

ASX Appendix 4D

Preliminary Final Report to Australian Securities Exchange
Capitol Health Limited and Controlled Entities – ABN 84 117 391 812
Period Ending 31 December 2017

CAPITOLHEALTH
LIMITED

The following information is provided to the ASX under listing rule 4.2A.3

1. Details of the reporting period and the previous corresponding period.

Reporting Period	6 Months to 31 December 2017
Previous Corresponding Reporting Period	6 Months to 31 December 2016

2. Results for announcement to the market

2.1 The amount and percentage change up or down from the previous corresponding period of revenue from the ordinary activities.

\$ Revenue from Ordinary Activities - current period	\$'000	64,916
\$ Revenue from Ordinary Activities - previous period	\$'000	80,013
\$ change in Revenue from Ordinary Activities	\$'000	(15,097)
% change from previous corresponding reporting period	% DOWN	-18.9%

2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary and continuing activities after tax attributable to members.

\$ Profit (loss) from ordinary activities after tax - current period	\$'000	2,725
\$ Profit (loss) from ordinary activities after tax - previous period	\$'000	1,986
\$ change in profit (loss) from ordinary activities after tax	\$'000	739
% change from previous corresponding reporting period	% UP	37.2%

2.3 The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members.

\$ Net profit (loss) attributable to members - current period	\$'000	2,890
\$ Net profit (loss) attributable to members - previous period	\$'000	2,204
\$ change in net profit (loss) attributable to members	\$'000	686
% change from previous corresponding reporting period	% UP	31.1%

2.4 The amount per security and franked amount per security of final and interim dividends or a statement that is not proposed to pay dividends.

No Final Dividend was declared for the 6 months ending 30 June 2017.

After 31 December 2017 an Interim Dividend has been declared for the 6 months ending 31 December 2017.

The Interim Dividend is declared at an amount of \$0.004 (0.4 cent) per security.

The Interim Dividend is fully franked.

2.5 The record date for determining entitlements to the dividends (if any).

The Record Date for determining the entitlement to the the Interim Dividend is 5 March 2018.

2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable figures to be understood.

Please refer to the Consolidated Interim Financial Report lodged with this Appendix 4D.

3. Net tangible assets per security with the comparative figure for the previous corresponding period.

Net tangible Assets per Security	Cents	8.27
Previous corresponding period	Cents	(7.99)

4. Details of entities over which control has been gained or lost during the period, including the following.

4.1 Name of the entity.

None.

4.2 The date if the gain or loss of control.

Not Applicable.

4.3 Where material to an understanding of the report-the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.

Not Applicable.

5. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable and (if known) the amount per security of foreign source dividend or distribution.

A fully franked Interim Dividend has been declared for the 6 months ending 31 December 2017. The Interim Dividend is declared at an amount of \$0.004 (0.4 cent) per security. An Interim Dividend of \$3,213,480 is payable on 802,456,607 ordinary shares on issue at the Record Date. All shareholders at the Record Date are eligible to participate in the Dividend Reinvestment Plan. Record Date of the Interim Dividend is 5 March 2018. Payment Date of the Interim Dividend is 3 April 2018.

6. Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.

The shareholders of Capitol Health Limited approved a Dividend Reinvestment Plan at a general meeting convened on 20 December 2011.

The last date for receipt of an election notice to participate in the Dividend Reinvestment Plan in relation to the Interim Dividend declared is 20 March 2018.

7. Details of associates and joint venture entities including the following.

None

7.1 Name of the associate or joint venture entity.

Not applicable

7.2 Details of the reporting entity's percentage holding in each of these entities.

Not applicable

7.3 Where material to an understanding of the report – aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.

Not applicable

8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Financial Reporting Standards).

Not applicable

9. For all entities, if the accounts contain an independent audit report or review that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.

The accounts are not subject to any modified opinion, emphasis of matter or other matter paragraph.

CAPITOLHEALTH
LIMITED

ABN 84 117 391 812

CONSOLIDATED INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2017

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Capitol Health Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Managing Director's Review

Dear Fellow Shareholders,

I am pleased to report on a period of significant progress at Capitol Health. We have continued to make great strides in advancing our strategic ambitions and in positioning ourselves to deliver maximum benefit for you – our shareholders, for practitioners, and for patients.

Strong Market Position

During the first half of the 2018 financial year our focus on creating shareholder value remained at the forefront of all our decisions, including via the sale of non-core and underperforming assets, capital management activities, improved margins, and acquisitive and organic growth.

