CAPITOLHEALTH

LIMITED

ABN 84 117 391 812

2017 ANNUAL REPORT

Contents

Corporate Directory

Directors

Mr Andrew Demetriou	–	Chairman and Non-Executive Director
Mr Andrew Harrison	–	Managing Director and Chief Executive Officer
Ms Nicole Sheffield	–	Non-Executive Director

Company Secretary

Ms Jennifer Currie	–	General Counsel & Company Secretary
Ms Melanie Leydin	–	Company Secretary

Principal Place of Business and Registered Office

Level 3, 81 Lorimer St, Docklands, VIC 3008

Telephone: (61-3) 9348 3333
Facsimile: (61-3) 9646 2260

Auditor

RSM Australia Partners
Level 21, 55 Collins Street, Melbourne, Victoria, 3000

Solicitors (Corporate)

K&L Gates
Level 25, South Tower, 525 Collins Street, Melbourne, Victoria 3000

Share Registry

Computershare Investor Services Pty Ltd
Level 11, 172 St Georges Terrace, Perth, Western Australia, 6000

Telephone: (61-8) 9323 2000 / 1300 787 272
Facsimile: (61-8) 9323 2033

Stock Exchange

ASX Limited
Level 4, Rialto North Tower, 525 Collins Street, Melbourne, Victoria, 3000
ASX Code: CAJ

Dear Fellow Shareholders,

I commenced the role of CEO in October 2016 with a clear focus on taking stock of our assets, our people, the industry, and developing a course of action to return shareholder value and provide a platform for growth in earnings. I committed to get the Company's financial house in order, focus back on the business of Diagnostic Imaging, and restore the faith of shareholders (and financial markets) in the company.

After a period of significant change, we have made strong progress on all fronts, the necessary restructuring is complete, and we have a very solid platform for growth in earnings per share.

During the period, we outperformed our guidance on Core Radiology EBITDA and delivered $22.2m, with a year on year increase in revenue of $3.8m or 2.3%. This was done despite a climate of under performance of the NSW assets during the period.

In fact, our strong revenue traction in the Victorian market, combined with the significant overhead cost reduction, have provided the basis for FY18 EBITDA guidance that approaches the performance of the combined NSW and Victorian assets during FY17, with the additional benefit of $95 million in cash (post NSW sale completion). This provides the flexibility to grow earnings per share through new clinic openings, accretive acquisitions and planned capital management activities.

Over the period, we have significantly improved our operating margins by reducing unnecessary overhead costs in the order of $5- $6 million annually, resulting in forecast FY18 EBITDA margins in excess of 17%. Key steps to reduce overheads have included eliminating advertising and sponsorship costs, a smaller head office footprint, reductions in IT spending, and a more appropriate management structure post the sale of the NSW assets.

We have also sold underutilised or underperforming assets including freehold properties and non-core investments. The relocation of a full MRI license to our Olympic Park facility also had a significant impact on performance and has increased the intrinsic value of that business.

To deleverage, we undertook a successful $40 million capital raising in March 2017, which allowed us to pay down debt and develop a substantial institutional shareholder base.

Significantly, the government narrative around Medicare fee reductions for diagnostic imaging has changed markedly since the appointment of the new Health Minister, and was confirmed in the May budget. These changes, along with the impact of cost reductions, delivered the stronger than expected profit result and gave us the confidence to provide revenue and profit guidance for the FY18 year. Indeed, stronger trading has continued throughout July in Victoria.

Our expansion in China with equity Joint Venture partners ("JV") CITIC Pharmaceutical (Shenzhen) Co., Ltd ("CITIC Pharmaceutical") and Xiamen Zhouxin Medical Image Co., Ltd ("Zhouxin") will provide consulting and clinic management services to a network of independent imaging clinics to be created by CITIC and Zhouxin across mainland China. We are well progressed with the necessary approvals and expect to finalise our ~ $600,000 funding of the venture in coming months.

There has also been substantial progress at Enlitic Inc (our US medical deep learning investment) with changes to the board and management that have resulted in faster than expected progress both in development and early commercialisation efforts. We plan to use Enlitic's Chest X-ray tool in some Capital Radiology clinics in Victoria as a post reporting Quality Assurance tool (subject to TGA registration). Enlitic also have numerous developing commercial and research partnerships across a number of countries and respected institutions.

The result of these efforts is that the market capitalisation during August 2017 has increased between 4 and 5 times its value in November 2016, and the business is positioned with substantial capacity for growth.

I would like to take this opportunity to thank our shareholders (new and old) and our staff for their faith in the Company.

Regards

Andrew Harrison
Managing Director
Melbourne, Victoria
25 August 2017

The Directors of Capitol Health Limited ("Capitol Health", "Company" or "Parent Entity") present their Report together with the Financial Statements of Capitol Health Limited and its controlled entities (the "Group") for the financial year ended 30 June 2017, and the auditor's report thereon.

Directors

The Directors of the Company at any time during or since the end of the financial year are:

Mr Andrew Demetriou
Chairman and Non-Executive Director

Mr Demetriou was Chief Executive Officer of the Australian Football League from 2003 until June 2014, and has been the Managing Director of the Ruthinium Group (of which he remains a board member). Andrew has also served as Non-Executive Chairman of the Baxter Group, and is a former Chairman of the Australian Multicultural Advisory Council.

Mr Demetriou is a Director of Crown Resorts Limited (ASX:CWN) and is a Non-Executive Director of Crown Bet Pty Ltd.

Mr Andrew Harrison, BCom (Hons)
Managing Director and Chief Executive Officer – Appointed 11 November 2016
(Previously Non-Executive Director until appointment as Interim CEO on 6 October 2016)

Mr Harrison is an experienced CEO and Non-Executive Director of both publicly listed and proprietary companies, across a range of sectors including healthcare (radiology and dental), resources, and the commercialisation of proprietary intellectual property. He has extensive experience in capital market transactions, including IPO activities, both local and international mergers and acquisitions, strategic restructuring and turnaround, and the management of distributed branch network organisations.

He has held senior executive roles with Brambles Australia, been a consultant to Chubb Australasia, was Managing Director and a Non-Executive Director of ASX listed Neptune Marine Services Limited until February 2006 and a Non-Executive & Executive Director of Draig Resources Limited until November 2012.

Ms Nicole Sheffield, MBA, BA LLB
Non-Executive Director

Nicole Sheffield is the Chief Digital Officer of News Corp Australia. She is responsible for the company's digital revenue growth and strategy; audience and subscription growth; content optimisation and marketing; and digital product innovation. News Corp Australia is the country's number one digital content publisher, with leading brands in news, real estate, sport, food, and fashion. Nicole is also driving the company's video strategy and execution which includes the Storyful business and Unruly in the Australian market.

Her previous experience includes General Manger of Foxtel's LifeStyle Channels Group, senior executive roles at Seven West Media's Pacific Magazines and management roles in the multimedia division of Telstra.

Ms Sheffield is a Director of Chief Executive Women (CEW) and is Chair of the Interactive Advertising Bureau (IAB) Australia Limited. She has a Masters of Business (UTS) and a Bachelor of Arts/Bachelor of Laws (Macquarie University).

Mr John Conidi, BBus, FCPA
Managing Director – Resigned 6 October 2016

Mr Conidi has extensive experience in managing businesses in the healthcare industry. Mr Conidi graduated from the Royal Melbourne Institute of Technology with a Bachelor of Business degree and is a CPA.

Mr Peter Lewis
Executive Director – Resigned 19 August 2016

Mr Lewis has extensive commercial experience in both executive and financial roles. He is a Fellow of the Institute of Chartered Accountants in Australia, a member of the Australian Society of Certified Practicing Accountants and a Fellow of the Governance Institute of Australia.

Company Secretaries

Ms Jennifer Currie, B.Com LLB (Hons), LLM (IP), GAICD
General Counsel & Company Secretary

Ms Currie is an experienced corporate counsel and company secretary, with a background in the health and medical research sector. Her previous roles include General Counsel & Company Secretary for Baker IDI Heart & Diabetes Institute and PRB Foods. Other in-house legal experience includes Medibank, Telstra and the University of Melbourne. She is a Non-Executive Director of Summer Infant Australia Pty Ltd and Ceridian Australia Pty Ltd as well as a former Non-Executive Director of the Intensive Care Foundation. She holds a Bachelor of Commerce and a Master of Laws and is currently finalising a Graduate Diploma in Applied Corporate Governance through the Governance Institute of Australia.

Ms Melanie Leydin, CA
Company Secretary – Appointed 10 August 2017

Ms Leydin has 25 years' experience in the accounting profession and is a director and company secretary for a number of entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, she has been the principal of chartered accounting firm, Leydin Freyer, specialising in outsourced company secretarial and financial duties.

No current or previous officer of the Company was a member of the Company's Auditors.

Directorships in Other Listed Entities

Directorships of other listed entities held by Directors of the Company during the last 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of Directorship	
		From	To
Mr A Demetriou	Crown Resorts Limited	2015	Present

Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Board		Nomination &		Audit & Risk	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Mr A Demetriou	12	12	1	1	2	2
Mr A Harrison	12	12	-	-	2	2
Ms N Sheffield	12	12	1	1	2	2
Mr J Conidi	4	4	n/a	n/a	n/a	n/a
Mr P Lewis	1	1	n/a	n/a	n/a	n/a

Committee Membership

As at the date of the report, the Company had a Nomination and Remuneration Committee and an Audit and Risk Committee of the Board of Directors. Members acting on the committees of the Board during the financial year were:

Nomination & Remuneration Committee	Audit & Risk Committee
Mr A Demetriou (Chairman)	Ms N Sheffield (Chairman)
Ms N Sheffield	Mr A Demetriou
Mr A Harrison	Mr A Harrison

Principal Activities

The Group is a leading provider of diagnostic imaging and related services to the Australian healthcare market. Headquartered in Melbourne, during the period the Company operated clinics throughout Victoria and New South Wales.

The Company conducts more than 1 million procedures every year and employs over 700 people including approximately 50 radiologists (FTE basis). 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. Facilities are predominantly community-based rather than hospital-based, with priority given to service and minimisation of administrative burdens for healthcare professionals.

Trading primarily under its flagship brand Capital Radiology, the Company provides a range of diagnostic imaging services. Approximately 90% of revenue is generated through X-Ray, Ultrasound, CT and MRIs; additional offerings include nuclear medicine, mammography/breastscreen, bone densitometry, and other related services.

In June 2017 the Company entered a binding agreement to sell its NSW assets to I-Med Radiology Network for total consideration of $81.5m (less $1.2m cash adjustment for employee entitlements). The parties expect the transaction will complete on or around 31 August 2017.

Results

The Group made a net loss after tax for the year ended 30 June 2017 of $4,061,000 (2016: loss of $4,684,000).

