

CAPITOLHEALTH LIMITED

ABN 84 117 391 812

In compliance with Listing Rule 4.2A, the ASX Appendix 4D – Half Year Report and the Consolidated Interim Financial Report for the six months ended 31 December 2015 for the listed entity Capitol Health Limited (ASX: CAJ) follow this announcement. This information is to be read in conjunction with the annual report for the year ended 30 June 2015.

Signed in accordance with a resolution of the Directors:



John Conidi
Managing Director

Dated at Melbourne, Victoria this 8th day of February 2016.

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 2015
Previous Corresponding Reporting Period	6 Months to 31 December 2014

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	77,373
\$ Revenue from Ordinary Activities - previous period	\$'000	49,385
\$ change in Revenue from Ordinary Activities	\$'000	27,988
% change from previous corresponding reporting period	% UP	56.7%

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

\$ Profit (loss) from ordinary activities after tax - current period	\$'000	2,219
\$ Profit (loss) from ordinary activities after tax - previous period	\$'000	4,634
\$ change in profit (loss) from ordinary activities after tax	\$'000	(2,415)
% change from previous corresponding reporting period	% DOWN	-52.1%

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	2,219
\$ Net profit (loss) attributable to members - previous period	\$'000	4,634
\$ change in net profit (loss) attributable to members	\$'000	(2,415)
% change from previous corresponding reporting period	% DOWN	-52.1%

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.

A Final Dividend was declared for the 6 months ending 30 June 2015.

The Final Dividend was declared at an amount of \$0.0065 (Point six five of one cent) per security.

The Final Dividend was fully franked.

No Interim Dividend has been declared for the 6 months ending 31st December 2015.

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

The Record Date for determining the entitlement to the Final Dividend was 25 September 2015.

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	(8.754)
Previous corresponding period	Cents	9.607

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

4.1 Name of the entity.

Please refer to the Annual Report lodged with this Appendix 4D.

4.2 The date if the gain or loss of control.

Please refer to the Annual Report lodged with this Appendix 4D.

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.

Please refer to the Annual Report lodged with this Appendix 4D.

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 Final Dividend was declared for the 6 months ending 30 June 2015.
Final Dividend was declared at an amount of \$0.0065 (Point six five of one cent) per security.
Final Dividend payable was \$3,396,694 on 522,567,973 securities on issue at Record Date.
A total of \$309,850 of Final Dividend was converted into ordinary shares under the Company's Dividend Reinvestment Plan ("DRP").
All shareholders at Record Date were eligible to participate in the DRP.
Record Date of the Final Dividend was 25 September 2015.
Payment Date of the Final Dividend was 23 October 2015.

No Interim Dividend has been declared for the 6 months ending 31 December 2015.

There is no foreign sourced dividend or distribution applicable to any of the above dividends.

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.

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 2015

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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 2015 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.

Directors' Report

The Directors present their report together with the financial report of Capitol Health Limited (the "Company") and its controlled entities (the "Group"), for the half year ended 31 December 2015, and the auditor's report thereon.

1. DIRECTORS

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

Mr John Conidi
Managing Director

Mr Andrew Demetriou
Non-Executive Director and Chairman

Mr Andrew Harrison
Non-Executive Director

Mr Dominik Kucera
Executive Director – Resigned 28 August 2015

Mr Peter Lewis
Executive Director – Appointed 28 August 2015

Ms Nicole Sheffield
Non-Executive Director – Appointed 23 December 2015

2. RESULTS

The Group made a net profit after tax for the half year ended 31 December 2015 of \$2,218,511 (31 December 2014: profit \$4,634,028).

