

ASX ANNOUNCEMENT

13 March 2018

**NO EXTENSION OR INCREASE TO THE TAKEOVER
OFFER FOR INTEGRAL DIAGNOSTICS**

Capitol Offer

Capitol Health Limited (**Capitol** or the **Company**) (ASX: CAJ) wishes to advise that it will not be increasing its takeover offer for all of the issued shares in Integral Diagnostics ("Integral", ASX: IDX), (the "Offer"). As such, Capitol declares the Offer best and final. Capitol also wishes to advise that it will not be extending the period of the Offer and does not intend to waive any conditions of the Offer.

Response to Target's Statement

Capitol is disappointed by the response of the Integral Board to the Offer, particularly in light of the statements disclosed as part of Integral's Target's Statement, released to the market on 2 March 2018 (the "Target's Statement"). During the course of the Offer, the Integral Board has sought to damage and discredit Capitol, rather than engaging constructively in discussions. In doing so, Integral has made representations which are inconsistent with the nature of discussions held between Capitol and Integral, prior to the launch of Capitol's Offer. As such, Capitol is now seeking to correct and clarify a number of these matters.

Integral Merger Proposal

Commencing in early 2017, following challenging periods for both companies, Capitol and Integral held significant discussions over a number of months regarding a combination of the two businesses and agreed on the strong strategic merit which was detailed in a formal proposal received from Integral.

Capitol and Integral were unable to reach agreement on governance for the merged group and as such, discussions failed to progress.

Given Capitol's strong belief in the benefits of a combination, it elected to take the Offer directly to Integral shareholders. Many of these shareholders welcomed the potential combination, noting that up until the Offer was made, Integral had consistently traded below its listing price from its Private Equity sponsored IPO.

The proposal received from Integral clearly articulated the strong strategic merit of a combination and Integral said it held strong conviction that the considerable benefits would be acknowledged by the market, as well as doctors, employees and patients. It championed the many benefits of a merger, including increased relevance to investors which it went so far as to describe as a 'step change' with significant re-rating potential through the creation of Australia's largest ASX-listed pure play diagnostic imaging services provider.

Given Integral enthusiastically pursued an at market merger with Capitol, it is challenging to reconcile a number of the statements made by the Integral Board as part of the Target's Statement.

Synergies

Capitol and Integral previously discussed potential synergies available through the combination of Capitol and Integral. As a core part of the strategic rationale for a combination, Integral's formal proposal to Capitol referenced the likelihood of meaningful revenue and cost synergies and cost optimisation and efficiencies, including through improved sourcing and supplier benefits for capital equipment, IT and consumables, removal of duplicate corporate costs and potential to rationalise sites.

However, the Integral Board states in the Target's Statement that "There are likely to be material dis-synergies in the transaction" and "Integral's Directors estimate that actual synergies if Capitol was capable of acquiring 100% of Integral Shares are likely to be \$2.2 million, which is \$2.8 million less than estimated by Capitol".

Governance

As part of its Offer, Capitol committed to securing the best people from both Integral and Capitol through input from management of both organisations. Integral's Board refused to engage on the merits of a combined leadership team which Capitol envisaged would include a significant component from Integral, including a number of its senior executives.

Financial information

Capitol strongly refutes claims concerning Capitol's accounting treatment, particularly implications arising from Integral Board statements such as "Your Directors have concerns regarding Capitol Health's application of Australian Accounting Standards". At no time has Capitol restated its statutory accounts, and being a publicly listed company is audited by RSM Australia. Capitol is fully compliant with all relevant accounting requirements and any assertion otherwise would be false and misleading. Capitol also notes Integral's guidance and forecasts contained in the Target Statement which are materially higher than previous market disclosures.

Summary

Capitol continues to believe in the strong strategic merit of a combination and its intention has always been to maximise shareholder value with the objective of reaching an agreed deal with the Integral Board. However, it has become increasingly clear that the Integral Board is unwilling to engage constructively and has instead resorted to challenging the foundations of our business.

Whilst disappointing, given Capitol's strong prospects as a standalone business, Capitol has determined that it is in the best interests of its shareholders to allow its Offer to lapse. Capitol entered into pre-bid agreements with certain Integral shareholders in relation to the Offer but it no longer intends to require those Integral shareholders to accept the Offer. Capitol also notes that these pre-bid agreements will lapse when the Offer lapses.

The Capitol Board is very positive about the business' outlook and we are confident that Capitol will continue to deliver on its growth strategy which includes utilising existing resources to make disciplined acquisitions. We remain committed to enhancing clinical governance and further developing sub-specialty practices and related fellowship programs, as well as lifting investment in training and development. Capitol reaffirms the high regard in which it holds Integral clinicians and staff and wishes them well.

Mr Harrison said, "We are obviously disappointed that we have been unable to progress the Offer as a result of the Integral Board's stance. However, we are highly confident in Capitol's outlook and excited at the opportunities before us. We will not "chase a deal" but rather focus on the disciplined deployment of our resources in order to maximise shareholder returns. I would like to thank all of our employees and Doctors for their efforts, as well as the ongoing support of our valued shareholders."

For further information, please contact:

Media

Melissa Patch
Cato & Clegg
+61 412 124 195
melissa@catoandclegg.com

Company

Andrew Harrison
CEO
(03) 9348 3333
investors@capitolhealth.com.au

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 Tasmania. 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.

Capitol also has an investment in diagnostic imaging artificial intelligence through Enlitic Inc in the US and a collaboration agreement with Enlitic regarding revenue share from the sale of Enlitic's Deep Learning Services in the radiology field in China.

Capitol also recently entered the Chinese diagnostic imaging market through a Joint Venture with CITIC Pharmaceutical (Shenzhen) Co., Ltd ("CITIC Pharmaceutical") and Xiamen Zhouxin Medical Image Co., Ltd (Zhouxin) to provide consulting and clinic management services to a network of independent imaging clinics to be created by CITIC and Zhouxin across mainland China.