Operating and Financial Review

Overview

To restore shareholder value, the Company commenced a restructuring program in November 2016 aimed at reducing unnecessary overhead costs, generating better margins and deleveraging the balance sheet and focussing back on the business of diagnostic imaging. This program included selling non-core investments and assets, $5-6 million in overhead cost savings, a $40 million capital raising (including a $5 million share purchase plan) and the repayment of almost all senior secured debt and a restructured facility.

The result is a strong balance sheet with significant funds for growth, higher operating margins, a substantial institutional shareholder base and a market capitalisation almost 4-5 times the value of November 2016.

In addition, the results for the financial year ending 30 June 2017 incorporate the key developments outlined below.

Operating Review

Impact of MBS Review and Changes

In April 2015 the Government established a Medicare Benefits Schedule (MBS) Review Taskforce to review services and consider how they can be aligned with contemporary clinical evidence.

The Diagnostic Imaging Clinical Committee (DICC), a part of the MBS Review Taskforce published its report in June 2017.

The DICC made several recommendations only one of which will have any real impact on the business of the Company. The recommendation suggested that patients over 50 may not be referred by GP's for knee MRI's under the MBS.

This is expected to have an overall impact on the MBS of less than 1% of total outlays and does not take into account the fact that some patients will attend specialists for MRI referral which is covered by the MBS.

A consultation process is currently underway after which a further recommendation will be made by the MBS review committee. The committee will then make a recommendation to the health minister.

The May 2017 Federal Budget confirmed that the formerly proposed reductions to the bulk-billing incentive program in Diagnostic Imaging ("DI") had been scrapped. We believe that this signifies the Government's understanding of cost pressures on bulk billing DI providers created by over a decade of fixed fees.

While there was no immediate move to more broadly index scheduled fees for DI providers, the Government announced a return to indexation for a range of items and modalities from 2020, providing much needed fee relief.

We believe this signals the Government's more positive sentiment towards DI and Bulk Billing in the sector.

Financial Review

Individually Significant Items

Following a review of the financial position by the Company in accordance with the accounting standards, there have been a number of Individually Significant Items being:

- recognition of impairment loss on the goodwill associated with the NSW businesses,
- recognition of an impairment loss in the investment in the listed entity Mach7 Technologies Limited resulting from the sale of the Company's entire holding in Mach7, and
- termination and restructure costs.

The Individually Significant Items of impairment, acquisition and restructuring costs and other costs written off total $11.9 million as detailed in the Financial Statements.

Capital Raising and Refinancing

During the period, the Company raised $40 million in new equity at $0.14 / share ($35 million from an institutional placement and $5 million from a share purchase plan) and used the proceeds of the issue to reduce leverage. This resulted in a reduction in the total senior secured debt facility to $35 million with none drawn at the date of this report. The Company continued to have in place $50 million in unsecured 4-year notes at a fixed coupon of 8.25% per annum, maturing on 10 May 2020. It is expected that proceeds from the sale of the NSW assets will be used to redeem these notes in May 2018 for a 3% premium on face value, being the earliest point of redemption.

It is expected that the Company will have net cash of around $45 million post redemption.

Property and Asset Divestment

As part of restructuring its balance sheet and selling non-core assets the Company has sold a number of properties. To date, the property sale program has yielded a total of $4.38m, with the remaining property owned by the Company currently under negotiation.

Environment Regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Group has adequate systems in place for the management of its environmental regulations and is not aware of any breach of those environmental requirements as they apply to the Group.

Significant Changes in the State of Affairs

The consolidated net assets increased during the financial year ending 30 June 2017 by $34,386,000 (2016 decrease of $9,243,000) to $119,027,000 (2016: $84,641,000). The increase comprised capital raisings net of associated costs, and reserve movements of $37,792,000 (2016: decrease of $9,243,000) minus the net loss after tax for the reporting period of $4,061,000 (2016: loss $4,684,000).

Other significant changes in the state of affairs of the group were noted above in the Operating and Financial Review.

The Directors are not aware of any other matter or circumstance that has occurred since the end of the 2017 financial year that has significantly affected or may significantly affect the operations of the Group, the results of these operations or the state of affairs of the Group in subsequent financial years.

Dividends

In the present circumstances, the Board considers it prudent to continue the suspension of a dividend in respect of this current financial year.

Upon completion of the sale of the NSW assets, Capitol expects to have a cash balance of circa $95.0 million and total debt of an estimated $50.8m, including finance leases and the Unsecured Notes. In the absence of a material acquisition, from the time the proceeds of the NSW sale are received, Capitol intends to commence an on-market buy-back to acquire up to 52.3 million shares in the Company, the maximum allowed without obtaining shareholder approval. In addition, Capitol may seek shareholder approval to buy-back further shares.

The Board intends reinstating dividends in respect of the 2018 financial year, consistent with the restrictions imposed by the Unsecured Notes and subject to corporate, legal and regulatory considerations. In this context, Capitol notes that it currently has a franking account balance of approximately $8.1m.

Dividends Paid During the Financial Year

Dividends payable in relation to any given 6 month financial period are paid in the following half-year.

	2017		2016	
	$ Per Share	$	$ Per Share	$
Final Dividend for the Preceding Financial Year	$0.00	-	$0.0065	3,396,692
Interim Dividend for the Year Ending 30 June	$0.00	-	$0.00	-
		-		3,396,692

All dividends paid were fully franked.

Dividend Reinvestment Plan ("DRP")

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

There were no dividends declared for 2017 (2016: final dividend paid of $309,436 for 502,188 shares at an issue price of $0.617).

Events Subsequent to Balance Date

The following events arose subsequent to balance date:

- The Group's sale of its NSW radiology businesses as detailed in Note 10 continues to proceed on target. The transaction was subject to Foreign Investment Review Board approval which was received after balance date.

- on 18 August 2017, Capital Health Limited announced a on-market share buy back of up to 52,300,000 shares. Based on the closing price on 17 August 2017 of $0.275 the cash outlay before costs if all shares are acquired would be approximately $14.38 million. The buyback is limited to approximately 6.5% of the Company's existing issued capital and may take place anytime in the 12 month period from 4 September 2017 unless terminated earlier.

Likely Developments, Business Strategies and Prospects

Australia

The Company anticipates another year of organic growth in revenues and a continuation of efforts to optimise the efficiency of its cost base in conjunction with the additional revenues generated from potential further acquisitions.

A recent return to more normal growth rates in Medicare receipts (circa 5-6% in Victoria) are expected to drive growth from existing clinics. The Company also plans to open 3 new clinics in Victoria during the year.

Subject to Therapeutic Goods Administration registration, the Company plans to use Enlitic's chest x-ray tool in some Capital Radiology clinics in Victoria as a post reporting quality assurance tool.

International

In February 2017 the Company entered into an equity joint venture agreement ("JV") 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. The name of Joint Venture is China-Australia Medical Imaging (Shenzhen) Co., Ltd. ("CAMI").

Corporate Governance

The Company's Corporate Governance Statement can be found at www.capitolhealth.com.au/corporate-governance/.

Director' Interests

The relevant interest of each Director in the shares and options issued by the Company at the date of this report is as follows:

Director	Ordinary Shares	Share Options
Mr A Demetriou	150,000	-
Mr A Harrison	3,575,773	10,000,000

Options

Options Granted to Directors and Key Management Personnel

Options granted during the financial year and as part of the Employee Incentive Plan are detailed in the Remuneration Report.

Unissued Shares under Option

At the date of this report, there are 6,500,000 unissued ordinary shares of the Company under option.

Since the end of the financial year 500,000 shares were issued as a result of the exercise of an option over unissued shares.

Indemnification and Insurance

Indemnification of Officers

To the extent permitted by law, the Company has agreed to indemnify the current Directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

Insurance Premiums

The Company paid a premium during the year in respect of a director and officer liability insurance policy, insuring the Directors of the Company, the Company Secretary, and all executive officers of the Group against a liability incurred as such a Director, Secretary or Executive Officer to the extent permitted by the *Corporations Act 2001*. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors’ and officers’ liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, RSM Australia Partners (“RSM”), as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). This indemnity does not apply in respect of any matters which are finally determined to have resulted from RSM’s negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify RSM during or since the financial year.

Non-Audit Services

The Company’s auditor, RSM Australia Partners did not provide any non-audit services during the year (2016: Nil).

Auditor’s Independence Declaration

The auditor’s independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 18 of the financial report.

Audited Remuneration Report

This Remuneration Report forms part of the Directors' Report. The information provided in this report has been prepared and audited in accordance with the requirements of the *Corporations Act 2001* and the *Corporations Regulations 2001*.

This report outlines the Remuneration Policy and framework applied by the Company, as well as details of the remuneration paid to Key Management Personnel ("KMP"). KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

The KMP of the Group are:

- Non-Executive Directors ("NEDs"); and
- Managing Director and senior executives (collectively the "Executives").

The table below outlines the KMP of the group and their movements during the 2017 financial year:

Name	Position Held	Period
Non- Executive Directors		
Mr A Demetriou	Chairman & Non-Executive Director	Full Financial Year
Ms N Sheffield	Non-Executive Director	Full Financial Year
Mr A Harrison	Non-Executive Director	Until Appointment as Interim Managing Director on 6 October 2016
Executive Directors		
Mr A Harrison	Managing Director	Appointed 11 November 2016
Mr J Conidi	Managing Director	Resigned 6 October 2016
Mr P Lewis	Executive Director	Resigned 19 August 2016
Senior Executives		
Mr R Shnier *	Chief Executive Officer (NSW)	Full Financial Year, CEO Role Redundant 31 August 2017
Mr J Harkness	Chief Financial Officer	Appointed 28 November 2016, Role Redundant 14 July 2017
Ms J Currie	General Counsel & Company Secretary	Full Financial Year, Role Redundant 1 September 2017
Ms M Gibson	General Manager Operations (Victoria)	Full Financial Year

*Mr Shnier works part time in his role as Chief Executive Officer NSW and is also employed by the Company as a radiologist.

(a) Remuneration Policy

The objective of the Company's remuneration philosophy is to ensure that Directors and KMP are remunerated fairly and responsibility at a level that is competitive, reasonable and appropriate, in order to attract and retain suitably skilled and experienced people. The remuneration structures are also designed to reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders.

The compensation structures take into account:

a) the capability and experience of the KMP;
b) the KMP's ability to control the relevant segments performance;
c) the Group's performance including:
   i. the Group's earnings; and
   ii. the growth in share price and delivering constant returns on shareholder wealth.

(b) Remuneration Governance

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Company is responsible for making recommendations to the Board regarding the remuneration framework for Directors, executive and senior management remuneration and incentive policies, superannuation arrangements and related matters.

If necessary, the Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparable companies and in accordance with the objectives of the Group.

Remuneration Consultants

During the year the Company engaged the services of remuneration consultants to provide remuneration market data in respect of the remuneration for the role of Managing Director. The remuneration consultants did not provide a remuneration recommendation in relation to key management personnel as defined by Division 1 of Part 1.2 of Chapter 1 of the *Corporations Act 2001*.

