Notes to the Consolidated Financial Statements

for the year ended 30 June 2020

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Notes to the Consolidated Financial Statements (cont)

Section 1
Our Financial Performance

This section provides information that is most relevant to understanding the financial performance of the Group during the financial year and, where relevant, the accounting policies applied and the critical judgements and estimates made.

1.1 Revenue and Expenses

Revenue recognition

Revenue is recognised when performance obligations have been satisfied, recovery of the consideration is probable and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services

Revenue from rendering of services is recognised on completion of services provided. Revenue is recognised when the customer has consumed the benefits of the service, whether on completion of a medical procedure, on supply of drugs, or on completion of analytical tests. If payments received from patients exceed the revenue recognised, the difference is recognised as deferred revenue.

Deferred revenue

Fees for fertility treatment paid in advance of performing the service are recognised as deferred revenue until the time the service is rendered to the customer when the fees are recognised as revenue.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are recognised in comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

In March 2020, the Australian Government announced the introduction of JobKeeper, an economic response package to the Coronavirus pandemic. Under the JobKeeper grant, businesses impacted by the Coronavirus were able to access a subsidy from the Government to continue paying their employees. Employers who have turnover under $1 billion are eligible for the subsidy if their turnover reduces by more than 30 per cent relative to the comparable prior year period of at least a month between April and September 2020. The COVID-19 impact on the group turnover in April 2020 resulted in a greater than 30% reduction compared to April 2019 due to the temporary suspension of IVF procedures requiring hospitalisation between 25 March and 27 April 2020 in Australia as well as movement control orders in Malaysia. Accordingly, the Group is eligible to claim a fortnightly payment of $1,500 per eligible employee from 30 March 2020 for a maximum period of 6 months.

JobKeeper payments receivable from the ATO are recognised by a ‘for profit’ entity as a government grant as the payment is a wage subsidy provided by the Government with the objective of keeping the organisation connected with the economy and their workers during the COVID-19 pandemic period between April and September 2020. The related amounts paid to employees are recognised as employee benefit expenses. The JobKeeper payment is recognised only when there is reasonable assurance that the organisation will comply with the conditions and that the grant will be received. The income is recognised in profit and loss matching the employee salary expense which is what the grant is intended to compensate.

Notes to the Consolidated Financial Statements (cont)

1.1 Revenue and Expenses - continued

As a government grant, there is an accounting policy choice whereby the organisation presents the grant income gross from the expense or net of the related expense. The grant income has been disclosed net of the related employee expense as the subsidy support is used to fund existing employee wages during the period.

The grant amount recognised in employee benefits expense is $4.9m (FY19: nil). The amount recognised as a sundry debtor as at 30 June 2020 is $1.6m, and was received in July 2020.

1.2 Operating segments

The Group determines and presents operating segments based on information that internally is provided to and used by the Chief Executive Officer, who is the Group's Chief Operating Decision Maker (CODM). An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The financial results of each operating segment are regularly reviewed by the Group's Chief Executive Officer in order to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Chief Executive Officer include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

The basis of inter-segmental transfers is market pricing. Results are calculated before consideration of net borrowing costs and tax expense. Segment assets exclude deferred tax balances and cash, which have been included as unallocated assets.

Identification of reportable operating segments

The two geographic segments being Australia and International reflect Monash IVF Group's reporting structure to the CODM. Monash IVF Group considers that the two geographic segments are appropriate for segment reporting purposes under AASB 8 "*Operating Segments*". These segments comprise the following operations:

- Monash IVF Group Australia: provider of Assisted Reproductive Services, Ultrasound and other related services.

- Monash IVF Group International: provider of Assisted Reproductive Services in Malaysia.

Notes to the Consolidated Financial Statements (cont)

Segment results

2020	Monash IVF Group Australia $'000	Monash IVF Group International $'000	Total $'000
Total revenue – external	**135,503**	**9,914**	**145,417**
Adjusted EBIT (before non-recurring items)[1] [2]	**20,631**	**3,797**	**24,428**
Acquisition costs[1]	(539)	-	(539)
Restructuring costs[1]	(848)	-	(848)
Provision for patient claim[1]	(728)	-	(728)
Sydney CBD clinic premise costs[2]	(480)	-	(480)
Reported EBIT	**18,036**	**3,797**	**21,833**
Net finance costs	(4,510)	(110)	(4,620)
Finance cost - Interest rate swaps closure cost	(1,087)	-	(1,087)
Profit before income tax expense	**12,439**	**3,687**	**16,126**
Income tax expense	(3,481)	(885)	(4,366)
Profit for the year	**8,958**	**2,802**	**11,760**
Depreciation and amortisation expense	(10,345)	(655)	(11,000)
Segment assets	**338,204**	**10,825**	**349,029**
Acquisition of plant and equipment and intangibles	7,759	40	7,799
Segment liabilities	**92,373**	**4,534**	**96,907**

2019	Monash IVF Group Australia $'000	Monash IVF Group International $'000	Total $'000
Total revenue – external	**140,378**	**11,602**	**151,980**
Adjusted EBIT (before non-recurring items)[3]	**27,729**	**5,013**	**32,742**
Mosman clinic closure and CEO separation costs	(1,455)	-	(1,455)
Reported EBIT	**26,274**	**5,013**	**31,287**
Net finance costs	(3,802)	-	(3,802)
Profit before income tax expense	**22,472**	**5,013**	**27,485**
Income tax expense	(6,477)	(1,201)	(7,678)
Profit for the year	**15,995**	**3,812**	**19,807**
Depreciation and amortisation expense	(4,792)	(281)	(5,073)
Segment assets	**280,922**	**9,115**	**290,037**
Acquisition of plant and equipment and intangibles	6,261	275	6,536
Segment liabilities	**116,084**	**519**	**116,603**

(1) Non-recurring items include transaction costs on acquisition activity including Fertility Solutions and Johor Bahru ($539,000 pre-tax), restructuring costs ($848,000 pre-tax) and provision for patient claim ($728,000 pre-tax).
(2) Relates to period from lease commencement for new Sydney CBD fertility clinic in work in progress stage ($480,000 pre-tax).
(3) 2019 one-off non recurring items include Mosman clinic closure asset accelerated depreciation ($882,000), Mosman clinic make-good provision ($100,000) and CEO separation costs ($473,000).

Notes to the Consolidated Financial Statements (cont)

1.3 Dividends

Dividends during the year	Franking	Payment Date	Per share (cents)	2020 $'000	2019 $'000
Interim dividend in respect of the current financial year	Fully franked	2 October 2020 (2019: 5 April 2019)	2.1 (2019: 3.0)	4,951	7,067
Final dividend in respect of the prior financial year	Fully franked	11 October 2019 (2019: 12 October 2018)	3.0 (2019: 2.6)	7,074	6,125
Total			**5.1 (2019: 5.6)**	**12,025**	**13,192**
Current liability – Dividend payable[1]				4,951	-
Paid in cash during the year				7,074	13,192

[1] On 1 April 2020, The Company announced the deferral of the payment of the interim dividend until 2 October 2020. This deferral was considered a prudent measure due to the economic environment caused by the COVID-19 pandemic.

Dividend franking account

Amount of franking credits available at 30 June to shareholders for subsequent financial years	**8,724**	**13,031**

Monash IVF Group's dividend policy is to target a payout ratio of between 60% and 70% of Statutory NPAT. The level of payout ratio is expected to vary between periods depending on general operating conditions, operating cashflow and profit, funding, strategic growth opportunities and availability of franking credits.

The Board has not declared a 2020 final dividend.

Notes to the Consolidated Financial Statements (cont)

1.4 Earnings per share

Earnings per share	2020 Cents per share	2019 Cents per share
Basic earnings per share	4.6	8.4
Diluted earnings per share	4.5	8.4

Profit attributable to ordinary shareholders	2020 $'000	2019 $'000
Profit after income tax attributable to the ordinary shareholders used in calculating basic and diluted earnings per share	11,726	19,852

Weighted average number of shares	2020 Number	2019 Number
Weighted average number of ordinary shares used in calculating basic earnings per share	257,550,107	235,598,078
Adjustments for calculation of diluted earnings per share (1)	550,148	322,654
Weighted average number of ordinary shares used in calculating diluted earnings per share	258,100,255	235,920,732

(1) The calculation of the weighted average number of shares has been adjusted for the effect of share based rights granted from the date of issue. Refer to Section 3.3 for further details.