3. REVIEW OF ACTIVITIES

The major contributing items to the Group's result for the half year ended 31 December 2015 were:

- Revenue was up \$27.9m (56%) over the corresponding period in the prior financial year of where:
 - revenue attributable to businesses acquired in 2015 (as well expense growth) that were not part of the group in the corresponding period in the prior financial year,
 - no changes in the level of Medicare rebates, and
 - the negative impact of referrer behaviour as a consequence of the Medicare Benefits Schedule ("MBS") Review Taskforce established by the Australian Government in April 2015.
- Acquisition Costs \$1.5m in respect to acquisitions in the current reporting period and Restructuring Costs of \$0.2m,
- Interest was up of \$1.9m (416%) over the corresponding period in the prior financial year due to higher borrowings to fund acquisitions,
- Income tax expense was down \$0.6m (32%) over the corresponding period in the prior financial year principally as a consequence of lower profits. The disclosed tax rate of 36.5% of Net Profit Before Tax exceeds the normal tax rate of 30% principally as a consequence of the taxation impact of Acquisition Costs.

Directors' Report

4. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date:

- a) The Company's principal lenders, National Australia Bank (NAB), have approved a revised banking facility to the group for a current total of \$140 million (reducing to \$115m by December 2019) with normal key covenants including Net Debt to EBITDA of no more than 4x through to December 2016, dropping to 3.5x by the end of June 2017 and then set at 3x, and fixed charges cover ratio of not less than 2x. The Board also engaged NAB to investigate raising up to \$50 million through a senior unsecured bond issue during the second half of FY16.
- b) As part of the Employee Incentive Plan, the Board has agreed to issue 15 million employee options to Mr John Conidi. The options have a strike price equal to a 50% premium to the Volume Weighted Average Price (VWAP) for the five trading days ending on 12th February 2016, will vest over a four year period and when the options are exercised the shares are to be purchased on market.
- c) In accordance with the release to the market on 28 October 2015, the Group has entered into an agreement to subscribe for USD\$10 million of shares, representing a fully diluted 15% holding, in Enlitic Inc, a Delaware corporation. Consideration for this investment is an initial USD\$5 million, payable on 10 February 2016 (Pacific Standard Time) and a commitment for two further payments of USD\$2.5 million on 15 April 2016 and 15 August 2016. As previously released to the market, the Company will make available to staff a certain percentage of that investment, enabling staff buy-in and supporting retention. Related to this investment, Capital Radiology has also secured exclusive access to the Enlitic Technologies in Australia for at least five years from the commencement of fully-operational, real-time use on a fee per scan basis. The details of the parties' plans to jointly develop the Asia Pacific market are still being finalised.
- d) The Directors have decided to suspend the interim dividend and the Board will again review the opportunity to pay a dividend in respect of this current financial year at the completion of FY16 subject to profits and debt levels.

5. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 3 of the consolidated interim financial report and forms part of the Directors report for the half year ended 31 December 2015.

Signed in accordance with a resolution of the Directors:



John Conidi
Managing Director

Dated at Melbourne, Victoria this 8th day of February 2016.

RSM Australia Partners

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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 2015, 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 handwritten signature in blue ink, appearing to read 'RSM'.

RSM AUSTRALIA PARTNERS

A handwritten signature in blue ink, appearing to read 'R B Miano'.

R B MIANO
Partner

8 February 2016
Melbourne, Victoria

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Consolidated Interim Statement of Profit or Loss
for the Half Year Ended 31 December 2015

		31 December 2015	31 December 2014
	Note	\$	\$
Continuing Operations			
Revenue	4	77,042,666	48,526,612
Other Income	5	330,317	857,923
Employee & Contractor Benefits Expense		(47,405,613)	(26,539,778)
Equipment Related Expense		(3,579,746)	(3,054,828)
Occupancy Expense		(5,851,602)	(3,459,506)
Consumables Expense		(3,025,926)	(1,811,293)
Telecommunications Expense		(1,147,811)	(755,839)
Management Fees		(362,486)	(965,055)
Computer IT & Support Expense		(1,160,782)	(624,484)
Insurance Expense		(255,555)	(321,633)
Impairment of Assets		-	(15,037)
Borrowing Expense		(2,349,525)	(455,177)
Acquisition Expense		(1,513,499)	(805,461)
Depreciation & Amortisation Expense		(3,403,437)	(1,941,807)
Other Expenses		<u>(3,820,765)</u>	<u>(2,104,284)</u>
Profit Before Income Tax		<u>3,496,236</u>	<u>6,530,353</u>
Income Tax on Continuing Operations		<u>(1,277,725)</u>	<u>(1,896,325)</u>
Profit for the Period		<u>2,218,511</u>	<u>4,634,028</u>
Profit for Period Attributable to Owners of the Parent		<u>2,218,511</u>	<u>4,634,028</u>
 Earnings per Share (cents)			
Total Earnings for the Period		0.42	0.99

