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ASX ANNOUNCEMENT **15th November 2016**

MARKET UPDATE

- **Operating revenue weakness in first 4 months (down circa 4% compared to expectations – up 0.6% comparable year on year) resulting in first half forecast reduction in EBITDA to a range of $7.7 to $8.2m**
- **Actions underway to deleverage balance sheet, reduce overheads, and consolidate or sell underperforming sites expected to improve margins in second half**
- **First quarter FY17 saw recovery in industry-wide Medicare services showing signs of movement toward longer term growth trend**
- **Partial reversal in modality substitution to higher value services in first quarter**
- **Enlitic continues to make exciting progress in technology development with near term focus on Chinese deployment**
- **Chinese Joint Venture with CITIC expected to be completed shortly**

Capitol Health Limited (ASX:CAJ) ("Capitol" or the "Company") provides guidance for the half year ending December 31 2016. This guidance is based on unaudited financial results for the first 4 months of trading – final results will be issued after the completion of the half year.

Trading

Although there has been a partial recovery in Medicare growth rates during the first quarter (see chart below) Capitol's revenue was below expectations and likely to result in revenue for the half year in the range of $79 to $80m (up circa 0.6% on a comparable site / working day basis) but below expectations by 4%.

Revenue from NSW operations has showed a greater propensity for weakness than the Victorian operations. Improved revenue performance across the group since the beginning of October is providing some cause for optimism.

Revenue expectations for the full year will be driven by the industry changes discussed below and the uncertainty around the bulk billing incentive reduction planned by the federal government for January 2017. While the impact of these reductions has been assumed in our budget, the implementation, timing, and depth of the reductions to date remain uncertain. Capitol will continue to monitor the progress of the proposed changes and competitor responses, and has a number of strategies prepared to ensure it reacts appropriately.

The revenue weakness during the first 4 months of trading has resulted in decreased EBITDA expectations for the half year. Total EBITDA of the group for the December 2016 half year is likely to be in the range of $7.7m to $8.2m while Total EBITDA from core radiology operations is expected to be in the range of $7.4m to $7.9m, comprised as follows:

Range in total group EBITDA	**$7.7m**	**to**	**$8.2m**
Add back Individually Significant Items:			
– China Business Development costs	$0.4m		
– Forfeiture of Share Options[1] & Restructure Costs	$1.0m		
– One off profit on property sale and write back of deferred consideration on acquisition	($1.7m)		
Range in Core Radiology EBITDA	**$7.4m**	**to**	**$7.9m**

Actions

The Board's focus is on prudent, measured and strategic actions to strengthen the business through reducing overheads, consolidating or selling underperforming sites, and deleveraging the balance sheet.

Property sales flagged at the full year are progressing with one property sold and another two under negotiation. Reduction in overhead costs is progressing with several management positions already restructured, significant reduction in head office leasing costs planned, and major advertising and sponsorship spending is in the process of being eliminated. These measures are expected to yield costs reductions in the order of $2 million per annum. Cost reductions are expected to progressively improve margins over the second half of FY17.

Capital expenditure has also been reduced to reflect the level of asset replacement required to support the core radiology operations, resulting in an expected spend below $5m for the 2017 financial year.

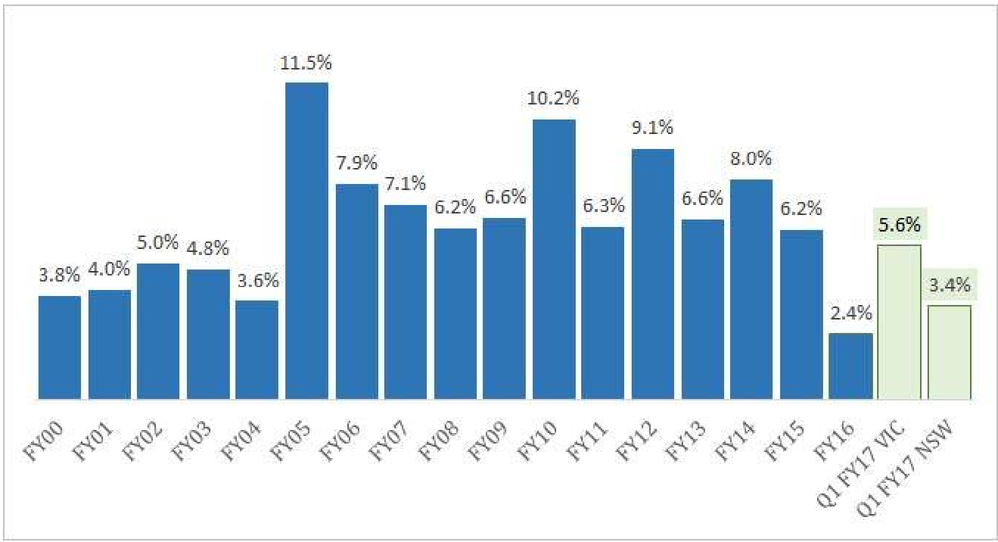
The Board is also undertaking a review of non-core investments which is expected to be complete by the end of the half.