(c) Non-Executive Director Remuneration

In accordance with best practice corporate governance, the structure of NED remuneration is clearly distinguished from that of executives. Capitol Health's NED fee policy is designed to attract and retain high calibre directors who can discharge the roles and responsibilities required in terms of good governance, strong oversight, independence and objectivity. Non-Executive Directors do not receive any retirement benefits, nor do they receive any performance related compensation.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. The aggregate maximum amount of remuneration for all Non-Executive Directors, last voted upon by shareholders at the 2015 Annual General Meeting, is not to exceed $500,000 per annum. Directors' fees cover both all main board activities and membership of board committees.

Non-Executive directors have a written agreement with the Company setting out the terms of their appointment as directors.

(d) Executive Remuneration

The Managing Director and Senior Executives all have written agreements with the Company setting out the terms of their employment. The former Managing Director John Conidi, who was employed during part of the FY2017 financial year, did not have an employment contract. He was employed under the general terms of the Award that governs the industry sector and the National Employment Standards as appropriate to his position.

Key terms of employment for the other Executive KMPs are formalised in an Employment Agreement. The major provisions of those agreements relating to remuneration are set out below:

Name	Term of Agreement	Notice Period Provided By Company	Notice Period Provided By Executive
Mr A Harrison	Ongoing	12 months	12 months
Mr R Shnier *	5 years from 31 March 2015	90 days after 31 March 2018.	No termination rights during the term
Ms M Gibson	Ongoing	3 months	3 months
Mr J Harkness **	Ongoing	3 months	3 months
Ms J Currie ***	Ongoing	6 months	3 months

* Mr R Shnier was a former partner of Southern Radiology and his notice periods reflect the consideration paid to him as one of the partners of Southern Radiology as vendors for the Southern Radiology business and asset sale. They relate to his role as a radiologist.
** Mr J Harkness' role was made redundant on 14 July 2017.
*** Ms J Currie's role was made redundant effective 1 September 2017.

Changes to Key Terms of Managing Director's Employment

The board approved a revised remuneration package for the Managing Director after considering a benchmarked remuneration market data report, achievements in the financial year and the importance of retention. The changes to the employment terms of the Managing Director are:

- in respect of the 2017 financial year, the Board approved an additional $125,000 Short Term Incentive ("STI") payment;
- the fixed remuneration of the Managing Director was increased to $650,000 per annum, effective 25 August 2017;
- the Managing Director's STI was amended to a target incentive of 50% of his fixed remuneration and a potential incentive of up to 75% of his fixed remuneration;
- an additional long term equity incentive of 75% of fixed remuneration with appropriate performance hurdles, the specific terms to be agreed and subject to shareholder approval.
- the Managing Director's notice period was amended to 12 months from either party.

Fixed Compensation

Fixed compensation consists of base compensation, as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of the Group.

Other Benefits

Other Benefits comprise of the increase in the annual leave entitlement over the financial year, remuneration benefits and other benefits such as car and other allowances which the Company pays fringe benefits tax on these benefits as applicable.

Short-Term Incentives

KMP of the Company were awarded STI payments or bonuses during or related to the 2017 financial year that were dependant on the satisfaction of performance conditions that were chosen deliberately to align the targets and financial performance of the business with the Executives meeting those targets. Whilst those performance conditions were aligned with the Company's short term objectives, they were also consistent with the long term strategy of the Company.

Achievement of the relevant performance conditions was assessed objectively by either the Nominations and Remuneration Committee or the relevant line manager for that Executive. STI payments are either payments made during the year or at the end of the financial year are accrued, approved or specifically allocated to the individual.

Mr A Harrison was awarded a total STI of $400,000 in respect of his performance during the 2017 financial year. This amount was comprised of $275,000 (which was 50% of his fixed remuneration) for the achievement of targets relating to debt and cost reduction, EBITDA performance, development of the Chinese Joint Venture, leadership, safety and compliance objectives. He was also awarded an additional $125,000 for outstanding performance during the period, which resulted in exceptional improvement in shareholder value including by executing a successful capital raising, increasing the market capitalisation of the Company more than fourfold and delivering a strong institutional shareholder base.

Ms J Currie received a $80,000 STI in the 2017 financial year - $10,000 in respect of her performance in 2016 financial year, and $70,000 in respect to the 2017 financial year on the basis of the achievement of performance conditions relating to delivery of corporate governance outcomes, leadership in respect of the successful sale of the NSW assets, leading legal support for both the capital raising to reduce company debt levels and the delivery of the Chinese equity joint venture agreements.

Mr R Shnier was paid an STI of $272,000 in respect of his radiology work. He was also paid a bonus of $436,585 in respect of his role as Chief Executive Officer (NSW) for performance conditions in respect of the successful sale of the NSW assets.

Ms M Gibson received a STI of $15,000 in the 2017 financial year in respect to her performance in the 2016 financial year.

Long-Term Incentives

Long-term incentives ("LTI") may be provided to KMP via the Capitol Health Limited Employee Incentive Plan ("Plan"), as approved by shareholders at the 2015 AGM.

The key objectives of the Plan, consistent with the objectives of the remuneration review being undertaken by the Board, are to:

a) Assist in the attraction, retention and motivation of key employees as well as the broader Company workforce;
b) Reward key employees and other participants for strong individual and Company performance; and
c) Align the interests of participating employees with those of Company shareholders by providing opportunities to build their equity holding in the Company and providing the ability to share in future growth in value.

The LTI are provided as options over ordinary shares of the Company to KMP based on their position within the Group. Vesting conditions may be imposed on any grants if considered appropriate, in accordance with the Scheme's terms and conditions.

As part of the Employee Incentive Plan:

2017 Financial Year

- 10 million employee options were issued to Mr Andrew Harrison. The options had a strike price equal to a 50% premium on the Volume Weighted Average Price (VWAP) for the five trading days ending on 11 November 2016 being $0.1785 with half vesting on 17 November 2016 and the other half vesting on 17 November 2017. Shares acquired on the exercise of Mr Harrison's options are to be purchased on market.

- 3 million options were issued to key management personnel in November and December 2016. The options had a weighted average exercise price of 19.03 cents, with 1,500,000 vesting in November/December 2017, 900,000 vesting in November/December 2018, and 600,000 vesting in November/December 2019 and the shares issued on exercise to rank equally with all other shares on issue). Prior to the end of the financial year, the Directors utilised their discretion under the Plan to vest immediately 2 million options issued to 2 key management personnel.

- 15 million options issued to Mr J Conidi in 2016 financial year were voluntarily forfeited.

2016 Financial Year

- 15 million employee options were issued to Mr John Conidi.

The rules of the Plan prohibit participants from entering into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme. The Plan rules provide that a participant must not enter into any scheme, arrangement or agreement (including options and derivative products) under which the participant, in respect of awards that remain subject to the Rules:

a) may alter the economic benefit to be derived from any such awards, irrespective of future changes in the market price of Shares; and / or
b) purports to mortgage, pledge, assign, encumber or create security over any interest in any such awards; and / or
c) sell, transfer, dispose of, swap, option, alienate the rights or obligations attaching to or otherwise deal with any such awards.

The Plan rules further state that where a participant enters, or purports to enter, into any scheme, arrangement or agreement which breaches the above, the award immediately lapses.

(e) Consequence of Performance on Shareholder Wealth

In considering the Group's performance and benefits for shareholder wealth, the Directors have regard to the following indices in respect of the current financial year and the previous three financial years:

	Units	**2017**	**2016**	**2015**	**2014**
Net Profit / (Loss) for the Financial Year	$'000	($4,061)	($4,684)	$3,864	$7,233
Dividends Paid	$'000	$0	$3,397	$5,290	$3,014
Share Price at Beginning of the Financial Year	cents	16.0	76.5	44.5	23.5
Share Price at End of the Financial Year	cents	26.0	16.0	76.5	44.5
Change in Share Price	cents	10.0	-60.5	32.0	21.0
Earnings Per Share (Basic)	cents	-0.69	-0.90	0.81	1.68

Changes in the overall level of key management personnel's compensation takes into account the performance of the Group.

Remuneration of Key Management Personnel

Details of the nature and amount of each major element of the remuneration of each key management person of the Group are:

Key Manager's Name / Financial Year		Short-Term					Post-Employ	Long-Term	Share-Based				
		Salary & Fees	STI Cash Bonus #1	Other Benefits #2	Termination Benefits	Consulting Fees	Super-annuation Benefits	Long Service Leave	Options	Total	Performance Related	Options Share of Total	Exit Date
		$	$	$	$	$	$	$	$	$	%	%	
Non-Executive Directors													
Mr A Demetriou	2017	205,961	-	-	-	-	6,029	-	-	211,990	0.0%	0.0%	N/A
	2016	150,000	-	-	-	-	14,250	-	-	164,250	0.0%	0.0%	
Ms N Sheffield	2017	70,000	-	-	-	-	-	-	-	70,000	0.0%	0.0%	N/A
	2016	36,518	-	-	-	-	-	-	-	36,518	0.0%	0.0%	
Mr A Harrison	2017	18,308	-	-	-	116,000	-	-	-	134,308	0.0%	0.0%	N/A
	2016	70,000	-	-	-	160,000	-	-	-	230,000	0.0%	0.0%	
Executive Directors													
Mr A Harrison	2017	395,576	400,000	10,536	-	-	14,335	-	183,830	1,004,277	58.1%	18.3%	N/A
Mr J Conidi #3	2017	192,880	-	14,750	451,000	-	7,545	6,074	541,350	1,213,599	44.6%	44.6%	04-Nov-16
	2016	528,435	150,000	1,344	-	-	19,308	16,214	113,751	829,052	31.8%	13.7%	
Mr P Lewis	2017	115,385	-	8,875	375,000	-	3,018	-	-	502,278	0.0%	0.0%	19-Aug-16
	2016	649,038	-	28,625	-	-	16,709	-	-	694,372	0.0%	0.0%	
Mr D Kucera	2016	87,748	75,000	11,367	266,666	-	19,308	-	-	460,089	16.3%	0.0%	28-Aug-15
Senior Managers													
Mr R Shnier #4	2017	530,651	708,540	(27,300)	63,415	-	19,316	-	-	1,294,622	54.7%	0.0%	31-Aug-17
	2016	502,665	401,318	22,846	-	-	19,307	-	-	946,136	42.4%	0.0%	
Ms M Gibson	2017	314,037	15,000	14,501	-	-	19,616	-	13,116	376,270	7.5%	3.5%	N/A
	2016	315,577	-	7,954	-	-	19,307	-	-	342,838	0.0%	0.0%	
Mr J Harkness	2017	188,461	-	3,313	187,500	-	11,317	-	23,087	413,678	5.6%	5.6%	14-Jul-17
Ms J Currie	2017	202,194	80,000	13,967	142,788	-	18,862	-	33,477	491,289	23.1%	6.8%	01-Sep-17
Total, All Key Management	2017	2,233,452	1,203,540	38,642	1,219,703	116,000	100,038	6,074	794,860	5,712,310	35.0%	13.9%	
	2016	2,339,981	626,318	72,135	266,666	160,000	108,189	16,214	113,751	3,703,254	20.0%	3.1%	

Notes:

#1 - STI Bonuses are either payments made during the year or at the end of the financial year are accrued, approved or specifically allocated to the individual.