There is no material difference between basic and diluted earnings per share

Consolidated Interim Statement of Comprehensive Income
for the Half Year Ended 31 December 2015

	31 December 2015	31 December 2014
	\$	\$
Note		
Profit for the Financial Period	<u>2,218,511</u>	<u>4,634,028</u>
Other Comprehensive Income		
Items that will be Reclassified Subsequently to Profit or Loss		
Gain /(Loss) on Available for Sale Financial Assets (Net of Tax)	<u>(642,378)</u>	<u>-</u>
Total Other Comprehensive Income for the Period - Net of Tax	<u>(642,378)</u>	<u>-</u>
Total Comprehensive Income for the Period	<u>1,576,133</u>	<u>4,634,028</u>
Total Comprehensive Income for the Period Attributable to Owners of the Parent	<u>1,576,133</u>	<u>4,634,028</u>

Consolidated Interim Statement of Financial Position
as at 31 December 2015

	31 December 2015	30 June 2015
	Note	\$
Current Assets		
Cash and Cash Equivalents		20,569,418
Trade and Other Receivables		3,707,673
Other Financial Assets	6	137,951
Other Assets		1,722,564
Total Current Assets		<u>26,137,606</u>
Non-Current Assets		
Other Financial Assets	6	1,536,585
Property, Plant & Equipment		41,279,347
Intangible Assets	7	138,161,521
Deferred tax assets		4,408,734
Other Assets		515,370
Total Non-Current Assets		<u>185,901,557</u>
Total Assets		<u>212,039,163</u>
Current Liabilities		
Loans and Borrowings		1,571,268
Trade and Other Payables		9,024,126
Employee Benefits		9,918,036
Income Tax Liability		425,521
Total Current Liabilities		<u>20,938,951</u>
Non-Current Liabilities		
Loans and Borrowings		96,076,733
Employee Benefits		1,558,271
Deferred Tax Liabilities		1,095,306
Total Non-Current Liabilities		<u>98,730,310</u>
Total Liabilities		<u>119,669,261</u>
Net Assets		<u>92,369,902</u>
Equity		
Issued Capital	9	87,849,432
Reserves		1,663
Retained Earnings		4,518,807
Equity Attributable to Owners of the Parent		<u>92,369,902</u>
Total Equity		<u>92,369,902</u>

Consolidated Interim Statement of Cash Flows
for the Half Year Ended 31 December 2015

	Note	31 December 2015 \$	31 December 2014 \$
Cash Flows From/(Used in) Operating Activities			
Cash Receipts in the Course of Operations		79,532,547	49,886,884
Cash Payments in the Course of Operations		(69,167,025)	(39,569,423)
Payment of Acquisition Costs		(4,635,864)	-
Interest Received	5	166,390	140,643
Interest Paid		(2,545,533)	(455,177)
Income Tax Paid		(3,255,930)	(2,213,861)
Net Cash From Operating Activities		<u>94,585</u>	<u>7,789,066</u>
Cash Flows From / (Used in) Investing Activities			
Payments for Non-Current Assets		(4,414,000)	(2,090,421)
Payments for Subsidiaries / Business Acquisitions (Net of Cash Acquired)		(31,930,703)	-
Payment for Other Financial Assets		-	(4,455)
Redemption of Financial Asset Held to Maturity		595,000	-
Net Cash Used in Investing Activities		<u>(35,749,703)</u>	<u>(2,094,876)</u>
Cash Flows From / (Used in) Financing Activities			
Proceeds from the Issue of Share Capital		-	37,542,002
Payment of Share Issue Costs	9	(3,051)	(1,040,126)
Payment of Dividend		(3,086,845)	(1,934,000)
Payment for Leasing Arrangements		(921,211)	(1,893,231)
Proceeds from Secured Loans from External Entities		23,526,890	1,500,000
Repayment of Secured Loans to External Entities		-	(500,000)
Net Cash From Financing Activities		<u>19,515,783</u>	<u>33,674,645</u>
Net (Decrease) / Increase in Cash and Cash Equivalents		<u>(16,139,335)</u>	<u>39,368,835</u>
Cash and Cash Equivalents at 1 July		<u>36,708,753</u>	<u>9,119,541</u>
Cash and Cash Equivalents at Period End		<u>20,569,418</u>	<u>48,488,376</u>