The results of these efforts have meant a much stronger share price, substantially increased market capitalisation, a broader institutional shareholder base, improved liquidity in our ASX-listed shares, and what we are confident is a sustainable growth trajectory.

Since July 2017 we have completed the sale of our NSW assets for \$81.5 million to I-Med, undertaken a share buyback program which reduced shares on issue by 8.6 million and opened two new greenfield clinics (Altona and Vermont Private Hospital).

Financial Performance

Underlying market growth has returned to more normal levels over the period and regulatory headwinds have largely abated, providing a solid foundation for future growth. This growth has seen our revenue performance increase by 5.1% year on year (when adjusted for one less working day in Victoria).

Operating margins continue to improve through the impact of operational leverage and cost reductions to be 1H18 ~ 19%+ based on EBITDA before acquisition costs.

We have declared an interim dividend of 0.4 cents per share and believe that this will be the basis for a growing but sustainable dividend stream over coming periods.

Growth Strategy

Our strengthened balance sheet enables us to continue to deliver on our existing growth strategy, including through the successful acquisition of I-Rad Sunshine and Radiology Tasmania. By using Capitol's cash reserves to acquire businesses of this calibre we are expanding our network and service offering as well as making strategic long-term investments for the benefit our shareholders.

We continue to evaluate and progress our acquisition pipeline and hold a firm belief in our potential success in these endeavours, particularly in light of these two recent favourable outcomes in competitive processes.

This strategy complements our off-market takeover bid for Integral Diagnostics, announced in December 2017, which would see us bring together two complementary networks to create a new force in diagnostics in Australia. We believe this is a highly attractive and transformational opportunity for the Company. Among the many benefits, the combination of these businesses will deliver greater scale and financial strength to capitalise on growth opportunities, as well as a diversified geographic and clinical profile.

The successful transfer of the full MRI licence to Imaging at Olympic Park also drove further growth from higher referral volumes and the expansion of clinic operating hours.

Managing Director's Review

Clinical Focus

We acknowledge that practitioners have an important advisory role to play in what we do as a business.

We have continued to enhance clinical governance with our long standing medical advisory committee (MAC), with the committee now reporting directly to the Board of directors.

We are further developing sub-speciality practices such as Imaging at Olympic Park (MSK) and Vermont (Body and Cardiac Imaging), as well as related fellowship programs in these disciplines; and lifting investment in training and development through Specialist presentations to the doctor group and numerous programs through modality committees in the business.

Current Ventures

Enlitic is making solid progress, including achieving a number of technical milestones and being awarded the CUBE 1 mill Euro prize for best start up (as judged by Apple founder Steve Wozniak). We are focused on realising the potential of this powerful technology and Company, as well as its application both in our own business and globally.

Our Joint Venture ("JV") in China with CITIC Pharmaceutical (Shenzhen) Co., Ltd ("CITIC Pharmaceutical") and Xiamen Zhouxin Medical Image Co., Ltd ("Zhouxin") is ongoing. This JV will position us to provide consulting and clinic management services to a network of independent imaging clinics to be created by CITIC and Zhouxin across mainland China. While there have been delays in regulatory approvals on this front, we now believe these approvals are imminent and this should clear the way for the commencement of operations.

Finally, I would like to take this opportunity to thank our shareholders and our staff for their ongoing faith in the Company. We have achieved much over the last 12 months, and remain focused on maintaining this momentum throughout 2018.

Andrew Harrison

Directors' Report

The Directors present their report together with the financial report of Capitol Health Limited ("Company") and its controlled entities (the "Group"), for the half year ended 31 December 2017, and the auditor's report thereon.

Directors

The Directors of the Company at any time during the half year and up to the date of this report are:

Mr Andrew Demetriou

Non-Executive Director and Chairman

Mr Andrew Harrison

Managing Director

Ms Nicole Sheffield

Non-Executive Director

Mr Richard Loveridge

Non-Executive Director – Appointed 5 September 2017

Results

The Group made a net profit after tax for the half year ended 31 December 2017 of \$2,890,000 (2016: profit after tax of \$2,204,000).