#2 - Other Benefits comprises of the increase in the annual leave entitlement over the financial year and any reportable fringe benefits received during the financial year.

#3 - The Share Based Benefit for Mr J Conidi represents the remaining value of the options issued at the date when voluntarily forfeited by him.

#4 - The remuneration to Mr R Shnier relates to both of his roles as NSW CEO and his work as a radiologist.

Other Transactions with Key Management Personnel

During the financial year the Group used the sponsorship consultancy services of Bastion group of companies of which Mr Demetriou is a Director. The amount billed was $13,000 based on normal market rates, with $0 outstanding at 30 June 2017.

The Group also made payments of $61,625 to High Street Super Property Pty Ltd, for which Mr Conidi is a Director, in respect of the leased premises at the Group's Epping clinic while Mr Conidi was a director of Capitol Health Limited. The lease payments are consistent with normal market rates.

No loans have been made to KMP during the 2017 financial year.

2016 Annual General Meeting - First Remuneration Strike

At the Annual General Meeting of the Company in November 2016, more than 25% of the votes cast were against the adoption the Company's Remuneration Report. The board took a number of measures in response including:

- a substantial reduction in overhead costs of the Group in the order of $6 million per annum;
- a focus on remuneration structure to include a greater performance based component designed to align executive remuneration with the delivery of shareholder value;
- the redundancy of a number of senior positions, the full impact of which will be delivered in the 2018 financial year; and
- the total KMP remuneration relative to the increase in business performance and shareholder value is considered to be more in balance relative to the previous year.

This is the end of the audited Remuneration Report.

Proceedings of Behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Rounding of Amounts

The Company is a type of company referred to in ASIC Corporations (Rounding in Financial/Directors' 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.

Dated at Melbourne, Victoria this 25th day of August 2017.

Signed in accordance with a resolution of the Directors:

Andrew Harrison
Managing Director

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Capitol Health Limited for the year ended 30 June 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 audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM AUSTRALIA PARTNERS

J S CROALL
Partner

25 August 2017
Melbourne, Victoria

Consolidated Statement of Profit or Loss and Comprehensive Income
For the Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Continuing Operations			
Revenue			
Revenue from Services Rendered		107,356	104,294
Other Income	3	2,569	225
Total Expenses		109,925	104,519
Expenses			
Employee Benefits	4	68,590	64,034
Equipment Related		5,847	5,808
Occupancy		7,830	8,012
Consumables		4,162	3,645
Telecommunications		1,854	1,685
Computer IT & Support		2,541	1,660
Impairment of Assets	5	862	1,830
Borrowing		2,443	2,486
Depreciation & Amortisation	11	5,624	4,627
Other		7,717	7,771
Total Expenses		107,471	101,559
Profit Before Income Tax		**2,454**	**2,960**
Income Tax Expense	6	710	1,276
Profit /(Loss) for the Year from Continuing Operations		1,744	1,684
Discontinued Operations			
Profit /(Loss) for the Year from Discontinued Operations	10	(5,805)	(6,368)
Profit /(Loss) for the Year		(4,061)	(4,684)
Profit /(Loss) for the Year Attributable to Owners of the Parent		(4,061)	(4,684)
Other Comprehensive Income / (Loss)			
Items that may be Reclassified Subsequently to Profit or Loss	19		
Exchange Translation Differences		(731)	(561)
Hedge Valuation Differences (Net of Tax)		378	(378)
Gain /(Loss) on Available for Sale Financial Assets (Net of Tax)		-	(644)
Total Other Comprehensive Income / (Loss)		(353)	(1,583)
Total Comprehensive Income / (Loss) for the Year		(4,413)	(6,267)
Total Comprehensive Income / (Loss) for the Year Attributable to Owners of the Parent		(4,413)	(6,267)
Earnings per Share (cents)	25		
Total Basic Earnings for the Year		0.30	0.32
Total Diluted Earnings for the Year		0.29	0.32

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

Consolidated Statement of Financial Position

As at 30 June 2017

	Note	2017 $'000	2016 $'000
Current Assets			
Cash and Cash Equivalents	7	18,217	15,744
Trade and Other Receivables	8	7,115	3,756
Other Financial Assets	9	183	135
Income Tax Refundable		161	-
Other Assets		877	975
		26,553	20,610
Non-Current Assets Held for Sale	10	82,225	4,612
Total Current Assets		108,778	25,222
Non-Current Assets			
Other Financial Assets	9	14,604	15,602
Property, Plant & Equipment	11	23,267	35,769
Intangible Assets	12	53,190	129,970
Deferred Tax Assets	6	4,597	5,816
Total Non-Current Assets		95,658	187,157
Total Assets		204,436	212,379
Current Liabilities			
Trade and Other Payables	13	12,599	11,090
Derivative Financial Instruments	14	-	575
Employee Benefits	15	7,360	10,153
Loans and Borrowings	17	1,175	4,802
Income Tax Liability		-	622
		21,134	27,242
Liabilities Directly Associated with Assets Held for Sale	10	2,884	-
Total Current Liabilities		24,018	27,242
Non-Current Liabilities			
Employee Benefits	15	1,864	1,079
Loans and Borrowings	17	58,554	98,399
Deferred Tax Liabilities	6	973	1,018
Total Non-Current Liabilities		61,391	100,496
Total Liabilities		85,409	127,738
Net Assets		119,027	84,641
Equity			
Issued Capital	18	125,854	87,849
Reserves	19	(1,038)	(825)
Retained Earnings / (Accumulated Losses)	21	(5,789)	(2,383)
Equity Attributable to Owners of the Parent		119,027	84,641
Total Equity		119,027	84,641

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

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash Flows From/(Used in) Operating Activities			
Cash Receipts in the Course of Operations		162,954	159,663
Cash Payments in the Course of Operations		(139,185)	(137,006)
Interest Received		151	262
Interest Paid		(7,064)	(4,834)
Income Tax Paid		(1,567)	(4,633)
Net Cash From Operating Activities #	29	15,289	13,452
Cash Flows From / (Used in) Investing Activities			
Proceeds from Sale of Non-Current Assets Held for Sale		875	-
Payments for Property Plant and Equipment		(7,184)	(7,472)
Payments for Subsidiaries / Business Acquisitions (Net of Cash Acquired)		(54)	(32,041)
Payment of Acquisition Costs		-	(4,886)
Payments for Investments in Equity Instruments		(4,218)	(11,432)
Proceeds from Sale of Investments In Equity Instruments		14	-
Payments for Internally Generated Intangibles		-	(694)
Redemption of / (Payment for) Financial Asset Held to Maturity		-	595
Net Cash From / (Used in) Investing Activities #		(10,567)	(55,930)
Cash Flows From / (Used in) Financing Activities			
Proceeds from the Issue of Share Capital		40,184	-
Payment of Share Issue Costs	18	(2,180)	(3)
Payment of Dividend	20	-	(3,087)
Payment for Leasing Arrangements		(1,583)	(1,924)
Proceeds from Secured Loans		-	23,527
Repayment of Secured Loans		(38,670)	(47,000)
Proceeds from Senior Unsecured Notes		-	50,000
Net Cash From / (Used in) Financing Activities #		(2,249)	21,513
Net Increase / (Decrease) in Cash and Cash Equivalents		2,473	(20,965)
Cash and Cash Equivalents at 1 July		15,744	36,709
Cash and Cash Equivalents at End of Year	7	18,217	15,744

The Consolidated Statement of the Cash Flows includes cash flows from discontinued operations as detailed in Note 10 (b).

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

Consolidated Statement of Changes in Equity

For the Year Ended 30 June 2017

	Note	Issued Capital $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
At 1 July 2015		87,543	644	5,697	93,884
Comprehensive Income / (Loss)					
Profit / (Loss) for the Year		-	-	(4,684)	(4,684)
Other Comprehensive Income / (Loss)		-	(1,583)	-	(1,583)
Total Comprehensive Income		-	(1,583)	(4,684)	(6,267)
Transactions with Equity Holders in their Capacity as Equity Holders					
Shares Issued - Dividend Reinvestment Plan	18	309	-	(309)	-
Share Issue Costs (Net of GST)	18	(3)	-	-	(3)
Dividends Paid	20	-	-	(3,087)	(3,087)
Valuation of Options Issued	19	-	114	-	114
Total Transactions with Equity Holders		307	114	(3,397)	(2,976)
At 30 June 2016		87,849	(825)	(2,383)	84,641
Comprehensive Income / (Loss)					
Profit / (Loss) for the Year		-	-	(4,061)	(4,061)
Other Comprehensive Income / (Loss)		-	(353)	-	(353)
Total Comprehensive Income		-	(353)	(4,061)	(4,414)
Transactions with Equity Holders in their Capacity as Equity Holders					
Shares Issued Externally	18	40,184	-	-	40,184
Share Issue Costs (Net of GST)	18	(2,180)	-	-	(2,180)
Valuation of Options Issued	19	-	254	-	254
Valuation of Options Forfeited	19	-	541	-	541
Forfeited Options Transferred to Retained Earnings		-	(655)	655	-
Total Transactions with Equity Holders		38,004	140	655	38,799
At 30 June 2017		125,854	(1,038)	(5,789)	119,026

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

1. Summary of Significant Accounting Policies

(a) 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 financial report of the Company for the year ended 30 June 2017 comprises the Company and its subsidiaries (together referred to as the "Group").

The nature of the operations and principal activities of the Group are described in the Directors' Report.

For the purposes of preparing the financial statements the Company is a for-profit entity.

(b) Basis of Preparation

(i) Statement of Compliance

This financial report is a general purpose financial report prepared in accordance with the Australian Accounting Standards ("AASs") (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. This consolidated financial report complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 29 August 2017.

(ii) Basis of Measurement

The financial report is prepared on the accruals basis and the historical cost basis, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Group uses market observable data to the extent possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Group (working closely with external qualified valuers) using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

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

Transfers between levels of the fair value hierarchy are recognised by the Group at the end of the reporting year during which the change occurred.

(iii) Functional Currency

Balances and transactions included in the financial statements of each of the entities within the Group are measured using the currency of the primary economic environment in which each entity operates ("the functional currency"). The functional and presentation currency of the Company and the Group is the Australian Dollar.

(iv) Rounding of Amounts

The entity is of a kind referred to in ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191 and accordingly the amounts in these financial statements have been rounded off to the nearest thousand dollars or in certain cases to the nearest dollar.

(v) Significant Accounting Policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in these financial statements.

New and Amended Standards Adopted by the Entity

The Group has reviewed and applied all new accounting standards and amendments applicable for the first time in their annual reporting period commencing 1 July 2016, and determined that there was no material impact on the Group's financial statements in the current reporting year.