Basic earnings per share

The calculation of basic earnings per share has been based on profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Diluted earnings per share

The calculation of diluted earnings per share has been based on profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

Notes to the Consolidated Financial Statements (cont)

1.5 Taxation

Income Tax expense

	2020 $'000	2019 $'000
Current tax	3,867	8,222
Deferred tax	661	(508)
Over/(under) provided in prior year	(162)	(36)
Total income tax expense	**4,366**	**7,678**
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	16,126	27,485
Tax at the Australian tax rate of 30% (2019: 30%)	4,838	8,245
Tax effect of amounts which are not deductible in calculating taxable income:		
Effect of tax rates in foreign jurisdiction	(231)	(301)
Research and development	(250)	(250)
Other items	171	20
Over/(under) provision of previous year	(162)	(36)
Income tax expense	**4,366**	**7,678**

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or to items recognised directly in equity or in OCI. Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Notes to the Consolidated Financial Statements (cont)

1.5 Taxation - continued

Deferred Tax

$'000	1 July 2018 Deferred tax asset	1 July 2018 Deferred tax liability	Recognised in profit or loss	Recognised directly in equity	30 June 2019 Deferred tax asset	30 June 2019 Deferred tax liability	Recognised in Retained Earnings (1)	Recognised in profit or loss	Recognised directly in equity	30 June 2020 Deferred tax asset	30 June 2020 Deferred tax liability
Plant and equipment	-	(214)	-	-	-	(214)	-	(94)	-	-	(308)
Intangible assets	-	(5,944)	-	-	-	(5,944)	-	-	-	-	(5,944)
Receivables	-	-	-	-	-	-	-	(494)	-	-	(494)
Other	-	-	-	-	-	-	-	-	845	845	-
Leases	-	-	-	-	-	-	790	(155)	-	635	-
Derivatives	155	-	-	181	336	-	-	-	(336)	-	-
Trade payables and provisions	508	-	277	-	785	-	-	(208)	-	577	-
Employee benefits	2,617	-	231	-	2,848	-	-	290	-	3,138	-
Tax (liabilities)/assets before set off	**3,280**	**(6,158)**	**508**	**181**	**3,969**	**(6,158)**	**790**	**(661)**	**509**	**5,195**	**(6,746)**
Set off tax	(3,280)	3,280	-	-	(3,969)	3,969	-	-	-	(5,195)	5,195
Net tax assets/(liabilities)	**-**	(2,878)	**-**	**-**	**-**	**(2,189)**	**-**	**-**	**-**	**-**	**(1,551)**

(1) Adjustment on initial application of AASB 16. The Group has initially applied AASB 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying AASB 16 is recognized in retained earnings at the date of initial application.

Notes to the Consolidated Financial Statements (cont)

1.5 Taxation - continued

Recognition and Measurement

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

- In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Offsetting deferred tax

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realised simultaneously.

Tax consolidation

Monash IVF Group Limited and its wholly Australian owned controlled entities are part of a tax consolidation group under Australian taxation law. Monash IVF Group Limited is the head entity in the tax-consolidated group. Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Monash IVF Group Limited and each of the entities in the tax consolidated group have agreed to pay (or receive) a tax equivalent payment to (or from) the head entity, based on the current tax liability or current tax asset of the entity.

Key estimate and judgement:

Recovery of deferred tax assets

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Key estimate and judgement:

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Judgement is required in determining the worldwide provision for income taxes and in assessing whether deferred tax balances are recognised on the statement of financial position. Changes in circumstances will alter expectations, which may impact the amount of provision for income taxes and deferred tax balances recognised.

Notes to the Consolidated Financial Statements (cont)

Section 2
Our Operating Asset Base

This section provides information relating to the Group's Operating Base, highlighting the primary operating assets used and liabilities incurred to support the Group's operating activities.

2.1 Trade and other receivables

	2020 $'000	2019 $'000
Current		
Trade receivables	4,183	3,218
Provision for expected credit losses	(747)	(460)
	3,436	2,758
Other debtors	2,431	409
Accrued income	1,060	129
Prepayments	2,761	2,327
GST receivable	754	1,008
Total current trade and other receivables	**10,442**	**6,631**
Non current		
Other debtors	**181**	**114**

Provision for expected credit losses

The consolidated entity has recognised an expense of $287,000 (2019: $2,000) in profit or loss in respect of impairment of receivables for the year ended 30 June 2020. The increase in provision for expected credit losses during the year was predominately driven to reflect counterparties that have been impacted by COVID-19 in combination with a general increased loss expectation as a result of a deterioration in the economic environment.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method less provision for expected credit losses. A financial asset (including trade receivables) not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. AASB 9 replaced the 'incurred loss model' in AASB 139 with an 'expected credit loss' (ECL) model. Loss allowances for trade receivables are measured at an amount equal to 12 month ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, 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, debtor ageing and credit assessment including forward-looking information.

Credit Risk

Credit risk is the risk of financial loss to the Group if a patient or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, being patients.

Patient fees for most treatments are received in advance and recognised as deferred revenue if the procedure is yet to be performed. This reduces the risk of non-collectability. Outstanding receivables predominantly relate to amounts owing from Medicare and storage fee patient accounts. Payment reminder notices are issued to patients

Notes to the Consolidated Financial Statements (cont)

2.1 Trade and other receivables - continued

with outstanding balances at 30, 60 and 90 days. After which, collection of this debt may be handled by a collection agency. The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group.

Prepayments

Payments made for the receiving of goods or services rendered in future years are recognised as a prepayment.

2.2 Inventory

	2020 $'000	2019 $'000
Consumables – at cost	3,949	3,983
Total inventory	**3,949**	**3,983**

Inventories are recorded using the FIFO method and are valued at the lower of cost and net realisable value. Inventories include medical supplies to be consumed in providing future patient services.

2.3 Trade and other payables

	2020 $'000	2019 $'000
Current		
Trade payables	3,024	4,388
Accrued expenses	10,804	4,753
Deferred revenue	6,725	6,050
Dividend payable	4,951	-
Other liabilities	-	269
Total trade and other payables	**25,504**	**15,460**

Trade and other payables are carried at amortised cost and are not discounted. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are paid in accordance with vendor terms.

Notes to the Consolidated Financial Statements (cont)

2.4 Plant and equipment

	2020 $'000	2019 $'000
Cost		
Opening balance at 1 July	**53,678**	**49,496**
Additions	4,613	4,182
Acquisitions through business combinations	2,030	-
Disposals	(2,152)	-
Closing balance at 30 June	**58,169**	**53,678**
Opening balance at 1 July	**(37,155)**	**(32,561)**
Depreciation for the year	(3,466)	(4,594)[1]
Acquisitions through business combinations	(589)	**-**
Disposals	2,152	**-**
Closing balance at 30 June	**(39,058)**	**(37,155)**
Carrying amount		
At 1 July (Opening balance)	16,523	16,935
At 30 June (Closing balance)	**19,111**	**16,523**

(1) Includes Mosman clinic closure accelerated depreciation of $882,000.

Capital commitments

Expenditure contracted for but not recognised as liabilities:

	2020 $'000	2019 $'000
Capital plant and equipment	3,345[1]	863

(1) Capital plant and equipment includes the new Sydney CBD Fertility Clinic in development.

Items of plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised on a net basis within "other income" in profit or loss. The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of the plant and equipment are recognised in profit or loss as incurred.