Consolidated Interim Statement of Changes in Equity
for the Half Year Ended 31 December 2015

	Note	Issued Capital \$	Reserves \$	Retained Earnings \$	Total Equity \$
Prior Comparative Period					
Balance as at 1 July 2014		31,541,850	-	7,122,921	38,664,771
Comprehensive Income / (Loss)					
Profit for the Period		-	-	4,634,028	4,634,028
Total comprehensive income		-	-	4,634,028	4,634,028
Transactions with Equity Holders in their Capacity as Equity Holders					
Shares Issued Externally	9	37,542,002	-	-	37,542,002
Shares Issued Through DRP	9	221,901	-	(221,901)	-
Share Issue Costs (Net of GST)	9	(1,006,650)	-	-	(1,006,650)
Dividends Paid	10	-	-	(1,934,000)	(1,934,000)
Total Transactions with Equity Holders		36,757,253	-	(2,155,901)	34,601,352
Balance as at 31 December 2014		68,299,103	-	9,601,048	77,900,151
Balance as at 1 July 2015		87,542,633	644,041	5,696,991	93,883,665
Comprehensive Income / (Loss)					
Profit for the period		-	-	2,218,511	2,218,511
Other Comprehensive Income / (Loss)					
Changes in Fair Value of Available for Sale					
Financial Asset		-	(642,378)	-	(642,378)
Total comprehensive income		-	(642,378)	2,218,511	1,576,133
Transactions with Equity Holders in their Capacity as Equity Holders					
Shares Issued Through DRP	9	309,850	-	(309,850)	-
Share Issue Costs (Net of GST)	9	(3,051)	-	-	(3,051)
Dividends Paid	10	-	-	(3,086,845)	(3,086,845)
Total Transactions with Equity Holders		306,799	-	(3,396,695)	(3,089,896)
Balance as at 31 December 2015		87,849,432	1,663	4,518,807	92,369,902

Notes to the Consolidated Interim Financial Statements for the Half Year Ended 31 December 2015

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 2015 comprises the Company and its subsidiaries (together referred to as the “Group”).

The consolidated annual financial report of the Group as at 30 June 2015 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 market 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 2015. 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. Comparative amounts for Intangible Assets, Deferred Tax Assets, Trade Payables and Employee Benefits in the Statement of Financial Position as at 30 June 2015 have been adjusted as a result the completion of the accounting for the business combinations recognised during the financial year ended 30 June 2015 in accordance with the measurement period set out in AASB 3 *Business Combinations* (refer to Note 8).

The consolidated interim financial report was approved by the Directors on 8 February 2016.

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 those that applied to the consolidated financial report as at and for the year ended 30 June 2015.

Notes to the Consolidated Interim Financial Statements
for the Half Year Ended 31 December 2015