(c) Significant Accounting Estimates, Assumptions and Judgements,

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the 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 particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are outlined below:

(i) Significant Accounting Estimates and Assumptions

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in Note 12. If any of these estimates were to significantly change, it may have a material impact on the reported amount of goodwill.

Provision for Long Service Leave

The calculation of long service leave has been based on estimates and judgements made by the Directors. These estimates relate mainly relate to employee retention rates, salary increases and discount rates. Should any of these estimates or judgements significantly change this could have a material effect on the amount recognised.

Estimation of Useful Lives of Assets

The estimation of useful lives of assets has been based on historical experience as well as manufacturers' warranties, lease terms and turnover policies. In addition, the condition of the assets is assessed annually and considered against remaining useful life. Adjustments to useful lives are made when necessary.

Recovery of Deferred Tax Assets

Deferred tax assets are recognised for deductible temporary differences which the Directors consider probable that future taxable profits will be available to utilise those temporary differences.

(ii) Significant Accounting Judgements

The preparation of the financial statements requires the use of accounting estimates which by definition will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. Detailed information about the significant judgements is included in:

- estimation of Income Tax Payable / Refundable and Income Tax Expense at Note 1 (xi) and 6,
- estimation of Goodwill Impairment at Note 1 (viii), 5 and 12 (iv),
- recognition of Deferred Tax Asset for carried forward tax losses at Note 1 (xi) and 6,
- Impairment of Available for Sale Financial Assets – Note 1 (viii), 5 and 9.
- Classification of Non-Current Assets Held for Sale and Discontinued Operations at Note 1 (xiii) and 10.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

(d) Summary of Significant Accounting Policies

(i) Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control is transferred to the Group until the date that control ceases.

Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Transactions Eliminated on Consolidation

Intra-Group balances and all gains and losses or income and expenses arising from intra-Group transactions are eliminated in preparing the consolidated financial statements.

Non-Controlling Interests

Non-controlling interests are classified as equity in the Statement of Financial Position except where there is a contractual obligation to deliver cash or financial assets to another entity as a result of this relationship. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in net assets since the date of the combination.

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. Any changes in ownership result in an adjustment between the controlling and non-controlling interests to reflect their relative interests. Any difference between the adjustment and the consideration paid is recognised in a separate reserve in equity.

(ii) Business Combinations

The Group applies the acquisition method to account for all acquired businesses, whereby the identifiable assets acquired and the liabilities assumed are measured at their acquisition-date fair values (with few exceptions as required by AASB 3 Business Combinations).

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, the liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group.

Acquisition-related costs (e.g. finder's fees, consulting fees, administrative costs, etc.) are recognised as expenses in the periods in which the costs are incurred and the services are received.

On acquisition date, goodwill is measured as the excess of the aggregate of consideration transferred, any non-controlling interests in the acquiree, and acquisition-date fair value of the Group's previously held equity interest in the acquiree (if business combination achieved in stages) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after appropriate reassessment, the amount as calculated above is negative, it is recognised immediately in profit or loss as a bargain purchase gain.

The acquisition-date fair value of any contingent consideration is recognised as part of the consideration transferred by the Group in exchange for the acquiree. Changes in the fair value of contingent consideration that result from additional information obtained during the measurement period (maximum one year from the acquisition date) about facts and circumstances that existed at the acquisition date are adjusted retrospectively against goodwill.

Other changes resulting from events after the acquisition date are adjusted at each reporting date, only when the contingent consideration is classified as an asset or a liability, and the adjustment is recognised in profit or loss.

(iii) Financial Instruments

Financial instruments comprise cash and cash equivalents, other financial assets, trade and other receivables, loans and borrowings, derivative instruments and trade and other payables.

Financial instruments are recognised initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

a. Cash and Cash Equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above but also include as a component of cash and cash equivalents bank overdrafts (if any), which are included as borrowings on the Statement of Financial Position.

b. Other Financial Assets – Held to Maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

c. Other Financial Assets – Available for Sale (AFS)

These are non-derivative financial assets that are designated as available for sale on initial recognition or are not classified in one of the other categories of financial assets. They are carried at their fair value. However, unquoted equity instruments are carried at cost, where it is not possible to reliably measure their fair value.

Except for foreign exchange gains and losses, interest income and dividends that are recognised in profit or loss, changes in the carrying amount of AFS financial assets are recognised in other comprehensive income, until the investment is disposed of or is determined to be impaired. At that time, the cumulative gain or loss previously accumulated in the Asset Revaluation Reserve is reclassified to profit or loss.

d. Trade and Other Receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost less any impairment losses recognised. Trade receivables are due for settlement no more than 90 days from date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful receivables where there is objective evidence that the Group will not be able to collect all of its amounts according to the original terms of the receivable.

e. Loans and Borrowings

Loans are recognised initially at fair value, net of transaction costs incurred, and subsequently at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Profit or Loss and other comprehensive income over the period of the borrowings using the effective rate of interest. Borrowings are removed from the Statement of Financial Position when the obligation is discharged, cancelled or expired.

f. Trade and Other Payables

Trade and other payables are recognised initially at fair value, and subsequently at amortised cost. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Group. Trade accounts payable are normally settled within 30 days.

(iv) Share Capital

Share capital is recognised at the amount of consideration received. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

(v) Property, Plant and Equipment

Recognition and Measurement

Items of Property, Plant and Equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent Costs

Subsequent costs are included in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of Property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a diminishing-value or straight line basis over the estimated useful lives of each part of an item of Property, plant and equipment. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The estimated useful lives are as follows:

Plant and equipment	3 to 15 years
Office furniture and equipment	3 to 5 years
Leasehold improvements	3 to 10 years
Motor vehicles	3 to 5 years
Low value pool assets	7 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(vi) Intangible Assets

Goodwill

Goodwill arises on the acquisition of businesses. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquire at acquisition date.

Goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is subject to an annual impairment test.

Internally Generated Intangible Assets

Development costs represent typical internally generated assets of relevance for the Group. Costs incurred in relation to individual projects are capitalised only when the future economic benefit of the project is probable and the following conditions are met:

- the development costs can be measured reliably,
- the technical feasibility of the project has been ascertained , and
- management has the intention and ability to complete the intangible assets for use.

Internally generated intangible assets primarily relate to internally developed technology and processes.

After initial recognition, internally generated intangible assets are carried forward at cost less any accumulated amortisation and impairment losses. The estimated useful life and amortisation method are revised at the end of each reporting period and the effect of any changes in estimate being accounted for on a prospective basis.

(vii) Leased Assets

Leases under which the Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition the asset is accounted for in accordance with the accounting policy applicable to the asset, with amortisation rates at the higher rate of the equivalent rate stated in Note 1(v) for depreciation for similar classes of assets or the rate equivalent to the leased term.

Lease payments made under finance leases are apportioned between the finance expense and the reduction of outstanding liability.

Other leases are operating leases and the leased assets are not recognised in the Group's Statement of Financial Position. Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.

(viii) Impairment

Financial Assets

At the end of each reporting period, the Group assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the (group of) financial asset(s) have been affected. Objective evidence of impairment could include significant financial difficulty of the counterparty, breach of contract, probability that the borrower will enter bankruptcy, disappearance of an active market for that financial asset because of financial difficulties, etc.

For AFS equity instruments, a significant or prolonged decline in the fair value of the investment below its cost is considered also to be objective evidence of impairment.

For trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For Financial Assets Held to Maturity at Amortised Cost and where the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss.

However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

Increases in fair value of AFS equity instruments subsequent to an impairment loss are recognised in other comprehensive income and accumulated in Asset Revaluation Reserve; impairment losses are not reversed through profit or loss.

Non-Financial Assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Group that generates cash inflows that are largely independent from the cash inflows from other assets. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of any goodwill allocated to the other assets in the unit (Group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(ix) Employee Benefits

Wages and Salaries, Annual Leave and Long Service Leave

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured based on an assessment of the existing benefits to determine the appropriate classification under the definition of short term and long term benefits, placing emphasis on when the benefit is expected to be settled.

Short term benefits are provisions expected to be wholly settled within 12 months and are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Long term benefits are provisions that are not expected to be wholly settled within 12 months and are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted to measure them at present value at the reporting date.

Regardless of the expected timing of settlement, provisions made in respect of employee benefits are classified as a current liability unless the Group has an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability. Provisions made for annual leave and unconditional long service leave are classified as a current liability. Provisions for conditional long service are classified as non-current liability.

Share-Based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 16.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

(x) Revenue

Revenues are recognised at fair value of the consideration received or receivable net of the amount of goods and services tax (GST) payable to the taxation authority, where applicable. Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future benefits will flow to the Group and any criteria to be met for revenue recognition have been fulfilled.

Services

Revenue is recognised when the service is rendered.

Interest Income

Interest income is recognised on a time proportion basis using the effective interest rate method.

(xi) Income tax

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

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

Tax Consolidation

The Company and its wholly-owned Australian resident entities are part of a tax-consolidated entity. As a consequence, all members of the tax-consolidated entity are taxed as a single entity. The head entity within the tax-consolidated entity is Capitol Health Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated entity are recognised in the separate financial statements of the members of the tax-consolidated entity using the 'separate taxpayer within consolidated entity' approach by reference to the carrying amount of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated entity. Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated entity to the extent that it is probable that future taxable profits of the tax-consolidated entity will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Tax Funding Arrangements

The head entity, in conjunction with other members of the tax-consolidated entity, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated entity in respect of tax amounts.

The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/ (payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant authorities.

(xii) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cash flows are included in the statement of cash flows at their nominal value inclusive of GST.
Commitments are disclosed at their nominal value inclusive of GST.

(xiii) Non-Current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. They are measured at the lower of their carrying amount and fair value less costs to sell. For any non-current assets written down to recoverable amount, an impairment loss is recognised in the Profit or Loss. Non-current assets held for sale are not depreciated or amortised while they are classified as held for sale.

(xiv) Earnings Per Share

The Group presents basic and, when applicable, diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by adjusting basic earnings for the impact of the after tax effect of costs associated with dilutive ordinary shares and the weighted average number of additional ordinary shares that would be outstanding assuming the conversion of all dilutive potential ordinary shares. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xv) New Accounting Standards and Interpretations Applicable to the Company in Future Periods

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting year. The Group's management assess the impact of these new standards, their applicability to the Group and early adoption where applicable.

The following applicable standards, amendments (AAAS) and interpretations had been issued but were not mandatory for the financial year ended 30 June 2017. The Group has not, and does not intend to, adopt these standards early.

