31 December 2018 and 2017 as well as balances with related parties as at 31 December 2018 and 30 June 2018.

	Consolidated	
	31 December 2018 $	31 December 2017 $
Payment for goods and services:		
Payment for rental of buildings to Eleven How Pty Ltd of which Doctor Chien Ho is related to:	205,225	199,912
Payment for rental of buildings to Kiwi Blue Pty Ltd of which Doctor Chien Ho is related to:	137,501	121,456

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

The above transactions are reviewed by the Audit Risk and Compliance Committee.

Note 12. Contingent Liabilities and Commitments

The Group has given bank guarantees as at 31 December 2018 of $2.1 million (31 December 2017: $1.4 million) to various landlords.

The Group has capital commitments for Property, Plant and Equipment of $10.4 million at reporting date.

There has been no other significant change to the substance or value of commitments to those disclosed in the 30 June 2018 financial report.

Note 13. Business combinations

(a) 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;
- Have a projected EBITDA contribution of NZ$13 Million to NZ$14 million (A$12 million to A$13 million) 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 include:

- A purchase consideration of NZ$105 million (A$98.4 million) on a cash and debt free basis, comprising NZ$80 million (A$74.7 million) in cash and NZ$25 million (A$23.7 million) 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.

The purchase price accounting has not yet been finalized 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	5,968
Brand Intellectual Property (brand names)	10,643
Customer contracts	3,853
Deferred tax	(3,699)
Working capital assets	2,525
Working capital liabilities	(1,739)
Net assets acquired	17,551
Goodwill	80,881
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

Note 13. Business combinations *(continued)*

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

(b) 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.

The purchase price accounting has not yet been finalized 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	626
Brand Intellectual Property (brand names)	180
Prepayments	39
Inventory	16
Deferred Tax Asset	26
Employee benefits	(85)
Net assets acquired	802
Goodwill	5,076
Acquisition-date fair value of the total consideration transferred	5,878
Representing:	
Cash paid to the vendor	3,128
Deferred consideration	800
Contingent consideration	900
Integral Diagnostics Limited shares issued to vendor	1,050
	5,878

Net cash acquired with subsidiary	-
Cash paid	(3,128)
Net cash flow on acquisition	3,128

Note 14. Events after the reporting period

Dividends of 5.0 cents per share were declared on 20th February 2019.

Subsequent to year end the terms and conditions of the previous shareholder approved Loan Funded Share Plan were revised and reissued to radiologists who have been employed by an Integral Diagnostics Limited or a wholly owned entity for 12 months or more.

The key terms and conditions of the revised plan include:

- For each $1 the radiologist contributes, the company will contribute $2 via a limited recourse non-interest bearing loan over a 10 year period;
- Own funded shares are subject to a “holding lock” released 25% per year over 4 years on the anniversary of the issue date;
- Loan funded shares are subject to an escrow period of 4 years, at which point they can be repaid earlier than the maximum 10 years;
- If a Radiologist leaves within the 4-year escrowed period, subject to Board Discretion, they forfeit any right to the loan funded shares;
- Shares are not tradeable whilst subject to holding lock and escrow arrangements;
- The arrangement is subject to a minimum investment by the Radiologist of $25k up to a maximum investment of $250k;
- Dividend streams relating to the loan funded shares will be allocated, net of tax, to a repayment of the loan; and
- Issue price of the shares is the 30 Day volume weighted average price of the Company’s shares traded on the ASX on the 30 trading days up to (but not including) the allocation date.

On the 20th February 2019, the Board approved the issue of shares to the value of $3.0m loans under the scheme based on a $1.5m contribution from Radiologists. The issue price of the shares will be based on the VWAP 30 days up to but not including the allocation date on or around 1st March 2019. These shares will be issued on the 4th March subject to the Radiologists contributing funds for their own shares into the scheme by the 28th February 2019.

No other matter or circumstance has arisen since 31 December 2018 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 2018 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	Dr Ian Kadish
Independent Non-Executive Chairman	Managing Director and Chief Executive Officer

20 February 2019
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), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of changes in equity, consolidated statement of cash flows, consolidated statement of profit or loss and consolidated statement of comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Integral Diagnostics Group (the Group). The Group comprises the Company and the entities it controlled during that half-year.

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 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 2018 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 2018 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
20 February 2019