	31 December 2015	31 December 2014	
	\$	\$	
4. Revenue			
Services Rendered	<u>77,042,666</u>	<u>48,526,612</u>	
5. Other Income			
Interest income	166,390	140,643	
Miscellaneous Income	<u>163,927</u>	<u>717,280</u>	
	<u>330,317</u>	<u>857,923</u>	
	31 December 2015	30 June 2015	
	\$	\$	
6. Other Financial Assets			
Current Assets			
Rental Bonds - Held to Maturity	137,951	137,951	
Term Deposit - Held to Maturity	-	595,000	
	<u>137,951</u>	<u>732,951</u>	
Non-Current Assets			
Investment in Listed Entity - At Fair Value	<u>1,536,585</u>	<u>2,454,268</u>	
7. Intangibles			
	Goodwill	Under Development *	Total
	\$	\$	\$
Balance as at 31 December 2015			
Cost	138,928,502	1,127,651	140,056,153
Accumulated Amortisation and Impairment	(1,894,632)	-	(1,894,632)
Net Book Value	<u>137,033,870</u>	<u>1,127,651</u>	<u>138,161,521</u>
Movement for 6 Months to 31 December 2015			
Opening Net Book Value	105,958,081	-	105,958,081
Acquisition of Entities & Businesses	31,075,789	-	31,075,789
Addition - Internally Generated	-	1,127,651	1,127,651
Closing Net Book Value	<u>137,033,870</u>	<u>1,127,651</u>	<u>138,161,521</u>
Balance as at Year Ended 30 June 2015			
Cost	107,852,713	-	107,852,713
Accumulated Amortisation and Impairment	(1,894,632)	-	(1,894,632)
Net Book Value	<u>105,958,081</u>	<u>-</u>	<u>105,958,081</u>
Movement for Year Ended 30 June 2015			
Opening Net Book Value	30,223,473	-	30,223,473
Acquisition of Entities & Businesses	75,734,608	-	75,734,608
Closing Net Book Value	<u>105,958,081</u>	<u>-</u>	<u>105,958,081</u>

* Includes both externally acquired and capitalised development costs, being an internally developed intangible asset.

Notes to the Consolidated Interim Financial Statements
for the Half Year Ended 31 December 2015

8. Business Combinations

(i) Acquisition of corporate entities

Eastern Radiology Services Pty Limited – ACN 128 588 376 Date: 1 July 2015

Control of the corporate entity was obtained through the purchase of 100% of the issued share capital and the recognition of identifiable assets and liabilities assumed.

(ii) Acquisition of business assets

Sunrise Radiology (Clayton and Moreland) Date: 17 August 2015
Liverpool Diagnostics Date: 19 October 2015

Control of the operational entity was obtained through the purchase of the operating and legal business assets of the vendors and the recognition of identifiable assets and liabilities assumed.

(iii) Revenue and profit from businesses acquired

The acquired businesses contributed revenues and net profit as follows:

- Eastern Radiology Services Pty Limited, revenues of \$5,459,623 and net profit of \$957,814 to the Group for the period from 1 July 2015 to 31 December 2015 at a notional company tax rate of 30%;
- Sunrise Radiology, revenues of \$488,861 and net profit of \$33,609 to the Group for the period from 17 August 2015 to 31 December 2015 at a notional company tax rate of 30%; and
- Liverpool Diagnostics, revenues of \$1,364,622 and net loss of \$87,708 to the Group for the period from 16 October 2015 to 31 December 2015 at a notional company tax rate of 30%.

AASB 3 *Business Combinations* require a consolidated pro-forma revenue and profit for the period ended 31 December 2015 as if the acquisitions had occurred on 1 July 2015. However management has determined that this is impracticable after considering the various factors contained within the definitions contained within paragraph 5 (a) through (c) (ii) of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to the pre-acquisition operating environment of each acquisition.

(iv) Consideration

The inherent goodwill in the acquisition comprises the historical revenue streams of the assets, the referrer network associated with those revenue streams and the transfer of skilled employees in a tight labour market. The fair value of the consideration transferred at acquisition date for each of the acquisitions was made up of the following components;

Notes to the Consolidated Interim Financial Statements
for the Half Year Ended 31 December 2015

8. Business Combinations (Cont.)

	Eastern Radiology \$	Liverpool Diagnostics \$	Sunrise Radiology \$	Total \$
Payment for 100% of the Issued Shares in the Entity	27,810,598	-	-	27,810,598
Payment for Business Assets	-	4,103,458	135,000	4,238,458
Deferred & Contingent Consideration Payable at Period End	-	1,500,000	165,000	1,665,000
Recognition of Employee Entitlements	472,737	657,114	13,501	1,143,351
Recognition of Financial Liabilities	227,304	-	-	227,304
Recognition of Cash	(117,957)	-	-	(117,957)
Recognition of Financial Assets	(303,800)	(63,122)	-	(366,922)
Recognition of Fixed Assets	(1,601,481)	(1,579,556)	-	(3,181,037)
Recognition of Deferred Tax Asset	(141,821)	(197,134)	(4,050)	(343,005)
Goodwill Acquired	26,345,579	4,420,760	309,450	31,075,789

In line with appropriate Australian accounting standards and within the prescribed measurement period to finalise acquisition accounting entries the Company in respect to prior year acquisitions has recognised additional Financial Liabilities of \$130,965 and Employee Entitlements of \$1,135,715 with a corresponding recognition of additional deferred tax of \$340,715 resulting in a net increase in goodwill of \$925,966.