Standards Applicable for Annual Reports Beginning on or After / Standard / Interpretation	Note on Impact on Group's Financial Statements
1 July 2017	
AASB 2016-1 - AAAS - Deferred Tax Assets for Unrealised Losses	i
1 January 2018	
AASB 9 - Financial Instruments and any other amendments	ii
1 July 2018	
AASB 15 - Revenue from Contracts with Customers and related items	i
1 July 2019	
AASB 16 - Leases	iii
Intrepretation 23 - Uncertainity over Income Tax Treatments	iv

Note:

i) No Impact or impact expected to be insignificant

ii) It is expected that at the application date of this standard investments in equity instruments currently held at cost will be carried at their fair value with any changes in fair value being recognised in the Statement of Profit or Loss. The actual financial impact cannot be quantified until the relevant date.

iii) It is expected that at the application date that the recognition of an asset being Right to Use Assets and offsetting Liabilities will be $ 15,800,000.

iv) Not relevant to Group at this moment

2. Capital Management

When managing capital, the Board's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the Group.

The Board is constantly adjusting the capital structure to take advantage of favourable costs of capital or high return on assets. As the market is constantly changing, management may issue new shares, sell assets to reduce debt or consider payment of dividends to shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position although there is no formal policy regarding gearing levels.

The Company announced on 18 August 2017 a share buy back as detailed in Note 32 .

The Group's Loans and Other Financial Liabilities with relevant capital covenant requirements are detailed in Note 17 .

	Note	2017 $'000	2016 $'000
3. Other Income			
From Ordinary Activities			
Interest Income on Financial Assets Measured at Amortised Cost		151	243
Miscellaneous Income		697	(18)
		848	225
Other Items			
Profit on Sale of Fixed Assets		221	-
Reversal of Contingent Consideration Recognised in Prior Period Business Acquisition		1,500	-
		2,569	225

	Note	2017 $'000	2016 $'000
4. Employee Benefits			
Continuing Operations			
Wages, Salaries and Self-Employed Contractors Expenses		54,648	51,140
Other Associated Personnel Expenses		3,743	3,191
Defined Contribution Superannuation Expenses		3,306	3,439
Annual and Long Service Leave Entitlements		5,803	5,894
Non-Executive Directors Fees		294	257
Valuation of Share Options Granted During the Year		254	114
Forfeiture of Share Options Granted in Prior Year		541	-
		68,590	64,034
Discontinued Operations		33,570	32,334
		102,159	96,368

Employee Benefits for Discontinued Operations are included in Operating Expenses – refer Note 10(b).

	Note	2017 $'000	2016 $'000
5. Impairment of Assets			
Continued Operations			
Listed Investment	9	779	745
Intangibles - Internally Generated		-	1,085
Property Plant and Equipment		83	-
		862	1,830
Discontinued Operations			
Intangibles - Goodwill	10	6,195	7,063
		7,057	8,893

	Note	2017 $'000	2016 $'000

6. Income Tax

(a) Income Tax Expense

The major components of income tax expense are:

	Note	2017 $'000	2016 $'000
Current Income Tax			
Current Income Tax charge		784	3,376
Adjustments in respect of Current Income Tax of Prior Year		-	94
Deferred Income tax - Adjustments Relating to:			
Origination and Reversal of Timing Differences		(102)	(1,944)
Income Tax Expense Reported in the Statement of Profit or Loss		682	1,526

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of profit or loss and tax expense calculated per the statutory income tax rate

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Note	2017 $'000	2016 $'000
Total Accounting Profit before Income Tax from:			
Continuing Operations		2,454	2,960
Discontinued Operations	10	(5,832)	(6,118)
		(3,378)	(3,158)
At the Group's statutory income tax rate of 30% (2016: 30%)		(1,013)	(947)
Adjusted for the Effects of			
Non Deductible / (Assessable) Items			
Capital Acquisition Costs		-	311
Impairment of Goodwill		1,859	2,119
Valuation of Share Options Granted		238	34
Prior Year Capital Losses Utilised		(23)	-
Capital Losses Incurred But Not Recognised		457	-
Non Assessible Revenue Items		(617)	-
Other Items		(219)	(85)
Prior Year Underprovision		-	94
Income Tax Expense		**682**	**1,526**
Income Tax Expense Attributible to Profit / (Loss) from:			
Continuing Operations		710	1,276
Discontinued Operations	10	(28)	250
		682	**1,526**

(c) Deferred Tax Assets and Liabilities

	2017		2016	
	Items at Pre Tax Amount $'000	Items at After Tax Amount $'000	Items at Pre Tax Amount $'000	Items at After Tax Amount $'000
Deferred Tax Asset				
Employee Benefits	9,224	2,767	12,063	3,619
Accrued Expenses	4,023	1,207	2,192	658
Business Acquistion and Other Costs	-	-	2,798	839
Impairment				
Listed Investment	-	-	745	223
Intangible Asset Under Development	-	-	1,050	315
Changes In Valuation - Cash Flow Hedges	-	-	540	162
Other Items	2,075	623	-	-
		4,597		5,816
Deferred Tax Liability				
Prepayments	137	41	29	9
Leases	3,106	932	3,363	1,009
		973		1,018
Net Deferred Tax Asset		3,624		4,798
Represented by:				
Recognised in Profit or Loss		3,624		3,412
Recognised in Other Comprehensive Income		-		162
Recognised in Business Acquisitions		-		1,224
		3,624		4,798

(d) Unrecognised temporary differences

The Group has no unrecognised temporary differences at 30 June 2017 (2016: Nil).

(e) Tax losses

The Group has no carried forward operating losses at 30 June 2017 (2016: Nil).

The Group had carried forward capital losses of $2,164,000 (2016: $76,566). A deferred tax asset was not recognised for the loss.

The capital losses are expected to be available to offset against future capital gains subject to the Group continuing to meet statutory tests.

(f) Tax consolidation

Capitol Health Limited and its 100% owned subsidiaries incorporated in Australia formed a tax Group effective the year commencing 1 July 2005. Capitol Health Limited is the Head Entity of the tax consolidated Group. The Head Entity recognises the current and deferred tax amounts of the subsidiaries of the tax Group. Consistent with Interpretation 1052 Tax Accounting a tax funding arrangement is in place between members of the Group under which payments to/from the Head Entity are recognised via an intercompany loan which is at call.

	Note	2017 $'000	2016 $'000
7. Cash and Cash Equivalents			
Cash on Hand		19	21
Cash at Bank		18,198	15,723
		18,217	15,744

8. Trade and Other Receivables

Trade Receivables		2,230	2,723
Allowance for Credits		(115)	(115)
		2,115	2,608
Other Receivables		5,000	1,148
		7,115	3,756

9. Other Financial Assets

	Note	2017 $'000	2016 $'000
Current			
Rental Bonds - Held to Maturity		183	135
		183	135
Non-Current			
Investment in Unlisted Entities - At Cost			
At Start Of Year		14,813	-
Investment During the Year		303	15,341
Change in Foreign Currency Valuation		(512)	(528)
Market Value At End Of Year		14,604	14,813
Available-For-Sale Financial Assets At Fair Value	22		
Investment in Listed Entity			
Market Value At Start Of Year		790	2,454
Investment During the Year		445	-
Change in Fair Value	19	-	(920)
Impairment Charge for the Year	5	(779)	(745)
Proceeds Received / Receivable on Disposal for the Year		(456)	-
Market Value At End Of Year		-	790
		14,604	15,602

10. Discontinued Operations and Assets Held for Sale

(a) Description

Group 1 - Properties

As at 30 June 2016 the Group had decided to divest its freehold properties:

#1 - The first property was sold during the year and the proceeds were received during the year.

#2 - A second property which included a radiology business in NSW was successfully sold during the 2017 financial year with settlement proceeds receivable at 30 June 2017.

#3 - A third and final property remains unsold at 30 June 2017 with a carrying value of $800,000 and is included in Assets Held Sale.

Note 10 (d) details the Gain / (Loss) on Sale of these property sales.

Group 2 - NSW Radilogy Businesses

On 14 June 2017 the Group announced an agreement with I-Med Radiology Network to sell its other NSW radiology businesses for a total consideration of $81.5 million with settlement expected to be on 31 August

Consequently the Financial Statements for the year ended 30 June 2017 present the assets and liabilities with these businesses as held for sale and their performance has been reported as discontinued operations in the Statement of Profit or Loss and Comprehensive Income.

(b) Financial Performance and Cash Flow Information

	Note	2017 $'000	2016 $'000
Revenue		54,257	53,793
Expenses			
Operating		46,619	45,542
Borrowing		4,541	4,911
Depreciation & Amortisation	11	2,734	2,395
Impairment of Goodwill	5	6,195	7,063
		60,089	59,911
Profit / (Loss) for the Year		(5,832)	(6,118)
Income Tax Expense / (Benefit)	6	(28)	250
Profit / (Loss) from Discontinued Operations		(5,805)	(6,368)
Net Cash Flows from Discontinued Operations			
Operating Activities		1,497	2,046
Investing Activities		(1,860)	(1,201)
Financing Activities		-	-
		(363)	845

(c) Assets Held for Sale and Associated Liabilities

	Note	Property Plant & Equipment $'000	Intangibles $'000	Total Assets Held for Sale $'000	Liabilities Directly Associated $'000
At 1 July 2015		-	-	-	-
Transfers from Property	11	4,612	-	4,612	-
At 30 June 2016				4,612	-
At 1 July 2016		-	-	4,612	-
Transfers From:					
Plant & Equipment	11	10,649	-	10,649	-
Intangibles	12	-	70,585	70,585	-
Deferred Tax Asset		-	-	865	-
Employee Entitlements		-	-	-	2,884
Impairment - Property		(83)	-	(83)	-
Book Value of Assets Disposed				(4,404)	-
At 30 June 2017				82,225	2,884

The fair value measurement of the Non-Current Assets Held for Sale based on the degree of to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement are categorised as Level 1 fair value hierarchy (refer to Note 1 (a) (ii)).