Review of Activities

The major contributing items to the Group's result for the half year ended 31 December 2017 were:

- Operating Revenue from Continuing Operations was up \$2.3m over the corresponding period in the prior financial year. This represents an increase of 5.1% after taking account of one less working day in Victoria compared to the prior corresponding period. During the period there were no changes in the level of Medicare rebates while Medicare diagnostic receipts continued a growth trend back to historic long term growth rates,
- Individually significant expense items were acquisition costs of \$1.59m (2016: \$0) which were incurred during the period in respect to the takeover bid of Integral Diagnostics Limited as well as the acquisitions of Radiology Tasmania Pty Limited and I-rad Sunshine which both occurred after balance date,
- Total Borrowing Costs (including the costs allocated to Discontinued Operations) decreased by \$0.9m (27%) over the corresponding period in the prior financial year primarily due to the repayment of borrowings from the proceeds of shares issued in the prior financial year, and
- Income Tax Expense was up \$1.5m over the corresponding period in the prior financial period principally as a consequence of higher profits in the current period and non-assessable revenue items in the prior period. The disclosed tax rate of 35% of Net Profit Before Tax in the current period is greater than the normal tax rate of 30% principally as a consequence of the taxation impact of non-deductible acquisition costs.

Directors' Report

Events Subsequent to Balance Date

Subsequent to balance date:

- a) the Company declared an interim dividend for the half year ending 31 December 2017 of \$0.004 per share (2016: \$0) with the maximum dividend payable subject to elections under the Company's Dividend Reinvestment Plan of \$3,209,826 (2016: \$0).
- b) on 22 January 2018 the Group acquired the business of I-rad Radiology – a clinic in Sunshine Victoria. The consideration for the acquisition amounted to \$3 million plus assumed liabilities for employee entitlements and equipment borrowings. In addition an additional \$0.5 million of performance based contingent consideration is payable over 2 years based on revenue growth and the retention of key employees. The consideration is all payable in cash.
- c) on 1 February 2018 the Group acquired all the shares in Radiology Tasmania Pty Limited which owns 5 clinics in Tasmania. The consideration for the acquisition comprises a payment of \$24.67 million subject to a working capital adjustment, plus an aggregate earn out amount of \$1 million payable over 2 years based on revenue targets and subject to retention of the founder during that period plus assumed employee entitlements. The consideration is all payable in cash. The sale is on debt free basis.
- d) on 1 February 2018 Capitol Health Holdings Pty Limited lodged a Replacement Bidder's Statement for the off-market takeover of Integral Diagnostics Limited ("Integral"). The offer for each Integral share is \$0.36 and 6.9 shares in the Company. The maximum amount of cash that the Company would be required to pay under the Offer is approximately \$52.3 million and the maximum number of shares in the Company issued to Integral shareholders is 1,003,306,520.

The offer is subject to certain conditions including acquiring at least a 90% of all Integral shares.

A copy of Replacement Bidder's Statement may be viewed on the Company's website:

www.capitolhealth.com.au

Rounding Of Amounts

The Company is a type of company referred to in ASIC Corporations (Rounding in Financial/Director' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000, or in certain cases to the nearest dollar.

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 6 of the consolidated interim financial report and forms part of the Directors report for the half year ended 31 December 2017.

Signed in accordance with a resolution of the Directors:



Andrew Harrison
Managing Director

Dated at Melbourne, Victoria this 27th day of February 2018.

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007

T +61 (0) 3 9286 8000
F +61 (0) 3 9286 8199

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Capitol Health Limited for the half year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

A stylized blue ink signature of 'RSM'.**RSM AUSTRALIA PARTNERS**A blue ink signature of 'J S Croall'.

J S CROALL
Partner

Dated: 27 February 2018
Melbourne, Victoria

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Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
for the Half Year Ended 31 December 2017

	Note	31 December 2017 \$'000	31 December 2016 \$'000
Continuing Operations			
Revenue			
Revenue from Services Rendered		54,807	52,543
Other Income		1,261	1,827
Total Revenue		<u>56,068</u>	<u>54,370</u>
Expenses			
Employee Benefits		32,487	33,475
Equipment Related		2,535	2,992
Occupancy		3,958	3,749
Consumables		1,811	2,123
Telecommunications		1,252	881
Computer IT & Support		1,258	1,966
Acquisition Costs		1,587	-
Borrowing Costs		1,835	1,136
Impairment of Assets		-	107
Depreciation & Amortisation		2,684	2,336
Other		2,407	3,588
Total Expenses		<u>51,815</u>	<u>52,353</u>
Profit Before Income Tax		<u>4,253</u>	<u>2,017</u>
Income Tax Expense		1,528	31
Profit for the Period from Continuing Operations		<u>2,725</u>	<u>1,986</u>
Discontinued Operations			
Profit for the Period from Discontinued Operations	4	<u>165</u>	<u>218</u>
Profit for the Period		<u>2,890</u>	<u>2,204</u>
Profit for the Period Attributable to Owners of the Parent		<u>2,890</u>	<u>2,204</u>
Other Comprehensive Income / (Loss)			
Items that may be Reclassified Subsequently to Profit or Loss	7		
Exchange Translation Differences		(105)	441
Hedge Valuation Differences (Net of Tax)		-	207
Gain / (Loss) on Available for Sale Financial Assets (Net of Tax)		-	15
Total Other Comprehensive Income / (Loss)		<u>(105)</u>	<u>663</u>
Total Comprehensive Income for the Period		<u>2,785</u>	<u>2,867</u>
Total Comprehensive Income for the Period Attributable to Owners of the Parent		<u>2,785</u>	<u>2,867</u>
Earnings per Share (cents)			
Total Basic Earnings for the Period		0.34	0.38
Total Diluted Earnings for the Period		0.33	0.38

The Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes.

Consolidated Interim Statement of Financial Position
as at 31 December 2017

		31 December 2017	30 June 2017
	Note	\$'000	\$'000
Current Assets			
Cash and Cash Equivalents		85,417	18,217
Trade and Other Receivables		7,251	7,112
Other Financial Assets		183	183
Other Assets		862	879
		<u>93,712</u>	<u>26,391</u>
Non-Current Assets Held for Sale	4	800	82,225
Total Current Assets		<u>94,512</u>	<u>108,616</u>
Non-Current Assets			
Other Financial Assets		14,406	14,604
Property, Plant & Equipment		24,074	23,267
Intangible Assets	5	53,190	53,190
Deferred Tax Assets		4,488	4,597
Other Assets		192	-
Total Non-Current Assets		<u>96,350</u>	<u>95,658</u>
Total Assets		<u>190,862</u>	<u>204,274</u>
Current Liabilities			
Trade and Other Payables		7,740	12,599
Employee Benefits		7,173	7,360
Loans and Borrowings		1,076	1,175
Income Tax Liability / (Refundable)		990	(161)
		<u>16,979</u>	<u>20,973</u>
Liabilities Directly Associated with Assets Held for Sale	4	-	2,884
Total Current Liabilities		<u>16,979</u>	<u>23,857</u>
Non-Current Liabilities			
Employee Benefits		1,884	1,864
Loans and Borrowings		51,530	58,554
Deferred Tax Liabilities		924	973
Total Non-Current Liabilities		<u>54,338</u>	<u>61,391</u>
Total Liabilities		<u>71,317</u>	<u>85,248</u>
Net Assets		<u>119,545</u>	<u>119,026</u>
Equity			
Issued Capital	6	116,695	125,854
Reserves	7	(1,078)	(1,038)
Retained Earnings / (Accumulated Losses)		3,928	(5,789)
Equity Attributable to Owners of the Parent		<u>119,545</u>	<u>119,026</u>
Total Equity		<u>119,545</u>	<u>119,026</u>

The Consolidated Statement of Final Position is to be read in conjunction with the accompanying notes.

Consolidated Interim Statement of Cash Flows

for the Half Year Ended 31 December 2017

	31 December 2017	31 December 2016
Note	\$'000	\$'000
Cash Flows From/(Used in) Operating Activities		
Cash Receipts in the Course of Operations	65,136	81,267
Cash Payments in the Course of Operations	(59,003)	(72,873)
Interest Received	531	72
Interest Paid	(2,440)	(3,422)
Income Tax Paid	(355)	(1,168)
Net Cash From Operating Activities [#]	3,869	3,876
Cash Flows From / (Used in) Investing Activities		
Proceeds from Sale of Non-Current Assets Held for Sale	77,982	875
Payments for Property Plant and Equipment	(3,825)	(3,148)
Payments for Subsidiaries / Business Acquisitions (Net of Cash Acquired)	(800)	(54)
Payments of Acquisition Costs	(1,009)	-
Payments for Investments in Unlisted Entities	-	(3,957)
Proceeds from Sale of Investments In Equity Instruments	442	-
Net Cash From / (Used in) Investing Activities [#]	72,790	(6,284)
Cash Flows From / (Used in) Financing Activities		
Proceeds from the Issue of Share Capital	175	-
Payments in respect of Share Buyback	6 (2,507)	-
Payment for Leasing Arrangements	(648)	(785)
Repayment of Secured Loans	(5,000)	-
Repayment of Unsecured Loans	(1,479)	-
Net Cash From / (Used in) Financing Activities [#]	(9,459)	(785)
Net Increase / (Decrease) in Cash and Cash Equivalents	67,200	(3,193)
Cash and Cash Equivalents at 1 July	18,217	15,744
Cash and Cash Equivalents at End of Period	85,417	12,551

[#] The Consolidated Statement of the Cash Flows includes cash flows from discontinued operations as detailed in Note 4 (b).