There were no acquisitions during the half year ended 31 December 2014.

(v) Impairment testing for cash-generating units (CGU) containing goodwill

There were no impairment loss for goodwill during the half year ended 31 December 2015.

The Directors considered, that for accounting purposes, the Group's operations in Victoria and New South Wales (NSW) have individually identifiable cash inflows, representing two CGU's for testing of any potential impairment applicable to the Goodwill valuation carried in the accounts of the Group.

Impairment testing was based on value in use calculations for each individual CGU. The discount rates (post tax) used to determine the recoverable amount as at 31 December 2015, for both CGUs, is 11% (30 June 2015: 12.6% for Victoria and 14.1% for NSW). Discounted cash flows for the total operating entity have been estimated, based on recent performance and expected growth for revenues of approximately 5%. Expenditure growth rates have been estimated at approximately 2.5%, which is in line with guidance reported by Australian Treasury. A terminal value has been estimated for the recoverable amount, as management believe that the imaging diagnostic services will still be delivered well beyond 5 years.

A change to the estimated discount rate used to discount the cash flows to 12% would result in the carrying amount of the NSW CGU to exceed its recoverable amount by \$8,078,000. A change to the estimated discount rate used to discount the cash flows to 11.25% would result in the recoverable amount of the NSW CGU to be approximately equal its carrying amount.

Notes to the Consolidated Interim Financial Statements
for the Half Year Ended 31 December 2015

	31 December 2015	30 June 2015
	\$	\$
9. Issued Capital and Reserves		
Issued capital		
523,070,161 (30 June 2015: 522,567,973) Fully Paid Ordinary	<u>87,849,432</u>	<u>87,542,633</u>

The following movements in issued capital occurred during the period:

	31 December 2015		30 June 2015	
	Number of Shares	\$	Number of Shares	\$
Balance at the beginning of the period	522,567,973	87,542,633	431,180,115	31,541,850
Issue of shares for acquisition	-	-	64,727,590	37,542,002
Share purchase plan	-	-	26,035,351	19,941,500
Dividend reinvestment plan	502,188	309,850	624,917	515,990
Share issue costs (net of GST)	-	(3,051)	-	(1,998,709)
Balance at the end of the period	<u>523,070,161</u>	<u>87,849,432</u>	<u>522,567,973</u>	<u>87,542,633</u>

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.

Options

No options for ordinary shares of the company were granted during the period or were unissued at balance date.

10. 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

Final dividend for the year ended 30 June 2015 of \$0.0065 (2014: \$0.005) per share was paid on 23 October 2015, fully franked;

	31 December 2015	31 December 2014
	\$	\$
Final Dividend	<u>3,396,694</u>	<u>2,155,901</u>

The final dividend for the year ended 30 June 2015 was based on 522,567,973 ordinary shares on issue at record date (2014: 431,180,115). Dividend converted into ordinary shares under the DRP was \$309,850 for 502,188 shares at an issue price of \$0.617 (2014: \$221,901, 337,156, \$0.659).

Notes to the Consolidated Interim Financial Statements
for the Half Year Ended 31 December 2015

10. Dividends (Cont.)

Dividends not recognised at period end

Since the end of the half year the Directors have suspended an interim dividend in respect of the current financial year. The aggregate maximum amount of interim dividend based on the ordinary shares on issue at the date of this report but not recognised as a liability is:

	31 December 2015	31 December 2014
	\$	\$
Interim dividend	<u>-</u>	<u>3,133,681</u>

11. Segment Information

Business segments

The Group comprises the single business segment of the acquisition and operation of diagnostic imaging facilities.