Details of this plan will be presented at the upcoming AGM on 24th November 2016.

Industry Outlook

The growth in Medicare Diagnostic Imaging (DI) billings for the first quarter was not quite back to longer term growth levels of 7% but much closer than over the last year. In summary:

- Medicare DI Billings up 4.3% (VIC & NSW combined)
- Growth stronger in Victoria (5.6%) than NSW (3.4%) – see chart below
- There was one more working day in the prior corresponding period – when adjusting for that, normalised growth for both states was 5.9% vs. prior corresponding period on a per-workday basis



Source: Medicare

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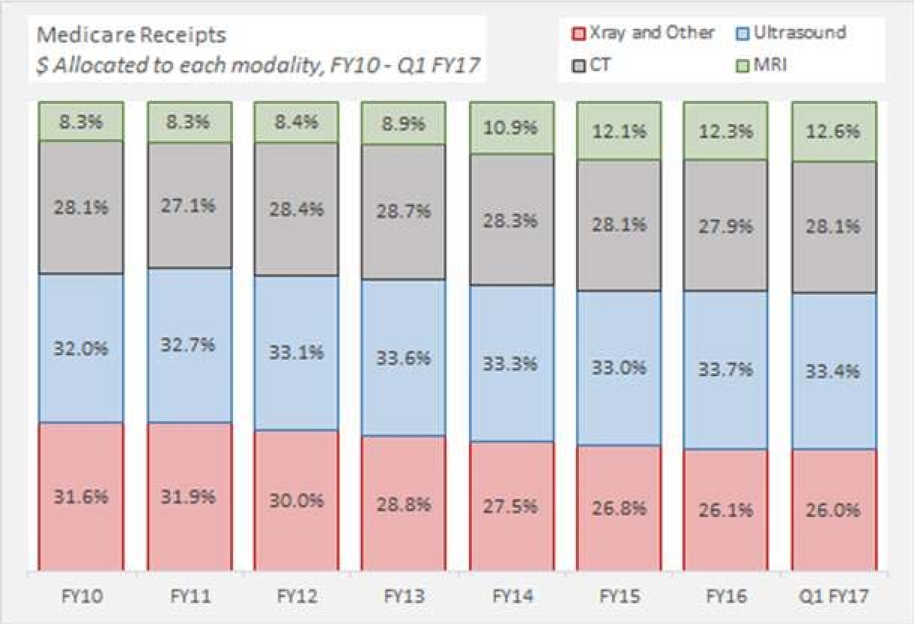
[1] *Upon forfeiture of share options issued to Mr John Conidi, mandatory accounting standards require the unamortised balance of $0.55m to be written off in full to reserves.*

The first quarter saw a partial reversal in modality substitution to higher value services moving back toward the more positive longer-term trend. There has historically been a broad consistency of Medicare allocation between modalities, however the gradual migration from lower-cost services towards much higher-cost services has resulted in Medicare receipts growing at a higher rate than services (7% vs 5% since 2000). Most notably, MRI receipts have grown by 4.3% since 2010 while X-rays and other services have retreated. See chart below.



Source: Medicare

Enlitic

Enlitic continue to make ground breaking progress in the development of their diagnostic imaging deep learning algorithms. Developments earlier in the calendar year on wrist fracture detection have been built upon with recent advanced progress in chest x-rays, and more recently its novel CT lung cancer screening technology. Powered by a 3D computer vision engine, its lung nodule detection and characterisation, longitudinal monitoring of findings, and automatic report generation enhance sensitivity and scale in lung screening programs while preventing needless biopsies.

In addition to these thoracic imaging developments Enlitic has also developed capabilities in digital mammography.

Enlitic is expected to showcase these advances at the upcoming Radiological Society of North America (RSNA) conference in Chicago, which is the largest global annual radiology conference. A press release from Enlitic is expected shortly, see www.enlitic.com.

Capitol and Enlitic also continue to pursue near term deployment and revenue opportunities in the Chinese market.

China

Capitol continues to make steady progress in its development of the Chinese DI market. Further to the announcement in June regarding the MOU with Citic Pharmaceutical, a binding joint venture agreement is expected to be completed shortly. As contemplated by the MOU, Capitol will participate in a Joint Venture company in China that will provide design, consulting, and operational management of CITIC's proposed new private independent imaging centers in mainland China.

Capitol continues to engage with the Sunshine insurance group regarding the formalization of the MOU signed in June relating to consulting and training at the 2,000 bed Sunshine Union Hospital.

The Board continues to believe the fundamentals of the Chinese healthcare market support our investment, and underpin a medium term value opportunity for the group along with important revenue diversification.

For more information, please contact:

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About Capitol Health
Capitol Health is a leading provider of diagnostic imaging and related services to the Australian healthcare market. Headquartered in Melbourne, Victoria, the Company owns and operates clinics throughout Victoria and New South Wales. The Company's operational focus is on delivering a community-based infrastructure for radiologists and related medical practitioners to deliver optimal, efficient, accurate healthcare service outcomes for patients.