All amounts disclosed in the Consolidated Statement of Cash Flows are inclusive of GST where applicable.

The Consolidated Interim Statement of Cash Flows is to be read in conjunction with the accompanying notes.

Consolidated Interim Statement of Changes in Equity

for the Half Year Ended 31 December 2017

	Note	Issued Capital \$'000	Reserves \$'000	Retained Earnings \$'000	Total Equity \$'000
At 1 July 2016		87,849	(825)	(2,383)	84,641
Comprehensive Income / (Loss)					
Profit / (Loss) for the Period		-	-	2,204	2,204
Other Comprehensive Income / (Loss)		-	663	-	663
Total Comprehensive Income		-	663	2,204	2,867
Transactions with Equity Holders in their Capacity as Equity Holders					
Valuation of Options Issued	6,7				
Issued		-	131	-	131
Forfeited		-	541	-	541
Total Transactions with Equity Holders		-	672	-	672
At 31 December 2016		87,849	510	(180)	88,180
Comprehensive Income / (Loss)					
Profit / (Loss) for the		-	-	(6,265)	(6,265)
Other Comprehensive Income / (Loss)		-	(1,016)	-	(1,016)
Total Comprehensive Income		-	(1,016)	(6,265)	(7,281)
Transactions with Equity Holders in their Capacity as Equity Holders					
Issue of Shares	6	40,184	-	-	40,184
Share Issue Costs (Net of GST)	6	(2,180)	-	-	(2,180)
Valuation of Options Issued	6,7				
Issued		-	123	-	123
Value of Forfeited Options Transferred to Retained Earnings		-	(655)	655	-
Total Transactions with Equity Holders		38,004	(532)	655	38,127
At 1 July 2017		125,854	(1,038)	(5,789)	119,026
Comprehensive Income / (Loss)					
Profit / (Loss) for the Period		-	-	2,890	2,890
Other Comprehensive Income / (Loss)		-	(105)	-	(105)
Total Comprehensive Income		-	(105)	2,890	2,785
Transactions with Equity Holders in their Capacity as Equity Holders					
Exercise of Options	6	175	-	-	175
Share Buyback	6	(2,499)	-	-	(2,499)
Share Buyback Costs	6	(7)	-	-	(7)
Capital Reduction	6	(6,827)	-	6,827	-
Valuation of Options Issued	6,7	-	65	-	65
Total Transactions with Equity Holders		(9,158)	65	6,827	(2,266)
At 31 December 2017		116,695	(1,078)	3,928	119,545

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

Notes to the Consolidated Interim Financial Statements for the Half Year Ended 31 December 2017

1. Reporting Entity

Capitol Health Limited (the “Company”) is a company incorporated and domiciled in Australia. Capitol Health Limited is a company limited by shares which are publicly traded on the Australian Securities Exchange. The consolidated interim financial report of the Company for the half year ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the “Group”).

The consolidated annual financial report of the Group as at 30 June 2017 is available upon request from the Company’s registered office or may be viewed on the Company’s website:

www.capitolhealth.com.au

2. Basis of Preparation

This consolidated interim financial report is a general purpose financial report prepared in accordance with the Australian Accounting Standard AASB 134 *Interim Financial Reports* and the *Corporations Act 2001*. This consolidated interim financial report is prepared on the accruals basis and the historical cost basis except for Available for Sale Financial Assets which are measured at fair value.

The consolidated interim financial report does not include all of the information required for a full financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2017. It is also recommended that the consolidated interim report be considered together with any public announcements made by the Group in accordance with continuous disclosure obligations under the *Corporations Act 2001* and ASX listing rules.

The same accounting policies and methods of computation have been followed in this interim consolidated financial report as compared to the most recent annual financial report.

The consolidated interim financial report was approved by the Directors on 27 February 2018.

3. Significant Accounting Estimates, Assumptions and Judgements

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the reported amounts in the consolidated financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In preparing the consolidated interim financial report, the significant judgements made by management in applying the Groups’ accounting policies and the key source of estimation uncertainty were consistent with those made for the consolidated financial report as at and for the year ended 30 June 2017.

Notes to the Consolidated Interim Financial Statements for the Half Year Ended 31 December 2017

4. Discontinued Operations and Assets Held for Sale

(a) Description

At 30 June 2017 the Group had:

- decided to sell its freehold property which remains unsold at 31 December 2017 with a carrying value of \$800,000 and is included in Assets Held for Sale.
- had agreed to sell the Group's NSW radiology businesses to I-Med Radiology Network for a total consideration of \$81.5 million. The sale was completed on 31 August 2017. There was no gain or loss on the sale of Assets Held for Sale in the current financial period.