Key estimate and judgement:

Depreciation

The Group's plan and equipment are depreciated over their useful economic lives between 2-10 years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Depreciation is recognized in profit or loss on a straight line basis over the estimated useful lives of each part of an item of plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Notes to the Consolidated Financial Statements (cont)

2.5 Right of Use Assets

Leases as lessee

$'000	2020			2019
	Buildings	Equipment	Total	Total
Cost				
Opening balance at 1 July	-	-	-	-
Recognition of right-of-use asset on initial application of AASB16	46,143	-	46,143	-
Adjusted Opening balance at 1 July	**46,143**	**-**	**46,143**	
Additions	9,469	1,770	11,239	-
Acquisitions through business combinations	2,132	-	2,132	-
Disposals	(39)	-	(39)	-
Closing balance at 30 June	**57,705**	**1,770**	**59,475**	-
Accumulated depreciation				
Opening balance at 1 July	**-**	**-**	**-**	-
Recognition of right-of-use asset on initial application of AASB16	(17,360)	-	(17,360)	-
Adjusted Opening balance at 1 July	(17,360)	-	(17,360)	-
Depreciation for the year	(5,245)	(395)	(5,640)	-
Disposals	39	-	39	-
Closing balance at 30 June	**(22,566)**	**(395)**	**(22,961)**	-
Carrying amount				
At 1 July (Opening balance)	**-**	**-**	**-**	-
Adjusted balance at 1 July	**28,783**	**-**	**-**	-
At 30 June (Closing balance)	**35,139**	**1,375**	**36,514**	-

The Group leases property and equipment. The leases typically run for a period of between one to ten years, with an option to renew the lease after this date. Lease payments are renegotiated at periods to reflect market rentals. The Group has elected not to recognise right of use assets and lease liabilities for short term and/or low value assets such as IT and office equipment.

	2020 $'000	2019 $'000
Amounts recognised in profit and loss		
Interest on lease liabilities	1,046	-
Expenses relating to leases of low value assets	77	-
Lease expense – operating leases under AASB117	-	7,122
Amounts recognised in statement of cash flows		
Payments of lease liabilities	7,202	-

Extension options

Some leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control. The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of $8.2 million.

Notes to the Consolidated Financial Statements (cont)

2.6 Intangible assets

$'000	Goodwill	Software	Trademark	Total
2020				
Net book value				
Balance at 1 July 2019	229,108	8,151	19,845	257,104
Additions	-	2,894	-	2,894
Acquisitions through business combinations	4,061	-	-	4,061
Amortisation expense	-	(1,894)	-	(1,894)
Balance at 30 June 2020	**233,169**	**9,151**	**19,845**	**262,165**
At 30 June 2020				
Cost	233,169	13,721	19,845	267,060
Amortisation and impairment losses	-	(4,570)	-	(4,570)
Balance at 30 June 2020	**233,169**	**9,151**	**19,845**	**262,165**
2019				
Net book value				
Balance at 1 July 2018	229,108	7,158	19,845	276,760
Additions	-	2,354	-	2,354
Amortisation expense	-	(1,361)	-	(1,361)
Balance at 30 June 2019	**229,108**	**8,151**	**19,845**	**257,104**
At 30 June 2019				
Cost	229,108	19,025	19,845	269,527
Amortisation and impairment losses	-	(10,874)	-	(12,423)
Balance at 30 June 2019	**229,108**	**8,151**	**19,845**	**257,104**

Software

Software has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. The cost of system development, including purchased software, is capitalised and amortised over the estimated useful life, being three to eight years. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Trademark

Trademarks are reported at historical cost less impairment. Trademarks have an indefinite useful life where there is no expiry and no foreseeable limit on the period of time over which these assets are expected to contribute to the cash flows of the Group. Similar to goodwill, these are tested for impairment annually.

Goodwill

Goodwill on consolidation represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entities at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Impairment testing

Goodwill and other indefinite life intangible assets become impaired when their carrying value exceeds their recoverable amount. Recoverable amount is the greater of fair value less costs to sell or value in use. In determining the recoverable amount, judgments and assumptions are made in the determination of likely net sale proceeds or in the determination of future cash flows which support a value in use. Specifically, with respect to future cash flows, judgments are made in respect to the quantum of those future cash flows and the discount rates (cost of capital and debt) applied to determining the net present value of these future cash flows.

Notes to the Consolidated Financial Statements (cont)

2.6 Intangible assets - continued

The carrying amounts of the Group's non financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows of other assets or groups of assets (the 'cash-generating' units). The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a pro rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

The following CGUs were tested for impairment during the year:

	2020 $'000	2019 $'000
Goodwill and trademark allocated to:		
Australia	219,030	215,572
Ultrasound	28,232	28,232
International	5,752	5,149
	253,014	**248,953**

Impairment testing assumptions

The recoverable amount of a CGU is based on value-in-use calculations. The following key assumptions were utilised for the impairment testing:

- The respective discount rate was a pre-tax measure based on the rate of 10 year Government bonds issued by the Australian and Malaysian Government respectively in the relevant market, adjusted for a risk premium to reflect the increased risk of investing in equities generally and the systemic risk of the specific CGU. A pre-tax discount rate of 10.5% (FY19: 10.47%) for the Australian CGU, 11.0% (FY19: 11.70%) for the Ultrasound CGU and 10.5% (FY19: 11.27%) for the International CGU was applied in determining the recoverable amount. The discount rate and related risk factors also had regard to the current COVID-19 environment.

- Cash flow forecasts are based on the Board-approved FY21 budget, projected for four years plus a terminal value. The FY21 budget reflects management's best estimate of forecast operating performance having regard to the market and economic uncertainties posed by the COVID-19 pandemic. The underpinning assumptions include a return to pre-COVID-19 volumes in FY21 driven by pent up demand for IVF and Ultrasound services and a general stabilization in economic activity, the continuation of cost containment initiatives, no inclusion of expected JobKeeper payments, and no further extended Government restrictions or lockdowns that impact the Group's ability to provide its services to customers.

- A long-term growth rate into perpetuity of 2.5%-3.0% (FY19: 3.0%) has been determined based on an assessment of historical growth rates, expectations of future growth rates and market specific dynamics.

Impact of possible changes in key assumptions

All CGU's in the Group have been tested for impairment and have met their required hurdle rates to support the current carrying values. Any reasonable possible change to relevant assumptions and inputs would not result in the recoverable amount being lower than the carrying amount.

Notes to the Consolidated Financial Statements (cont)

2.6 Intangible assets - continued

Result of Impairment testing

The recoverable amount of all CGU's are deemed recoverable.

Notes to the Consolidated Financial Statements (cont)

Section 3
Our People

This section provides financial insight into employee reward and recognition for creating a high performance culture and the Group's ability to attract and retain talent. This section is to be read in conjunction with the Remuneration Report, as set out in the Directors Report.

3.1 Employee benefits

	2020 $'000	2019 $'000
Current liability		
Long service leave	4,021	5,095
Annual leave	5,421	3,477
Total current employee benefits	**9,442**	**8,572**
Non current liability		
Long service leave	1,037	920
Total non current employee benefits	**1,037**	**920**
Total employee benefits provision	**10,479**	**9,492**

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Provision for employee benefits

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits are expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefits are measured at their present value of the estimated future cash outflow to be made in respect of services provided by the employees up to the reporting date. The discount rate is the yield at the reporting date on corporate bonds issued by the relevant markets that have maturity dates approximating the terms of the Group's obligations.

3.2 Share-based payments

Senior executives' long-term incentive plan

The Group will provide benefits to certain employees in the form of share-based payment options and/or performance rights. The fair values of these instruments granted under the plans are recognized as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grand date and recognized over the period during which the employee becomes unconditionally entitled to the instruments.

Fair value is measured at grant date using a combination of Binomial tree and Monte-Carlo Simulation models, for the respective performance hurdles. The valuation was performed by an independent valuer which models the future security price.

Notes to the Consolidated Financial Statements (cont)

3.2 Share-based payments - continued

The fair value of the instruments granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of instruments that are expected to become exercisable.

The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in profit and loss with a corresponding adjustment to equity.

Under the Company's Long Term Incentive ("LTI") Plan, awards (constituting share appreciation rights, performance rights or options, or any different class or category of award on such terms as the Board determines, may be offered to eligible persons selected by the Directors. Key management personnel and other senior management are eligible to participate under the LTI Program.

The senior executive LTI are performance rights plans with vesting rights dependent upon the satisfaction of pre-defined performance hurdles and continuous employment. Current performance hurdles are based on achievement of pre-defined Earning Per Share ("EPS") Hurdle and a Total Shareholder Return ("TSR") Hurdle over a three year performance period. The Board may amend the performance hurdles or specify a different performance hurdle(s) if it considers it necessary. For further detail on the specific LTI plans, refer to the Remuneration Report.