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

	Note	Assets Held For Sale Disposed In Year		
		#1 - Property	#2 - Property & Intangibles	Total
2016 Financial Year		-	-	-
2017 Financial Year				
Total Proceeds				
Received		875	-	875
Receivable		-	3,750	3,750
Total		875	3,750	4,625
Book Value of Assets Disposed		654	3,750	4,404
Total Gain / (Loss) On Sale of Assets Held for Sale	3	221	-	221

11. Property Plant & Equipment

	Property $'000	Plant & Equipment $'000	Leasehold Improve-ments $'000	Other Operating Assets $'000	Assets Under Construction ("AUC") $'000	Total $'000
At 1 July 2015	2,755	23,129	8,932	439	2,150	37,405
Additions						
Purchases	1,858	-	-	-	8,210	10,068
Transfer from AUC	-	6,989	2,140	264	(9,393)	-
Transfer to Assets Held for Sale	(4,612)	-	-	-	-	(4,612)
Transfers between categories	-	(43)	(12)	(13)	-	(68)
Depreciation & Amortisation	-	(6,028)	(872)	(123)	-	(7,023)
At 30 June 2016	-	24,048	10,187	567	967	35,769
Represented By:						
Cost	-	43,040	13,351	1,063	967	58,421
Accumulated Depreciation	-	(18,992)	(3,164)	(496)	-	(22,652)
Net Carrying Amount	-	24,048	10,187	567	967	35,769
At 1 July 2016	-	24,048	10,187	567	967	35,769
Additions						
Purchases	-	-	-	-	6,529	6,529
Transfer from AUC	-	5,980	268	523	(6,771)	-
Transfer to Assets Held for Sale	-	(7,017)	(3,551)	(43)	(38)	(10,649)
Transfers between categories	-	(23)	-	-	-	(23)
Depreciation & Amortisation	-	(6,846)	(895)	(617)	-	(8,358)
At 30 June 2017	-	16,142	6,010	430	686	23,267
Represented By:						
Cost	-	35,948	9,415	992	686	47,041
Accumulated Depreciation	-	(19,807)	(3,405)	(562)	-	(23,774)
Net Carrying Amount	-	16,142	6,010	430	686	23,267

12. Intangibles

	Note	Goodwill $'000	Internally Generated $'000	Total $'000
At 1 July 2015		105,959	-	105,959
Additions				
Acquisition of Entities & Businesses		31,074	-	31,074
Addition - Internally Generated		-	1,085	1,085
Impairment Charge for the Year	5	(7,063)	(1,085)	(8,148)
At 30 June 2016		129,970	-	129,970
Represented By:				
Cost		138,928	1,085	140,013
Accumulated Amortisation and Impairment		(8,958)	(1,085)	(10,043)
Net Carrying Amount		129,970	-	129,970
At 1 July 2016		129,970	-	129,970
Additions				
Acquisition of Entities & Businesses		-	-	-
Addition - Internally Generated		-	-	-
Net Proceeds Receivable On Disposal				
Transfer to Assets Held for Sale	10	(70,585)	-	(70,585)
Impairment Charge for the Year	5	(6,195)	-	(6,195)
At 30 June 2017		53,190	-	53,190
Represented By:				
Cost		55,084	-	55,084
Accumulated Amortisation and Impairment		(1,895)	-	(1,895)
Net Carrying Amount		53,190	-	53,190

Business Combinations

(i) Acquisition of Corporate Entities

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

2016 Financial Year

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

(ii) Acquisition of Business Assets

Control of the following operation entities was obtained through the purchase of the operating and legal business assets of the vendors and the recognition of identifiable assets and liabilities assumed.

2016 Financial Year

Sunrise Radiology Date: 17 August 2015
Liverpool Diagnostics Date: 19 October 2015

(iii) 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:

2016 Financial Year

	Eastern Radiology $'000	Liverpool Diagnostics $'000	Sunrise Radiology $'000	Total $'000
Payment for 100% of the Issued Shares in the Entity	27,811	-	-	27,811
Payment for Business Assets	-	4,103	245	4,348
Deferred & Contingent Consideration Payable at Year End	-	1,500	54	1,554
Employee Entitlements Assumed	473	657	14	1,143
Financial Liabilities Assumed	227	-	-	227
Cash Acquired	(118)	-	-	(118)
Recognition of Financial Assets	(304)	(64)	-	(368)
Recognition of Fixed Assets	(1,601)	(1,580)	-	(3,181)
Recognition of Deferred Tax Asset	(142)	(197)	(4)	(343)
Goodwill Acquired	26,346	4,420	308	31,074

(iv) Impairment Testing for Cash-Generating Units (CGU) Containing Goodwill

In accordance with *AASB 136 Impairment of Assets*, the Group's operations in Victoria and NSW have individually been tested as having identifiable cash flows representing two CGUs for testing for any potential impairment charge applicable to the Goodwill valuation carried in the accounts of the Group.

Impairment testing in relation to the Goodwill of the Victoria CGU was based on value-in-use calculations for this individual CGU. The discount rates (post tax) used to determine recoverable amounts as at 30 June 2017 for each CGU is 12% (2016: 11.6%). The discount rate includes the current actual cost of debt and equity cost based on market comparatives.

Discounted cash flows for the total operating entity have been estimated from a basis of recent and near-term budgeted performance. Following the twelve month budgeted outlook to 30 June 2017, a revenue growth assumption of 5% per annum is assumed for a period of five years. The revenue growth assumption was determined after reference to the historical annual growth in the applicable sector markets since 2000 averaging over 5% per annum in services performed and over 7% per annum in Medicare billings. Market growth is expected to continue, supported by the ageing and expanding Australian population and continuing high demand for diagnostic imaging. The operating expense growth of 3% per annum has been determined after reference to an independent reputable economic forecasting service which estimates 3.1% for Average Weekly Earnings outlook to 2021, and CPI of 2.2% to 2021. The terminal value including 2.5% growth has been included in the estimate of recoverable amount, again predicated on the continued demand for diagnostic imaging beyond the immediate five year forecast period.

Given the amount of head room determined via the base case modelling, based on various sensitivity analysis performed, it would be highly unlikely that any potential impairment of Goodwill for the Victoria CGU would eventuate.

The Goodwill in relation to the NSW CGU is classified within the NSW radiology business classified as Non-Current Asset Held for Sale (refer to Note 10), and accordingly has been tested for impairment as part of this disposal group by measuring the total net assets of it at the lower of its carrying amount and fair value less costs to sell. As a result an impairment in the Goodwill amounting to $6.2 million was determined (refer to Note 5).

	2017 $'000	2016 $'000
13. Trade and Other Payables		
Trade Creditors	3,329	1,618
Other Creditors and Accruals	9,270	9,471
	12,599	11,090
14. Derivative Financial Instruments		
Interest Rate Hedges	-	540
Forward Foreign Currency Contracts	-	35
	-	575
15. Employee Benefits		
Current		
Annual Leave	3,958	5,397
Long Service Leave	3,402	4,756
	7,360	10,153
Non-Current		
Long Service Leave	1,864	1,079

16. Share Based Payments

The Parent Entity operates an incentive plan known as the Capitol Health Limited Employee Incentive Plan (“Plan”) approved at the general meeting held on 16 November 2015. The Plan enables the Company to grant equity awards to eligible participants, in the form of performance rights and / or options (together, “Awards”) over Company shares.

The maximum number of awards that can be granted under the Plan is determined by the Board in its discretion and in accordance with the Plan and applicable law. Awards issued under the Plan can be satisfied by the issue of new shares by the Parent Entity or by purchasing shares on-market for allocation to participating individuals upon vesting of awards in future years. Each option under the Plan is convertible to one ordinary share. The exercise price of the options is determined by the Board in its absolute discretion, subject to any minimum price specified in the Listing Rules of the ASX. All unvested Awards lapse on the earlier of the date specified by the Board, breach of certain restrictions on transfer and hedging of awards, failure to satisfy the Conditions of the Award, 15 years from the grant date or generally on resignation or termination for cause (including gross misconduct). Where the recipient of the Award ceases employment for any other reason prior to the end of the relevant performance period, the participant’s unvested Awards will continue “on-foot” and will be tested at the end of the applicable performance period, vesting only to the extent that any performance conditions have been satisfied (ignoring any service related conditions). The Board has a broad discretion to apply any other treatment it deems appropriate in the circumstances (including that another number of Awards may vest and be exercised either at cessation or at the end of the original performance period, or that some or all of the Awards will lapse). In making this determination, the Board may have regard to any factors the Board considers relevant, including the performance period elapsed and the extent to which the vesting conditions have been satisfied.

There are no voting or dividend rights attaching to unvested Awards. Voting rights will be attached to the ordinary shares when Awards vest.

During the financial year 13,000,000 options (2016: 15,000,000 that were subsequently voluntarily forfeited) were issued pursuant to the Plan to executives as listed in Note 27. The options are unlisted and the exercise price and vesting information is contained in Note 18.

17. Loans and Borrowings

	Note	2017 $'000	2016 $'000
Current			
Secured Equipment Finance Facilities	i	1,175	1,421
Promissory Note		-	3,381
		1,175	4,802
Non-Current			
Secured Bank Loan	ii	5,000	43,670
Secured Equipment Finance Facilities	i	3,554	4,729
Senior Unsecured Notes	iii	50,000	50,000
		58,554	98,399
	iv	59,729	103,201

Notes on Terms of Loans and Borrowings

i) The contractual cash flows of finance lease liabilities at maturity, including interest, are disclosed in Note 23.

ii) The Secured Bank Loan facility is with National Australia Bank and matures in February 2020. Capitol Health and each Australian subsidiary in the Group has granted a security interest over the whole of its assets and undertakings and granted the right to register that security interest under the Personal Property Securities Act.

The incremental variable cost of debt at 2017 was 3.87% (2016: 4.2%).

As per Amended and Restated Bilateral Facilities Agreement the Group is subject to the following financial covenants:

a) Interest Cover Ratio of greater than or equal to 2.5 and,

b) Net Leverage Ratio of less than or equal to 2.5.

The Group complied with all applicable financial covenants requirements throughout the financial year.

iii) The Senior Unsecured Notes were issued in 2016. National Australia Bank acted as Lead Manager and Initial Subscriber to the Notes, with FIIG Securities Limited acting as Co-Manager. The notes mature in May 2020. The facility is unconditionally and irrevocably guaranteed by the Parent Entity and certain controlled entities. Upon settlement, proceeds from the Senior Unsecured Notes were used to repay outstanding principal under the Secured Bank Loan, as well as transaction fees and other general corporate purposes.

The facility bears interest at a fixed rate of 8.25%.

The notes are subject to certain financial and other covenants, whereupon certain actions taken by the Group may be subject to covenant testing in accordance with the Senior Unsecured Notes documentation. Detailed information is available in the Information Memorandum and Pricing Supplement released to the ASX on 28 April 2016.

iv) For more information about the Group's exposure to market and liquidity risk, see Note 22.

Utilisation of Secured Facilities

	Facility $'000	Utilised $'000	Available $'000
At 30 June 2017			
Secured Bank Loan	35,000	5,000	30,000
Rental Guarantee	10,000	1,245	8,755
Credit Card	400	11	389
	45,400	6,256	39,144
At 30 June 2016			
Secured Bank Loan	80,000	43,670	36,330
Rental Guarantee	10,000	1,230	8,770
Credit Card	400	34	366
	90,400	44,934	45,466

Finance Lease Liabilities

The contractual cash flows of finance lease liabilities at maturity including interest are disclosed at Note 23.

18. Issued Capital

	2017 $'000	2016 $'000
Issued Capital		
810,098,465 (2016: 523,070,161) Fully Paid Ordinary Shares	125,854	87,849

The following movements in issued capital occurred during the year:

	2017		2016	
	Number of Shares	$'000	Number of Shares	$'000
Balance at the Beginning of the Year	523,070,161	87,849	522,567,973	87,543
Issue of Shares	287,028,304	40,184	-	-
Dividend Reinvestment Plan	-	-	502,188	309
Share Issue Costs	-	(2,180)	-	(3)
Balance at the End of the Year	810,098,465	125,854	523,070,161	87,849

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

The Company operates an incentive plan known as the Capitol Health Limited Employee Incentive Option Plan "The Plan".