Consequently the Financial Statements for the period ended 31 December 2017 present the performance of these businesses as discontinued operations in the Statement of Profit or Loss and Other Comprehensive Income.

	31 December 2017	31 December 2016
Note	\$'000	\$'000
(b) Financial Performance and Cash Flow Information		
Revenue	8,848	27,364
Expenses		
Operating	7,619	23,287
Borrowing Costs	659	2,277
Depreciation & Amortisation	368	1,332
	8,645	26,896
Profit for the Period	203	468
Income Tax Expense	37	250
Profit from Discontinued Operations	165	218
Net Cash Flows from Discontinued Operations		
Operating Activities	(891)	1,638
Investing Activities	-	(1,013)
Financing Activities	-	-
	(891)	625

Notes to the Consolidated Interim Financial Statements
for the Half Year Ended 31 December 2017

(c) Assets Held for Sale and Associated Liabilities

	Total Assets Held for Sale \$'000	Liabilities Directly Associated \$'000	Net Assets \$'000
Freehold Property			
At 1 July 2016	4,612	-	4,612
Book Value of Assets Disposed	(654)	-	(654)
At 31 December 2016	3,958	-	3,958
Book Value of Assets Disposed	(3,075)	-	(3,075)
Impairment	(83)	-	(83)
At 30 June 2017	800	-	800
At 31 December 2017	800	-	800
NSW Radiology Businesses			
At 31 December 2016	-	-	-
Book Value of Assets Classified as Held for Sale	85,175	2,884	82,291
Book Value of Assets Disposed	(3,750)	-	(3,750)
At 30 June 2017	81,425	2,884	78,541
Book Value of Assets Disposed	(81,425)	(2,884)	(78,541)
At 31 December 2017	-	-	-
Total			
At 30 June 2017	82,225	2,884	79,341
At 31 December 2017	800	-	800
Book Value of Assets Disposed			
Current Financial Period	81,425	2,884	78,541
Prior Period	654	-	654

31 December 2017 31 December 2016
\$'000 \$'000

(d) Gain / (Loss) on Sale of Assets Held for Sale

Freehold Property		
Proceeds Received	-	875
Book Value of Assets Disposed	-	654
Gain / (Loss) on Sale	-	221
NSW Radiology Businesses		
Proceeds		
Received	77,833	-
Receivable at Period End	708	-
	78,541	-
Book Value of Assets Disposed	78,541	-
Gain / (Loss) on Sale	-	-
Total Gain / (Loss)	-	221

Notes to the Consolidated Interim Financial Statements
for the Half Year Ended 31 December 2017

	31 December 2017 \$'000	30 June 2017 \$'000
5. Intangibles		
Goodwill		
At Commencement of Period	53,190	129,970
<i>Additions</i>		
Transfer to Assets Held for Sale	-	(70,585)
At End of Period	<u>53,190</u>	<u>53,190</u>
Represented By:		
Cost	55,084	55,084
Accumulated Amortisation and Impairment	(1,895)	(1,895)
Net Carrying Amount	<u>53,190</u>	<u>53,190</u>

The Directors considered, that for accounting purposes, the Group's operations represent a single CGU for testing of any potential impairment applicable to the Goodwill valuation carried in the accounts of the Group. At 31 December 2017, the Directors have determined that there is no impairment in the Goodwill carrying values.

	31 December 2017 \$'000	30 June 2017 \$'000
6. Issued Capital		
Issued Capital		
802,456,607 (30 June 2017: 810,098,465) Fully Paid Ordinary Shares	<u>116,695</u>	<u>125,854</u>

The following movements in issued capital occurred during the period:

		31 December 2017		30 June 2017	
	Note	Number of Shares	\$'000	Number of Shares	\$'000
Balance at the Beginning of the Period		810,098,465	125,854	523,070,161	87,849
Issue of Shares		-	-	287,028,304	40,184
Exercise of Options		1,000,000	175	-	-
Capital Reduction	i	-	(6,827)	-	-
Share Buyback		(8,641,858)	(2,499)	-	-
Share Buyback Costs		-	(7)	-	-
Share Issue Costs		-	-	-	(2,180)
Balance at the End of the Period		<u>802,456,607</u>	<u>116,695</u>	<u>810,098,465</u>	<u>125,854</u>

Note

- i) During the financial period the Directors resolved to reduce the Company's share capital by \$6,827,000 in accordance with Section 258F of the Corporations Act. The capital reduction has no effect on the number of issued shares and reduces the Company's accumulated losses which are not represented by available assets.

The Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regards to the Company's residual assets.

Notes to the Consolidated Interim Financial Statements for the Half Year Ended 31 December 2017

Options and Performance Rights

The Company operates an incentive scheme known as the Capitol Health Limited Incentive Plan.

The table below summarises the number of options and performance rights that were outstanding, their weighted average exercise price as well as the movements during the period:

		31 December 2017		30 June 2017	
	Note	Number	Weighted Average Exercise Price (Cents)	Number	Weighted Average Exercise Price (Cents)
Options					
Balance at the Beginning of the Period		13,000,000	18.12	15,000,000	22.42
Granted		-	-	13,000,000	18.12
Exercised		(1,000,000)	17.52	-	-
Forfeited		-	-	(15,000,000)	22.42
Balance at the End of the Period		12,000,000	18.17	13,000,000	18.12
Performance Rights					
Balance at the Beginning of the Period		-	-	-	-
Granted	i	1,695,062	-	-	-
Balance at the End of the Period		1,695,062	-	-	-

Note:

i – The performance rights have been granted to the Managing Director of the Company as approved at the Company Annual General Meeting on 22 November 2017. The performance rights are convertible into fully paid ordinary shares issued subject to the terms of the Company's Employee Incentive Plan and various service and performance conditions.

Notes to the Consolidated Interim Financial Statements
for the Half Year Ended 31 December 2017

7. Reserves

	Currency Translation \$'000	Cash Flow Hedges \$'000	Asset Revaluation \$'000	Options and Performance Rights \$'000	Total \$'000
At 1 July 2016	(561)	(378)	-	114	(825)
Exchange Differences on Translation of Foreign Subsidiaries	441	-	-	-	441
Valuation of Interest Rate Hedges	-	296	-	-	296
- Deferred Tax Thereon	-	(89)	-	-	(89)
Revaluation of Investments	-	-	21	-	21
- Deferred Tax Thereon	-	-	(6)	-	(6)
Valuation of Options					
Issued	-	-	-	131	131
Forfeited	-	-	-	541	541
At 31 December 2016	(120)	(171)	15	786	510
Exchange Differences on Translation of Foreign Subsidiaries	(1,172)	-	-	-	(1,172)
Valuation of Interest Rate Hedges	-	244	-	-	244
- Deferred Tax Thereon	-	(73)	-	-	(73)
Revaluation of Investments	-	-	(21)	-	(21)
- Deferred Tax Thereon	-	-	6	-	6
Valuation of Options Issued	-	-	-	123	123
Value of Forfeited Options Transferred to Retained Earnings	-	-	-	(655)	(655)
At 30 June 2017	(1,292)	-	-	254	(1,038)
Exchange Differences on Translation of Foreign Subsidiaries	(105)	-	-	-	(105)
Valuation of Options Issued	-	-	-	65	65
Movement For Financial Period	(105)	-	-	65	(39)
At 31 December 2017	(1,397)	-	-	319	(1,078)

Notes to the Consolidated Interim Financial Statements for the Half Year Ended 31 December 2017

8. Dividends

Dividend Reinvestment Plan ("DRP")

The Company's DRP is currently active and available to all eligible shareholders.

Total Dividends Paid on Ordinary Shares during the Period

During the half year period no dividends were declared or paid.

Dividends Not Recognised at Period End

Since the end of the half year the Directors have declared an interim dividend of \$0.004 per share (2016: \$0) fully franked.

The aggregate maximum amount of final dividend based on the ordinary shares on issue at the date of this report and to be paid out of retained profits at the end of the year, subject to any DRP election, but not recognised as a liability is:

	31 December 2017 \$'000	31 December 2016 \$'000
Interim Dividend	<u>3,210</u>	<u>-</u>

9. Segment Information

The Group comprises the single business segment of the acquisition and operation of diagnostic imaging facilities. The segment is defined by the national registration available for diagnostic imaging. Senior Management and the Board regularly review the Group's operating results to allocate resources and assess/review the Group's performance as a whole. As the Group operates in a single business and geographic segment, no further disclosure is required.

The diagnostic imaging segment operates from the single geographic segment of Australia. The overseas controlled entities did not trade during the period.