Long term incentive program (equity settled)

A description of the equity plans applicable during the year are described below:

Grant date	Vesting conditions
(2020) 16 October 2019	EPS - Subject to meeting certain EPS hurdles and 3 year service period to 30 June 2022 TSR - Subject to Total Shareholder Return hurdles and a 3 year service period to the 11th trading day after the FY22 results announcement
(2019) 20 December 2018	EPS - Subject to meeting certain EPS hurdles and 3 year service period to 30 June 2021 TSR - Subject to Total Shareholder Return hurdles and a 3 year service period to the 11th trading day after the FY21 results announcement
(2018) 29 January 2018	EPS - Subject to meeting certain EPS hurdles and 3 year service period to 30 June 2020 TSR - Subject to Total Shareholder Return hurdles and a 3 year service period to the 11th trading day after the FY20 results announcement
(2017) 17 March 2017	EPS - Subject to meeting certain EPS hurdles and 3 year service period to 30 June 2019 TSR - Subject to Total Shareholder Return hurdles and a 3 year service period to the 11th trading day after the FY19 results announcement

Notes to the Consolidated Financial Statements (cont)

3.2 Share-based payments - continued

Key estimate and judgement: Share-based payments

As a result of the combination of non-market (EPS) and market (TSR) vesting conditions, the fair value of the share rights plan has been measured using Binomial tree and Monte Carlo simulation respectively. The inputs used in the measurement of the fair values at grant date of the equity-settled share based payment plans were as follows:

	2020	2019	2018	2017
Fair value at grant date (EPS condition)	$0.94	$1.00	$1.19	$1.69
Fair value at grant date (TSR condition)	$0.46	$0.45	$0.49	$0.63
Share price at grant date	$0.94	$1.00	$1.36	$1.90
Expected volatility – Monash IVF	35%	30%	37%	32%
Expected volatility – ASX 300 Healthcare Index	15%	15%	14%	15%
Expected life (years)	6	6	5	5
Expected dividends	6.0%	6.0%	5.5%	4.8%
Risk free interest rate (based on government bonds)	0.83%	1.88%	2.13%	1.91%

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. The expected term of the instruments has been based on historical experience and general instrument holder behavior.

Reconciliation of outstanding performance rights

The number of performance rights under the company's long-term incentive plan were as follows:

2020 Grant Date	Expiry Date	Balance at 1 July 2019	Granted during the year	Lapsed during the year	Forfeited during the year	Vested during the year	Balance at 30 June 2020
17 Mar 2017	30 June 2019	19,447	-	(19,447)[1]	-	-	-
29 Jan 2018	30 June 2020	95,210	-	(47,605)[2]	-	-	47,605
20 Dec 2018	30 June 2021	207,997	-	-	(73,466)[3]	-	134,531
16 Oct 2019	30 June 2022	-	471,055	-	(103,043)[3]	-	368,012
		322,654	**471,055**	**(67,052)**	**(176,509)**	**-**	**550,148**

(1) TSR vesting conditions for performance rights granted in FY17 were not satisfied therefore these rights lapsed.
(2) EPS vesting conditions for performance rights granted in FY18 were not satisfied therefore these rights lapsed
(3) The performance rights for Brett Comer (Chief Operating Officer) were forfeited due to resignation and departure on 27 March 2020.

2019 Grant Date	Expiry Date	Balance at 1 July 2018	Granted during the year	Lapsed during the year	Forfeited during the year	Vested during the year	Balance at 30 June 2019
29 June 2016	30 June 2018	35,072	-	(35,072)[1]	-	-	-
17 Mar 2017	30 June 2019	38,894	-	(19,447)[1]	-	-	19,447
29 Jan 2018	30 June 2020	287,262	-	-	(192,052)[2]	-	95,210
20 Dec 2018	30 June 2021	-	207,997	-	-	-	207,997
		361,228	**207,997**	**(54,519)**	**(192,052)**	**-**	**322,654**

(1) TSR vesting conditions for performance rights granted in FY16 and EPS vesting conditions for performance rights granted in FY17 were not satisfied therefore these rights lapsed.
(2) David Morris (CEO) FY18 performance rights were forfeited due to his resignation and departure.

Notes to the Consolidated Financial Statements (cont)

3.3 Key management personnel

Compensation	2020 $	2019 $
Short-term employee benefits	2,194,168	1,982,874
Post-employment benefits	199,074	145,063
Share-based payments	5,971	3,569
Termination benefits	-	484,156
Total key management personnel compensation	**2,399,213**	**2,615,662**

For further information on key management personnel refer to the Remuneration Report.

Transactions with key management personnel and related parties

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

Notes to the Consolidated Financial Statements (cont)

Section 4
Our Funding Structure

This section provides information relating to the Group's capital structure and its exposure to financial risk, how they affect the Group's financial position and performance, and how the risks are managed.

The Directors determine the appropriate capital structure of Monash IVF, specifically how much is raised from the shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the current and future activities of the Group. The Directors review the Group's capital structure regularly and do so in the context of the Group's ability to continue as a going concern, to invest in opportunities that grow the business and enhance shareholder value.

4.1 Share capital and reserves

	Number of shares	$'000
Opening balance at 1 July 2018	235,395,438	428,347
Shares issued [(1)]	390,446	410
Closing balance at 30 June 2019	**235,785,884**	**428,757**
Opening balance at 1 July 2019	235,785,884	428,757
Shares issued [(2)]	153,848,956	80,001
Capital raising fees [(2)]	-	(1,972)
Closing balance at 30 June 2020	**389,634,840**	**506,786**

(1) Issue of shares to a consultant under the terms of their consultancy agreement.
(2) In May 2020, the Company issued 153,848,956 shares under its non-renounceable entitlement offer at a price of $0.52 per share, resulting in an increase in share capital of $80.0 million less transaction costs of $2.8 million pre tax ($2.0m post tax).

Ordinary shares

Ordinary shares are classified as share capital. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Ordinary shares entitle the holder to one vote, either in person or by proxy, at a meeting of the Company.

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.

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor and market confidence and to sustain future growth of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders. The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital structure. In order to maintain an optimal capital structure, the Group may amend the amount of dividends declared and paid, return capital to shareholders or increase borrowings or equity to fund growth and future acquisitions.

Other equity reserve

The other equity reserve represents the difference between the issued capital in Healthbridge Enterprises Pty Ltd and Monash IVF Group Ltd on 26 June 2014, being the date Monash IVF Group Ltd acquired Healthbridge Enterprises Pty Ltd.

Notes to the Consolidated Financial Statements (cont)

4.1 Share capital and reserves - continued

Profits reserve

The profits reserve comprises the transfer of net profit for the period and characterises profits available for distribution as dividends in future periods.

Share option reserve

Share option reserve represents the grant-date fair value of equity-settled share-based payment awards granted to employees, which is generally recognised as an expense, with corresponding increase in equity over the vesting period of the awards.

Hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to highly probable forecast transactions. The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in OCI. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Escrow arrangements

The following ordinary shareholders have entered into voluntary escrow arrangements in relation to certain ordinary shares they hold in Monash IVF Group Ltd. An 'escrow' is a restriction on sale, disposal, or encumbering of, or certain other dealings in respect of, the Shares concerned for the period of the escrow, subject to exceptions set out in the escrow arrangement.

	30 June 2020		30 June 2019	
	Number of shares subject to escrow (m)	Escrowed shares (as a % of shares on issue	Number of shares subject to escrow (m)	Escrowed shares (as a % of shares on issue) Escrowed shares
Doctors [1] [2]	15.0	3.8%	15.3	6.5%
Sydney Ultrasound for Women[3]	1.5	0.4%	1.5	0.6%
Total	**16.5**	**4.2%**	**16.8**	**7.1%**

[1] FY20 Includes 1.0m shares subject to escrow held by Richard Henshaw (Executive Director) (FY19:1.0m shares)

[2] Doctors

The escrow applied to a pre-IPO Doctor was calculated by reference to the aggregate value of that person's pre-reorganisation equity interests in Healthbridge Enterprises Pty Ltd as follows:

Shares equivalent to 10% of a Doctor's interest prior to the re-organisation were held in short-term escrow, with 3.33% released each year from escrow on the first trading day in Shares following the Company's FY15, FY16 and FY17 financial results announcements to the ASX. This concluded the release of the pre-IPO doctor short-term escrow.