Geographic segments

The diagnostic imaging segment operates from the single geographic segment of Australia. The segment is defined by the national registration available for diagnostic imaging. Given the data transmission infrastructure and techniques employed by the segment, further sub-division of the geographic area is deemed unnecessary.

Segment results

As the Group operates in a single business and geographic segment, no disclosure in this note is required.

12. Borrowings

During the financial period the Group renegotiated the revolving secured loan facility with the National Australia Bank Group to \$138 million on more favourable margins and financial covenant requirements. The group complied with the applicable covenant ratios throughout the reporting period.

13. Share-Based Payments

The Company operated an incentive scheme known as the Capitol Health Limited Incentive Option Scheme ("Scheme").

As at 31 December 2015 there were no options issued, on issue, exercised or expired under the Scheme during the period (2014: Nil).

Notes to the Consolidated Interim Financial Statements for the Half Year Ended 31 December 2015

14. 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 2015 rental guarantees not supported by a dedicated deposit totalled \$1,085,293 (30 June 2015: \$594,038).

b) Partnership with Enlitic LLC

The Company has entered into a Memorandum of Understanding with Enlitic LLC (a US based entity using artificial intelligence to assist in diagnostic medicine) including a commitment for an investment of up to \$US10 million in equity in Enlitic LLC as well as other commercial undertakings. Refer Note 16 b) for additional information.

15. Fair Value Measurement of Financial Instruments

At period end, the Available-for-Sale Financial Assets, the Group's only financial instruments carried at fair value on a recurring basis, are valued with reference to the Australian Stock Exchange (ASX) quoted price (unadjusted) – a Level 1 fair value measurement hierarchy as detailed in Note 1 (b) (ii) of the 2015 annual financial report. The Available-For-Sale Financial Asset is neither past due nor impaired.

The carrying amount of the other 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 2015 (30 June 2015: Nil).

16. Events Subsequent to Reporting Date

Subsequent to balance date:

- a) The Company's principal lenders, National Australia Bank (NAB), have approved a revised banking facility to the group for a current total of \$140 million (reducing to \$115m by December 2019) with normal key covenants including Net Debt to EBITDA of no more than 4x through to December 2016, dropping to 3.5x by the end of June 2017 and then set at 3x, and fixed charges cover ratio of not less than 2x. The Board also engaged NAB to investigate raising up to \$50 million through a senior unsecured bond issue during the second half of FY16.
- b) As part of the Employee Incentive Plan, the Board has agreed to issue 15 million employee options to Mr John Conidi. The options have a strike price equal to a 50% premium to the Volume Weighted Average Price (VWAP) for the five trading days ending on 12th February 2016, will vest over a four year period and when the options are exercised the shares are to be purchased on market.
- c) In accordance with the release to the market on 28 October 2015, the Group has entered into an agreement to subscribe for USD\$10 million of shares, representing a fully diluted 15% holding, in

Notes to the Consolidated Interim Financial Statements
for the Half Year Ended 31 December 2015

Enlitic Inc, a Delaware corporation. Consideration for this investment is an initial USD\$5 million, payable on 10 February 2016 (Pacific Standard Time) and a commitment for two further payments of USD\$2.5 million on 15 April 2016 and 15 August 2016. As previously released to the market, the Company will make available to staff a certain percentage of that investment, enabling staff buy-in and supporting retention. Related to this investment, Capital Radiology has also secured exclusive access to the Enlitic Technologies in Australia for at least five years from the commencement of fully-operational, real-time use on a fee per scan basis. The details of the parties' plans to jointly develop the Asia Pacific market are still being finalised.

- d) The Directors have decided to suspend the interim dividend in respect of the current financial year.

Directors' Declaration

In the opinion of the Directors of Capitol Health Limited:

- (a) the financial statements and notes set out on pages 4 to 16, 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 2015 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:



John Conidi
Managing Director

Dated at Melbourne, Victoria this 8th day of February 2016.

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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 2015, the consolidated interim statement of profit or loss, the consolidated interim statement of 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 consolidated 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 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 2015 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 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*



RSM AUSTRALIA PARTNERS



R B MIANO
Partner

8 February 2016
Melbourne, Victoria