10. Contingencies

Contingent Liabilities

a) Rental Guarantees

The Group has an obligation to provide rental property guarantees when requested by the owners of rented premises which may be classed as a contingent liability unless supported by value for value specific deposits. As at 31 December 2017 rental guarantees not supported by a dedicated deposit totalled \$705,246 (30 June 2017: \$1,230,000).

b) Joint Venture with CITIC Pharmaceutical (Shenzhen) Co., Ltd and Xiamen Zhouxin Medical Image Co., Ltd

The Group has an obligation to contribute equity of RMB 3m (AUD 0.6M) within three months from the date of issue of the Business License of the joint venture company.

11. Fair Value Measurement of Financial Instruments

The carrying amount of financial assets and financial liabilities, which are not measured at fair value in the statement of financial position, approximate their fair values.

The group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2017 (30 June 2017: Nil).

Notes to the Consolidated Interim Financial Statements for the Half Year Ended 31 December 2017

12. Events Subsequent to Reporting Date

Subsequent to balance date:

- a) the Company declared an interim dividend for the half year ending 31 December 2017 of \$0.004 per share (2016: \$0) with the maximum dividend payable subject to elections under the Company's Dividend Reinvestment Plan of \$3,209,826 (2016: \$0).
- b) on 22 January 2018 the Group acquired the business of I-rad Radiology – a clinic in Sunshine Victoria. The consideration for the acquisition amounted to \$3 million plus assumed liabilities for employee entitlements and equipment borrowings. In addition an additional \$0.5 million of performance based contingent consideration is payable over 2 years based on revenue growth and the retention of key employees. The consideration is all payable in cash.
- c) on 1 February 2018 the Group acquired all the shares in Radiology Tasmania Pty Limited which owns 5 clinics in Tasmania. The consideration for the acquisition comprises a payment of \$24.67 million subject to a working capital adjustment, plus an aggregate earn out amount of \$1 million payable over 2 years based on revenue targets and subject to retention of the founder during that period plus assumed employee entitlements. The consideration is all payable in cash. The sale is on debt free basis.
- d) on 1 February 2018 Capitol Health Holdings Pty Limited lodged a Replacement Bidder's Statement for the off-market takeover of Integral Diagnostics Limited ("Integral"). The offer for each Integral share is \$0.36 and 6.9 shares in the Company. The maximum amount of cash that the Company would be required to pay under the Offer is approximately \$52.3 million and the maximum number of shares in the Company issued to Integral shareholders is 1,003,306,520. The offer is subject to certain conditions including acquiring at least a 90% of all Integral shares. A copy of Replacement Bidder's Statement may be viewed on the Company's website –

www.capitolhealth.com.au

The acquisition of I-rad Radiology and Radiology Tasmania Pty Ltd is part the Company's growth strategy by expanding its network and service offering within the Australian diagnostic imaging market that is a substantially accretive deployment of existing resources.

At the date of signing this Financial Report the initial accounting for these acquisitions is only provisionally accounted for due to the short period of time since acquisition. Accordingly the consideration paid and payable comprises the following estimates:

	Radiology Tasmania P/L \$'000	I-rad Sunshine \$'000	Total \$'000
Payment for 100% of the Issued Shares in the Entity	24,170	-	24,170
Payment for Business Assets	-	2,840	2,840
Deferred Contingent Consideration Payable	1,000	500	1,500
Recognition of Liabilities	1,800	800	2,600
Recognition of Assets	(4,800)	(900)	(5,700)
Recognition of Deferred Tax Asset	(400)	(50)	(450)
Goodwill Acquired	21,770	3,190	24,960

The inherent goodwill in the acquisitions comprises the historical revenue stream of the assets, the referrer network associated with the revenue streams and the skilled employees in a tight labour market.

Directors' Declaration

In the opinion of the Directors of Capitol Health Limited:

- (a) the financial statements and notes set out on pages 4 to 18, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Andrew Harrison
Managing Director

Dated at Melbourne, Victoria this 27th day of February 2018.

RSM Australia Partners

Level 21, 55 Collins Street Melbourne VIC 3000
PO Box 248 Collins Street West VIC 8007

T +61 (0) 3 9286 8000
F +61 (0) 3 9286 8199

www.rsm.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
CAPITOL HEALTH LIMITED

We have reviewed the accompanying half-year financial report of Capitol Health Limited ("the consolidated entity") which comprises the consolidated interim statement of financial position as at 31 December 2017, the consolidated interim statement of profit or loss and other comprehensive income, consolidated interim statement of changes in equity and the consolidated interim statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Capitol Health Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations act 2001*, which has been given to the directors of Capitol Health Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended then ended; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



RSM AUSTRALIA PARTNERS



J S CROALL
Partner

Dated: 27 February 2018
Melbourne, Victoria