Shares held in long-term escrow are subject to the following conditions:

1. Shares equivalent to 20% of a Doctor's interest prior to the re-organisation will be released when the Doctor reaches the age of 63. These shares may be otherwise released from escrow in the following circumstances:
   - for Doctors who were aged 63 or older at the time of re-organisation or who turned 63 within two years of Completion, these shares can be released from escrow from June 2016; or
   - where a Doctor becomes a 'relocated leaver' (as described below), these Shares can be released from escrow five years after the date that they become a 'relocated leaver'; or

Notes to the Consolidated Financial Statements (cont)

4.1 Share capital and reserves - continued

- where a Doctor dies or leaves the Group as a result of becoming permanently disabled or seriously disabled, these shares can be released from escrow on the date of the relevant occurrence (as resolved by the Board acting reasonably); or
- if the Board determines to release the shares from escrow earlier.

2. Shares equivalent to the final 20% of a Doctor's interest prior to re-organisation can be released from escrow:
   - on retirement by the Doctor from the ARS industry (provided a Doctor must have used their best endeavours to transition their practice to another Doctor to the satisfaction of the Board); or
   - if the Doctor becomes a 'good leaver' or a 'relocated leaver' (as described below); or
   - five years after the Doctor leaves Monash IVF Group in other circumstances.

Doctors will be able to sell any non-escrowed Shares at any time, subject to complying with insider trading restrictions and the Group's Securities Trading Policy.

The escrow arrangements describe the circumstances in which a Doctor is a 'good leaver' or a 'relocated leaver' in the following manner:

(a) A Doctor is a 'good leaver' where:
   - they leave the Group as a result of death, serious disability or permanent incapacity through ill health (as determined by the Group's Board, acting reasonably); or
   - they or the Group terminates the Doctor's contract in specific circumstances; or

The Board determines, in its discretion, that the Doctor is a 'good leaver'.

(b) A Doctor is a 'relocated leaver' if they terminate their contract and the Board is satisfied that:
   - the Doctor genuinely intends to relocate permanently to a place which is more than 100 km from any clinic operated by the Group or any of its subsidiaries; and
   - the Doctor also intends to provide Assisted Reproductive Services in the place the Doctor is relocating to; and
   - the Doctor has used their best endeavours to transition their practice to another Doctor at the Group.

(3) Escrow for Sydney Ultrasound for Women (SUFW)

All shares issued to the vendors of SUFW are escrowed such that 53.3% of the shares issued were escrowed until the first trading day after the release of the FY16 results at which time 3.3% of escrowed shares were released. 3.3% were escrowed until the first trading day after the release of the FY17 results and 3.3% are escrowed until the first trading day after the release of the FY18 results. The remaining 40% is subject to escrow and is consistent with the Doctors above in points 1 and 2. Doctors will be able to sell any non-escrowed Shares at any time, subject to complying with insider trading restrictions and the Group's Securities Trading Policy. The escrow arrangements describing the circumstances in which a SUFW Doctor is a 'good leaver' or a 'relocated leaver' is the same as described above.

4.2 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Liquidity risk;
- Foreign exchange risk;
- Interest risk; and
- Price risk.

This note presents information about the Group's exposure to each of the above risks, objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

Notes to the Consolidated Financial Statements (cont)

4.2 Financial risk management - continued

Risk management policies are in place to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its recruitment, training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The group manages this risk through the following mechanisms:

- Preparing forward-looking financial analysis in relation to its operational, investing and financing activities;
- Monitoring undrawn credit facilities;
- Obtaining funding from a variety of sources;
- Maintaining a reputable credit profile;
- Managing credit risk related to financial assets;
- Only investing surplus cash with major financial institutions; and
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements, subject to the Group meeting future undertakings.

2020	Carrying amount $'000	Total Contractual cash flows $'000	Within 1 year $'000	1-5 years $'000	Over 5 years $'000
Non-derivative financial liabilities					
Secured bank loans	19,279	(19,964)	(457)	(19,507)	-
Trade and other payables	25,503	(25,503)	(25,503)	-	-
Lease liabilities	38,631	(38,631)	(2,316)	(18,669)	(17,646)
Contingent consideration	1,800	(1,800)	(600)	(1,200)	-
	85,213	**(85,898)**	**(28,876)**	**(39,376)**	**(17,646)**

2019	Carrying amount $'000	Total Contractual cash flows $'000	Within 1 year $'000	1-5 years $'000	Over 5 years $'000
Non-derivative financial liabilities					
Secured bank loans	89,000	(95,411)	(2,564)	(92,847)	-
Trade and other payables	15,460	(15,460)	(15,460)	-	-
Derivative financial liabilities					
Interest rate swaps	1,113	(1,113)	(171)	(942)	-
	105,573	**(111,984)**	**(18,195)**	**(93,789)**	**-**

Foreign exchange risk

The Group is not exposed to material levels of foreign currency risk at the reporting date or during the financial year.

Notes to the Consolidated Financial Statements (cont)

4.2 Financial risk management - continued

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Interest rate risk may be managed using a mix of floating rate debt and fixed rate instruments. Interest rate swaps may be used to mitigate interest rate risk on floating rate debt. Interest rate swaps are not entered into for trading purposes and are not classified as held for trading. At 30 June 2020, there was no fixed interest rate exposure (FY19: 56%) following the closure or maturity of the $50 million of interest rate swaps during the year. There were no fixed interest rate swaps in place at 30 June 2020 (FY19: $1.1m).

The interest rate profile of the Group's interest-bearing financial instruments as reported to management of the Group is as follows including the impact of hedging instruments:

	2020 $'000	2019 $'000
Fixed rate instruments		
Financial assets	2,004	565
Financial liabilities	(38,631)	(50,000)
	36,627	**(49,435)**
Variable rate instruments		
Financial assets	13,068	3,716
Financial liabilities	(19,279)	(39,000)
	(6,211)	**(35,284)**

Cash flow sensitivity analysis for variable rate instruments

A reasonable possible change of a 100 basis points in interest rates are the reporting date would have increased /(decreased) equity and profit or loss by $62,110 (FY19: $352,840). This assumes that all other variables remain constant.

Market risk – Operational risk

The Group is exposed to legislative and/or Government policy changes to funding for IVF and related healthcare services which may impact patient out-of-pocket costs resulting in potentially higher or lower demand.

Fair values

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy. The Group has not disclosed the fair values for financial assets such as short-term trade receivables, and financial liabilities such as payables (including variable rate secured bank loans), because these carrying amounts are a reasonable approximation of fair values.

		Fair Value			
2020	Carrying amount $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities measured at fair value					
Interest rate swaps for hedging	-	-	-	-	-

Notes to the Consolidated Financial Statements (cont)

4.2 Financial risk management - continued

2019	Carrying amount $'000	Fair Value Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities measured at fair value					
Interest rate swaps for hedging	1,113	-	1,113	-	1,113

The table above analyses financial assets and liabilities carried at fair value. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(b) Measurement of fair value

(i) Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation Technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Interest rate swaps for hedging	*Market comparison technique:* The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments	Not applicable	Not applicable

4.3 Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least twelve months after the reporting date, the loans and borrowings are classified as non-current.

Total loan facilities available to the Group in Australian dollars

$'000	2020 Limit	2020 Utilised	2019 Limit	2019 Utilised
Syndicated Debt facility	110,000	16,000	110,000	89,000
Working capital facility	5,000	3,279[2]	5,000	-
Accordion facility[1]	40,000	-	40,000	-
Total loan facilities	**155,000**	**19,279**	**155,000**	**89,000**
Non current borrowings				
Borrowings		19,279		89,000
Capitalised finance facility fees		(336)		(651)
Total non current borrowings		**18,943**		**88,349**

[1] An un-committed $40m accordion facility for acquisition and capital expenditure purposes.
[2] The working capital facility limit is fully utilised after the allocation of bank guarantees of $1,721,000.

Notes to the Consolidated Financial Statements (cont)

4.3 Borrowings - continued

In December 2018, the Group amended and extended the syndicated debt facility, working capital facility and accordion facility with a maturity date of January 2022. The banking facilities are secured via a first ranking security over substantially all of the Group's entities. The Group is subject to certain financial undertakings under the banking facilities. In conjunction with the Equity raise and the impact of the global economic environment caused by COVID-19, in April 2020, the Facility was amended to suspend covenant testing until 30 June 2021. As at 30 June 2020, the Group is compliant with its financial undertakings.

As at 30 June 2020, the Group had $2,969,000 of bank guarantees in place (FY19: $1,369,000).

$'000	Balance at 1 July 2019	Additions	Principal repayments	Other	Balance at 30 June 2020
Loans	88,349	-	(69,721)	315	18,943
Lease liabilities	19,226[1]	26,607	(7,202)	-	38,631
Interest rate swap	1,113	-	(1,087)	(26)	-
Total interest bearing loans and borrowings	108,688	26,607	(78,010)	289	57,574

[1] Includes lease liabilities recognised on 1 July 2019 on adoption of AASB16.

Recognition and measurement

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge certain floating interest rate exposures. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedging items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the change in the cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributed transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes to therein are accounted for as described below. All derivative financial instruments are valued using unadjusted quoted prices in active markets for identical assets or liabilities.

Cash flow hedge

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in OCI and presented in the hedging reserve in equity. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in OCI and presented in the hedge reserve in equity remains there until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, then the balance in OCI is recognised immediately in profit or loss. In other cases the amount recognised in OCI is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Notes to the Consolidated Financial Statements (cont)

4.4 Derivative financial instruments

	2020 $'000	2019 $'000
Current		
Derivatives	-	171
Non current		
Derivatives	-	942
Total derivative financial instruments	**-**	**1,113**

All interest rate swaps matured or were terminated during the financial year.

4.5 Net Finance Costs

	2020 $'000	2019 $'000
Finance income		
Interest income	11	7
Finance costs		
Interest expense	3,272	3,656
Interest expense on closure of swaps	1,087	-
Amortisation of borrowing costs[1]	313	153
Interest on lease liabilities	1,046	-
Total finance costs	**5,718**	**3,809**
Net finance costs	**5,707**	**3,802**

[1] Includes interest and amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

Notes to the Consolidated Financial Statements (cont)

4.6 Cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank	13,068	3,716
Short-term bank deposits	2,004	565
Total cash and cash equivalents	**15,072**	**4,281**

Reconciliation of profit after income tax to net cash inflow from operating activities	2020 $'000	2019 $'000
Profit for the period	11,760	19,807
Adjustments:		
Depreciation and amortisation	11,000	5,073
Net finance cost included in financing activities	5,707	3,802
Provision for expected credit losses	287	2
Mosman clinic closure accelerated depreciation	-	882
Other	1,224	232
Operating profit before changes in working capital and provisions	**29,978**	**29,798**
Change in net operating assets and liabilities		
(Increase)/decrease in trade and other receivables	(3,811)	316
(Increase)/decrease in inventory	34	(129)
Increase/(decrease) in trade and other payables	5,092	1,626
Increase/(decrease) in provisions and employee benefits	987	769
Increase/(decrease) in income and deferred taxes	(1,201)	713
Net cash from operating activities	**31,079**	**33,093**

Notes to the Consolidated Financial Statements (cont)

Section 5
Our Business Portfolio

This section provides further insight into the legal structure and group of subsidiary companies.

5.1 Controlled entities

5.2 Acquisitions and Disposals

5.3 Investments accounted for using the equity method

5.4 Parent equity

5.5 Deed of cross guarantee

5.1 Controlled entities

Parent entity	Place of business/country
Monash IVF Group Limited	Australia

Controlled entities	Place of business /country	Ownership interest 2020	Ownership interest 2019
Healthbridge Enterprises Pty Ltd	Australia	100%	100%
Monash IVF Group Acquisitions Pty Ltd	Australia	100%	100%
Healthbridge IVF Holdings Pty Ltd	Australia	100%	100%
Healthbridge Shared Services Pty Ltd	Australia	100%	100%
Healthbridge Repromed Pty Ltd	Australia	100%	100%
Repromed Finance Pty Ltd	Australia	100%	100%
Repromed Holdings Pty Ltd	Australia	100%	100%
Repromed NZ Holding Pty Ltd	Australia	100%	100%
Repromed Australia Pty Ltd	Australia	100%	100%
Adelaide Fertility Centre Pty Ltd	Australia	100%	100%
Monash IVF Holdings Pty Ltd	Australia	100%	100%
Monash IVF Finance Pty Ltd	Australia	100%	100%
Monash IVF Pty Ltd	Australia	100%	100%
Monash Reproductive Pathology and Genetics Pty Ltd	Australia	100%	100%
Monash Ultrasound Pty Ltd	Australia	100%	100%
Monash IVF Auchenflower Pty Ltd (formerly Wesley Monash IVF Pty Ltd)	Australia	100%	100%
Yoncat Pty Ltd	Australia	100%	100%
My IVF Pty Ltd	Australia	100%	100%
ACN 169 060 495 Pty Ltd	Australia	100%	100%
Palantrou Pty Ltd	Australia	100%	100%
ACN 166 701 819 Pty Ltd	Australia	100%	100%
ACN 166 702 487 Pty Ltd	Australia	100%	100%
KL Fertility & Gynaecology Centre Sdn. Bhd.	Malaysia	90%	100%
KL Fertility Daycare Sdn. Bhd.	Malaysia	100%	100%
Sydney Ultrasound for Women Partnership	Australia	100%	100%
Ultrasonic Diagnostic Services Trust No.2	Australia	100%	100%
ACN 604 384 661 Pty Ltd	Australia	100%	100%
Ultrasonic Diagnostic Services Pty Ltd	Australia	100%	100%
Fertility Australia Pty Ltd	Australia	100%	100%
Fertility Australia Trust	Australia	100%	100%
MVF Sunshine Coast Pty Ltd (formerly HBIVF Johor Bahru Lab Pty Ltd)	Australia	100%	100%
Hobart IVF Pty Ltd	Australia	57.4%	47.3%

Notes to the Consolidated Financial Statements (cont)

5.1 Controlled entities - continued

Controlled entities	Place of business /country	Ownership interest 2020	2019
Gold Coast Ultrasound for Women Pty Ltd	Australia	51%	51%
Monash IVF Asia Pte Ltd[1]	Singapore	90%	-
Monash IVF South Malaysia Pte Ltd[1]	Malaysia	62%	-

[1] In June 2020, the Group established Monash IVF Asia Pte Ltd and Monash IVF South Malaysia Pte Ltd, and acquired majority share (62%) of the assets and liabilities of IVF Consultancy SDN. BHD in Johor Bahru, Malaysia for $0.6m.

5.2 Acquisitions and disposals

Acquisition of Fertility Solutions

On 16 September 2019, the Group acquired Fertility Solutions which operates two clinics located in Buderim (on the Sunshine Coast) and Bundaberg. The business brings six fertility specialists who have worked together for several years into the Monash IVF clinician network. The transaction includes the acquisition of certain assets, liabilities and contracts of Fertility Solutions for an initial cash consideration of $2.1million on a debt free basis, with the potential of additional earn out payments over a four year period to 30 June 2023.

In this financial report, Fertility Solutions contributed $2.2m of revenue and net profit before tax of $0.4m to the consolidated results. If the acquisition had occurred on 1 July 2019, Management estimate that consolidated revenue would have been $2.8m and consolidated profit before tax for the period would have been $0.5m. In determining these amounts, management assumed that the fair value adjustments, determined provisionally would have been the same if the acquisition had occurred on 1 July 2019.

The identifiable assets acquired and liabilities assumed have been determined at fair value:

Consideration	**$'000**
Cash	2,100
Contingent consideration	
Current	600
Non Current	1,200
Total contingent consideration	1,800
Total consideration	**3,900**
Identifiable assets acquired and liabilities assumed	
Prepayments	28
Plant and equipment	943
Inventory	88
Trade and other payables	(325)
Employee entitlements	(199)
Total identifiable net assets	**535**
Total consideration	3,900
less Fair value of identifiable assets	(535)
Goodwill	**3,365**

The Group incurred acquisition related costs of $0.5m relating to external legal fees, due diligence and stamp duty costs. These costs are included in 'professional and other fees' in the Group's statement of profit or loss and other comprehensive income.

Accounting estimates and judgements – Contingent consideration

Deferred or contingent consideration relates to businesses acquired and is initially measured at fair value as at the acquisition date. Subsequent to initial recognition, deferred consideration continues to be measured at fair value with any changes in fair value recognised in the profit or loss.

Notes to the Consolidated Financial Statements (cont)

5.2 Acquisitions and disposals - continued

The measurement of contingent consideration requires management to estimate the amount likely to be paid in the future. This requires the exercise of judgement, in particular where the amounts is payable is dependent to the future financial performance of the business that has been acquired.

Accounting policy for business combinations

The acquisition method of accounting is used to account for business combinations. 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 Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition date. Where the business combination is achieved in stages, the Group measures its previously held equity interest in the acquiree at the acquisition date fair value and the difference between 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 and 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) twelve months from the date of the acquisition or (ii) when the acquirer received all the information possible to determine fair value.

Sale of 10% of KL Fertility & Gynaecology Centre Sdn Bhd (KLFGC)

On 31 December 2019, a share sale agreement was executed for the sale of 10% of KLFGC to two Malaysian fertility specialists. The strategic disposal of part of the Kuala Lumpur clinic is to align and facilitate further growth in Kuala Lumpur and other Asian regions. Total consideration under the share sale agreement was $1.7m payable in cash.

Hobart IVF Pty Ltd Ownership Interest % change (Refer to 5.3)

On 6 August 2019, a buy back agreement was signed between Hobart IVF Pty Ltd and a minority interest shareholder. The purchase price paid for the 17.6% shareholding was $195k. As a result, the Group's shareholding increased from 47.3% to a 57.4% majority shareholding. Accordingly, this resulted in a change of control with full consolidation of this entity in the Group financial statements.

5.3 Investments accounted for using the equity method

	Principal Activity	Ownership Interest %		Share of Net Profit/Loss $'000	
Name of company		2020	2019	2020	2019
Compass Fertility	Fertility Services	25%	25%	205	111
Hobart IVF Pty Ltd (Trading as Fertility Tasmania)*	Fertility Services	-	47.3%	(8)	8

*Refer to Note 5.2

Notes to the Consolidated Financial Statements (cont)

5.4 Parent entity

As at 30 June 2020 and throughout the financial year ending on that date, the parent company of the Group was Monash IVF Group Limited.

Results of parent entity	2020 $'000	2019 $'000
Profit after tax	11,189	13,535
Other comprehensive income	-	-
Total comprehensive income	**11,189**	**13,535**
Financial position of parent entity at year end		
Current assets	2,472	499,137*
Total assets	541,171*	503,003*
Current liabilities	4,952	64,317
Total liabilities	25,447	64,317
Net assets	**515,724**	**438,686**
Total equity of the parent entity comprising of:		
Share capital	506,786	428,757
Retained earnings	8,938	9,929
Total equity	**515,724**	**438,686**

*Includes Intercompany balances with its subsidiaries, as at 30 June 2020, these balances are not expected to be settled within twelve months.

Expenditure contracted for but not recognised as liabilities:

Parent Entity	2020 $'000	2019 $'000
Capital plant and equipment	3,345[1]	-

[1] Capital plant and equipment includes the new Sydney CBD Fertility Clinic in development.

Parent entity guarantees in respect of the debts of its subsidiaries

The parent entity has entered into a Deed of cross guarantee with the effect that the Company guarantees debts in respect of certain subsidiaries

Notes to the Consolidated Financial Statements (cont)

5.5 Deed of cross guarantee

The below listed entities are parties to a Deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (Wholly Owned Companies) Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The below companies represent the parties to the Deed of cross guarantee ('closed group') for the purposes of the legislative instrument entered into on 26 June 2014;

- Monash IVF Group Ltd
- Monash IVF Group Acquisition Pty Ltd
- Healthbridge Enterprises Pty Ltd
- Healthbridge Shared Services Pty Ltd
- Healthbridge IVF Holdings Pty Ltd
- ACN 169060495 Pty Ltd
- ACN 166701819 Pty Ltd
- My IVF Pty Ltd
- Healthbridge Repromed Pty Ltd
- Monash IVF Holdings Pty Ltd
- Palantrou Pty Ltd
- ACN 166702487 Pty Ltd
- Repromed Finance Pty Ltd
- Monash IVF Finance Pty Ltd
- Repromed Holdings Pty Ltd
- Monash IVF Pty Ltd
- Repromed Australia Pty Ltd
- Repromed NZ Holding Pty Ltd
- Monash Ultrasound Pty Ltd
- Monash Reproductive Pathology & Genetics Pty Ltd
- Monash IVF Auchenflower Pty Ltd
- Yoncat Pty Ltd
- Adelaide Fertility Centre Pty Ltd
- Sydney Ultrasound for Women Partnership
- Ultrasonic Diagnostic Services Trust No. 2
- ACN 604384661 Pty Ltd
- Ultrasonic Diagnostic Services Pty Ltd
- Fertility Australia Pty Ltd
- Fertility Australia Trust
- MVF Sunshine Coast Pty Ltd (formerly HBIVF Johor Bahru Lab Pty Ltd)

An extract of the consolidated statement of comprehensive income and consolidated statement of financial position, comprising the Company and controlled entities which are party to the Deed of cross guarantee, after eliminating all transactions between parties to the Deed of cross guarantee is set out as follows:

Notes to the Consolidated Financial Statements (cont)

5.5 Deed of cross guarantee - continued

Extract of the statement of profit or loss and other comprehensive income	2020 $'000	2019 $'000
Profit before tax	13,890	25,654
Income tax expense	(3,463)	(6,516)
Net profit after tax	**10,427**	**19,138**
Other comprehensive income, Items that will not be reclassified to profit or loss:		
Cash flow hedges	779	(603)
Tax on cash flow hedges	(62)	181
Other comprehensive income for the year, net of tax	**717**	**(422)**
Total comprehensive income for the year	**11,144**	**18,716**
Summary of movements in retained earnings		
Opening balance at 1 July	(116,319)	(122,265)
Profit for the period	10,427	19,138
Dividends paid/declared	(12,025)	(13,192)
Closing balance at 30 June	**(117,917)**	**(116,319)**

Statement of financial position		
Current assets		
Cash and cash equivalents	12,421	2,511
Trade and other receivables	9,477	6,415
Current tax asset	1,098	650
Inventory	3,806	3,756
Total current assets	**26,802**	**13,332**
Non current assets		
Investment in subsidiaries	12,943	13,343
Trade and other receivables	-	69
Plant and equipment	17,085	14,170
Right of use assets	36,514	-
Intangible assets	256,412	251,954
Total non current assets	**322,954**	**279,536**
Total assets	**349,756**	**292,868**
Current liabilities		
Trade and other payables	27,014	16,888
Lease liabilities	2,316	-
Derivative financial instruments	-	171
Contingent consideration	600	-
Employee benefits	9,435	8,559
Total current liabilities	**39,365**	**25,618**
Non current liabilities		
Borrowings	18,942	88,349
Lease liabilities	36,314	-
Derivative financial instruments	-	942
Deferred tax liability	819	2,128
Contingent consideration	1,200	-
Employee benefits	1,026	913
Total non current liabilities	**58,301**	**92,332**
Total liabilities	**97,666**	**117,950**
Net assets	**252,090**	**174,918**
Equity		
Contributed equity	506,786	428,757
Reserves	(136,779)	(137,520)
Retained earnings	(117,917)	(116,319)
Total equity	**252,090**	**174,918**

As at 30 June 2020, the Deed of cross guarantee Group has a net current asset deficiency of $13,331,000 (FY19: $12,286,000). Refer to the basis of preparation note in relation to going concern considerations.

Notes to the Consolidated Financial Statements (cont)

Section 6
Other disclosures

6.1 Auditors' remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2020 $	2019 $
Audit services - KPMG		
Audit and review of financial statements	270,000	284,000
Other services - KPMG		
Taxation services	177,000	146,000
Other auditors (Non-KPMG)		
Audit and review of financial statements	11,122	11,949
Total services	**458,122**	**441,949**

6.2 Events occurring after the reporting period

Subsequent to 30 June 2020 and related to the COVID-19 Pandemic, the Group's largest operating market, Victoria in Australia has experienced a surge in COVID-19 cases resulting in its capital city, Melbourne moving to Stage 4 restrictions. Whilst this is disrupting operational efficiency and patient movement, provision of IVF and Ultrasound services are continuing notwithstanding Stage 4 restrictions. IVF services are exempt from the non-urgent elective surgery ban in-place in Victoria due to the service being "time critical and has minimal impact on hospital bed capacity".

Effective 24 August 2020, the Group has right sized the $110m Syndicated Debt Facility to $40m. The $40m accordion facility remains available for acquisitions and capital expenditure.

Except as disclosed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial periods.

6.3 Reporting entity

Monash IVF Group Ltd (the 'Company') is a for profit company primarily involved in the area of assisted reproductive services and the provision of specialist women's imaging services. Monash IVF Group Ltd was incorporated on 30 April 2014. The Company is incorporated in Australia and listed on the Australian Stock Exchange. Its registered office is at Level 1, 21-31 Goodwood Street, Richmond, Victoria and is limited by shares. The consolidated financial statements comprise the Company and its controlled entities (collectively 'the consolidated entity', 'Monash Group' or 'Group').

Notes to the Consolidated Financial Statements (cont)

6.4 Basis of preparation

Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements of the Group comply with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the international Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 24 August 2020.

Functional and presentation currency

The consolidated financial statements are presented in Australian dollars, which is the functional and presentational currency of the Company and the majority of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC), relating to the rounding off of amounts in the consolidated financial statements. Amounts in the consolidated financial statements have been rounded off in accordance with that legislative instrument to the nearest thousand, unless specifically stated to be otherwise.

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Monash IVF Group Ltd as at 30 June 2020 and the results of all subsidiaries for the year then ended. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group 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 Group. The acquisition method of accounting is used to account for business combinations by the Group.

Basis of measurement

The financial report has been prepared on an accrual basis and is based on historical cost (unless otherwise stated), except for derivative financial instruments and contingent consideration assumed in a business combination, which have been measured at fair value.

Foreign currency translation

Transactions in foreign currencies are translated at foreign exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised costs in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income (OCI), and presented in the foreign currency translation reserve (translation reserve) in equity.

Notes to the Consolidated Financial Statements (cont)

6.4 Basis of preparation - continued

Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Estimated recoverable amount of goodwill and other non-current assets

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy for intangible assets. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash generating units, or CGUs). Refer to Note 12 for further details on impairment testing.

(ii) Provision for ECL on receivables

The Group calculates the doubtful debts provision under the expected credit loss (ECL) model. The Group assesses credit losses based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Measurement of ECL allowance for trade receivables is disclosed in Note 8.

(iii) Deferred consideration

The measurement of deferred consideration requires management to estimate the amount likely to be paid in the future. This requires the exercise of judgement, in particular where the amounts is payable is dependent to the future financial performance of the business that has been acquired.

(iv) Leases

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the lease liabilities and right-of-use assets recognised. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if the rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Going concern

As at 30 June 2020, the group has a net current asset deficiency of $7,196,000 (FY19: $8,670,000). The Directors consider that there are reasonable grounds to believe the Group will be able to pay its debts as and when they fall due based on forecast operating cash flows which indicate that cash reserves are sufficient to fund operation, the availability of committed but undrawn external debt facilities, and given certain current liabilities such as employee entitlements and deferred revenue will not be fully settled in the short term to cause a liquidity shortfall.

The spread of novel coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation on 31 January 2020 and upgraded to a global pandemic on 11 March 2020. The rapid rise of the virus has seen an unprecedented global response by Governments, regulators and industry sectors. The Australian Federal Government enacted its emergency plan on 29 February 2020 which has seen the closure of Australian borders from 20 March, an increasing level of restrictions on corporate Australia's ability to operate, significant volatility and instability in financial markets and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdowns and uncertainties. Community disruption has continued beyond 30 June 2020 with further restrictions in-place in Victoria and localised outbreaks emerging across Australia. In response to declaration of a global pandemic in March 2020, the Group implemented a range of measures designed to protect the health and safety of its patients, employee and clinicians. On 25 March 2020, for public safety reasons, the Fertility Society of Australia recommended the postponing of patients planning to start fertility treatment following Federal Cabinet's decision to temporarily suspend non-urgent elective surgery, which was lifted on 27 April 2020.

Notes to the Consolidated Financial Statements (cont)

6.4 Basis of preparation - continued

This significantly impacted the Group's operating performance during Q4FY20 including a 73% decline in Australian stimulated cycles in April 2020 compared to pcp and a 76% decline in International stimulated cycles in April and May. As a result, the Group initiated the following actions and activities:

- Cash preservation activities across operating and capital expenditure to reduce the Group's monthly net operating cash flow burn during the period of restriction and uncertainty. This included stand-down of employees, a reduction in science, consumables and other clinical variable costs and a reduction in fixed non-essential expenditure including temporary reduction in premise costs. In addition, non-essential capital projects were paused;
- 1H20 interim dividend due for payment in April 2020 was deferred to 2 October 2020;
- Execution of an $80m equity raise comprising an institutional placement and pro-rata accelerated non-renounceable entitlement offer, which was completed on 28 May 2020. The purpose of the equity raising was to improve liquidity, strengthen the balance sheet by reducing debt to navigate through COVID-19 uncertainty in FY20 and beyond, and provide flexibility to pursue identified organic and non-organic growth opportunities in Australia and South East Asia;
- Agreement was reached with the Group's financiers to waive financial covenant obligations until 30 June 2021 under the Syndicated Debt Facility.

Following the actions implemented above and COVID-19 developments, the Directors have considered plausible forecast cash flow scenarios (including adverse downside scenarios) for at least the twelve month period from the date of approval of these financial statements. As a result, the Directors consider that the Group is able to pay its debts as and when they are due and these financial statements can be prepared on a going concern basis.

6.5 Changes in significant accounting policies

The Group has applied AASB 16 Leases from 1 July 2019. A number of other new standards are effective from 1 July 2019 but they do not have a material effect on the Group's financial statements. This is the first set of the Group's financial statements where AASB 16 Leases has applied, the changes are described below.

AASB 16 Leases

AASB 16 removes the classification of leases as either operating leases or finance leases for the lessee, effectively treating all leases as finance leases. This will effectively move all off-balance sheet operating leases onto the balance sheet. 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 across a portfolio of leases with reasonably similar characteristics in relation to lease term;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short term leases which are recognised on a straight line basis as an expense; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

On transition to AASB 16, the Group recognized right-of-use assets and lease liabilities, recognizing the difference in retained earnings. The impact of the adoption of AASB 16 is set out below:

On 1 July 2019	$'000
Right of use assets	29,547
Lease liabilities	(31,180)
Deferred tax asset	790
Retained earnings	1,843

Notes to the Consolidated Financial Statements (cont)

6.5 Changes in significant accounting policies - continued

When measuring lease liabilities for leases that were classified as operating leases, The Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied is 3%.

Operating lease commitment as disclosed at 30 June 2019	14,073
Discounted using the incremental borrowing rate at 1 July 2019	(2,159)
Lease liabilities recognised as at 30 June 2019	11,914
Recognition exemption for leases of low-value assets	-
Recognition for leases with less than 12 months of lease term at transition	-
Extension options reasonably certain to be exercised	20,266
Lease liabilities recognised at 1 July 2019	32,180

* In November 2019, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision, Lease Term and Useful Life of Leasehold Improvements, on how lease term of a cancellable or renewable lease should be determined for both the lessor and lessee when applying AASB 16 Leases. IFRIC clarifies that the broader economics and not only the contractual termination payments should be considered in determining lease terms. The adoption of this clarification increased right of use assets by $8,154 and lease liabilities by $8,926 in the Statement of Financial Position.

In relation to the leases under AASB 16, the Group has recognized depreciation and interest costs, instead of operating lease expense. During the year ended 30 June 2020, the Group recognised:

Depreciation expense	5,640
Interest expense	1,046

Accounting policy

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if the rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the lease liabilities and right-of-use assets recognised.

At transition, for leases classified as operating leases under AASB 117 Leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at their carrying value as if AASB 16 has been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its largest property lease.

6.6 New standards and interpretations

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which will impact the Group in the period of initial adoption. They were available for early adoption for the Group's annual reporting period beginning 1 July 2019, but have not been applied in preparing this financial report. These standards are not expected to have a material impact to the Group:

Notes to the Consolidated Financial Statements (cont)

6.6 New standards and interpretations - continued

- Amendments to References to Conceptual Framework in IFRS standards
- Definition of a business (Amendments to AASB 3)
- Definition of material (Amendments to AASB 101 and AASB 108)