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

		2017		2016	
	Note	Number of Options	Weighted Average Exercise Price (Cents)	Number of Options	Weighted Average Exercise Price (Cents)
Balance at the Beginning of the Year		15,000,000	22.42	-	-
Granted	i, ii	13,000,000	18.12	15,000,000	22.42
Forfeited	iii	(15,000,000)	22.42	-	-
Balance at the End of the Year		13,000,000	18.12	15,000,000	22.42

Note:

i) During the financial period 13,000,000 options (2016: 15,000,000) were issued pursuant to the Plan, including 10,000,000 options to Mr Andrew Harrison (at an exercise price of 17.85 cents, with half vesting on 17 November 2016 and the other half vesting on 17 November 2017, and the shares required to be purchased on market on exercise) and 3,000,000 to senior executives of the Company, including Key Management Personnel (at a weighted average exercise price of 19.03 cents, with 1,500,000 vesting in November/December 2017, 900,000 vesting in November/December 2018, and 600,000 vesting in November/December 2019 and the shares issued on exercise to rank equally with all other shares on issue).

ii) Prior to the end of the financial period, the Directors utilised their discretion under The Plan to vest immediately 2,000,000 options issued to 2 Key Management Personnel.

iii) During the financial period Mr John Conidi voluntarily forfeited his right to 15,000,000 options issued in the previous financial year and the resultant expense for the Company is recognised as Employee Benefits expense as detailed in Note 4.

19. Reserves

	Currency Translation $'000	Cash Flow Hedges $'000	Asset Revaluation $'000	Option $'000	Total $'000
At 1 July 2015	-	-	644	-	644
Exchange Differences on Translation of Foreign Subsidiaries	(561)	-	-	-	(561)
Valuation of Interest Rate Hedges	-	(540)	-	-	(540)
- Deferred Tax Thereon	-	162	-	-	162
Revaluation of Investments	-	-	(920)	-	(920)
- Deferred Tax Thereon	-	-	276	-	276
Valuation of Options Issued			-	114	114
At 30 June 2016	(561)	(378)	-	114	(825)
Exchange Differences on Translation of Foreign Subsidiaries	(731)	-	-	-	(731)
Valuation of Interest Rate Hedges	-	540	-	-	540
- Deferred Tax Thereon	-	(162)	-	-	(162)
Valuation of Options:					
Issued	-	-	-	254	254
Forfeited	-	-	-	541	541
Value of Forfeited Options Transferred to Retained Earnings	-	-	-	(655)	(655)
Movement For Financial Year	(731)	378	-	140	(213)
At 30 June 2017	(1,292)	-	-	254	(1,038)

20. Dividends

Total Dividends Paid on Ordinary Shares During the Year

Details of dividends paid during the year are contained within the Directors report.

Dividends Not Recognised at Year End

Since the end of the year the Directors have not declared a final dividend (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:

	2017 $'000	**2016** $'000
Final Dividend	-	-

	2017 $'000	2016 $'000

21. Retained Earnings

	2017 $'000	2016 $'000
Retained Earnings at the Beginning of the Year	(2,383)	5,697
Profit / (Loss) for the Year	(4,061)	(4,684)
Dividends Issued During the Year	-	(3,397)
Transfer Valuation of Forefeited Options from Option Reserve	655	-
Retained Earnings / (Accumulated Losses) at the End of the Year	(5,789)	(2,383)

22. Information on Financial Risk

In performing its operating, investing and financing activities the Group is exposed to the following financial risks:

- o credit risk
- o liquidity risk
- o market risk – interest and foreign currency rates, changes in equity valuation.

In order to effectively manage these risks the Board has established an overall risk strategy that focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on financial performance and protect future financial security. The strategy includes a Risk Management Policy which sets out the Group's system of risk oversight, management of material business risks and internal control. The Board is responsible for approving and reviewing the Risk Management Policy. The Audit and Risk Committee is responsible for identifying, monitoring and managing significant business risks faced by the Group and considering the effectiveness of its internal control system. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. Management and the Audit and Risk Committee report to the Board.

a) Financial Assets and Liabilities

The following table summarises the carrying amount of financial assets and financial liabilities recorded by category.

	2017 $'000	2016 $'000
Financial Assets		
Cash and Cash Equivalents	18,217	15,744
At Amortised Cost		
Trade and Other Receivables	7,115	3,756
Financial Assets Held to Maturity	183	135
	7,298	3,891
At Fair Value		
Available for Sale Financial Assets		
Investment in Listed Entity	-	790
At Cost		
Investment in Un-Listed Entity	14,604	14,813
	40,119	35,238

	2017 $'000	2016 $'000
Financial Liabilities		
At Amortised Cost		
Trade and Other Payables	12,599	11,090
Bank Loans	5,000	43,670
Senior Unsecured Notes	50,000	50,000
Secured Equipment Finance	4,729	6,150
Promissory Note	-	3,381
	72,327	114,291
At Fair Value		
Derivative Financial Instruments		
Interest Rate Hedges	-	540
Forward Foreign Currency Contracts	-	35
	-	575
	72,327	114,866

Financial Assets Measured At Fair Value

The following table provides an analysis of financial assets and liabilities that are measured at fair value grouped into Levels 1 to 3 based on the degree to which the significant inputs are observable - as detailed in Note 1 (b) (ii).

		Fair Value Measurement Hierarchy At End of Reporting Period					
		Level 1		Level 2		Level 3	
		2017	2016	2017	2016	2017	2016
	Note	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Available-For-Sale Financial Assets							
Investment in Listed Entity	i)	-	790	-	-	-	-
		-	790	-	-	-	-
Financial Liabilities							
Derivative Financial Instruments	ii)						
Interest Rate Hedges		-	-	-	(540)	-	-
Forward Foreign Currency Contracts		-	-	-	(35)	-	-
		-	-	-	(575)	-	-

Note:
i) The Investment in the Listed Entity is in the ASX Listed Mach7 Technologies Limited and the fair value is determined by reference to quoted prices at the end of the financial year.
ii) The valuation of the Derivative Financial Instruments is derived from market rates at the end of the financial year.

The Directors consider that the carrying amount of other financial assets and financial liabilities recorded in the financial statements approximate their fair values.

b) Credit Risk

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

Exposure to Credit Risk

The maximum credit risk to which the Group is exposed is summarised below.

	2017	2016
	$'000	$'000
Cash and Cash Equivalents	18,217	15,744
Other Financial Assets	183	135
Trade and Other Receivables	7,115	3,756
	25,515	19,635

Cash and cash equivalents represent bank balances and short term deposits as is the Other Financial Assets which are held as rental bonds.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. The Group's trade receivables are mainly related to federal Government funded Medicare rebate claims and therefore management has assessed the related credit risk as insignificant. The Group reviews trade and other receivables regularly to estimate incurred losses and establish an allowance for impairment, if required. At 30 June 2017 the Group has determined that an impairment allowance on its trade receivables of $115,000 (2016: $115,000).

c) Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet their debts as they fall due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Board has determined an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and continuously monitoring budgeted and actual cash flows and matching the maturity profiles of financial assets, expenditure commitments and liabilities.

Exposure to Liquidity Risk

The following are the contractual maturities of financial liabilities, including interest payments and applicable GST at the reporting date:

	Carrying Amount $'000	Contractual Cash Flows $'000	Less Than 1 Year $'000	1 - 5 Years $'000	More Than 5 Years $'000
Trade and Other Payables	12,599	12,599	12,599	-	-
Secured Bank Loans	5,000	5,000	-	5,000	-
Secured Equipment Finance	4,729	6,963	1,748	5,215	-
Senior Unsecured Notes	50,000	50,000	-	50,000	-
	72,327	74,562	14,347	60,215	-
30 June 2016					
Trade and Other Payables	11,090	11,090	11,090	-	-
Secured Bank Loans	43,670	43,670	-	43,670	-
Secured Equipment Finance	6,150	6,963	1,748	5,215	-
Promissory Note	3,381	3,381	3,381	-	-
Senior Unsecured Notes	50,000	50,000	-	50,000	-
	114,291	115,104	16,219	98,885	-

d) Market Risk

Market risk is the risk of changes in financial instruments due to changes in interest rates, foreign currency exchange movements and other equity price changes that will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

i) Interest Rate Risk

The Group's exposure to interest rates primarily relates to the Group's long-term debt obligations. Fixed interest borrowings expose the Group to fair value interest rate risk, and variable rate borrowings expose the Group to cash flow interest rate risk.

The Directors manage these risks by monitoring levels of exposure to interest rate risk and assessing market forecasts for interest rates and enter into derivative financial instruments as required by lenders and determined from time to time to best manage this risk.

Exposure to Interest Rate Risk

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	2017 $'000	2016 $'000
Fixed Rate Instruments		
Financial Assets	183	135
Financial Liabilities	54,761	59,531
	(54,578)	(59,396)
Variable Rate Instruments		
Financial Assets	12,222	15,744
Financial Liabilities	5,000	43,670
	7,222	(27,926)

Sensitivity Analysis for Variable Interest Rate Instruments

A change of 100 basis points in interest rates at reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The reasonable change has been calculated on the basis of historical changes in interest rates. This analysis assumes that all other variables remain constant. The analysis included a review of current volatility factors in the market has resulted in management believing that there are reasonable grounds to retain the methods and assumptions from the previous period as unchanged.

	Profit or Loss		**Equity**	
	100 bp Increase $'000	100 bp Decrease $'000	100 bp Increase $'000	100 bp Decrease $'000
Sensitivity - Variable Interest Rate Instruments				
As At 30 June 2017	132	(132)	132	(132)
As At 30 June 2016	(279)	279	(279)	279

The disclosure is shown before the application of any tax effect.

Derivative Financial Instruments to Manage Variable Interest Rate Risk

	2017 $'000	**2016** $'000
The Group's exposure to floating rate borrowings is insignificant and no derivative financial instruments exist (2016: $40,000,000). At the end of the financial year the value of these deivatives is:		
Gain / (Loss) on Interest Rate Swaps	-	(540)

The fair value of interest rate swaps is determined on the basis of the current value of the difference between the contractual interest rate and the market rate at the end of the financial year.

The interest rate swaps were deemed to be effective during the reporting years and accordingly any movement in the valuation of these interest rate swaps is included in Reserves.

ii) Foreign Currency Risk

The Directors manage these risks by monitoring levels of exposure to currency rate risk with projected timeframes and assessing market forecasts for foreign currency rates and may enter into derivative financial instruments from time to time to best manage this risk.

Exposure to Foreign Currency Price Risk

At reporting date the foreign currency profile of the Group's financial instruments was:

	2017 $'000	2016 $'000
US Dollars (USD)		
Financial Assets		
Available for Sale Financial Assets at Cost		
Investment in Un-Listed Entity	14,301	14,813
Financial Liabilities		
Loans and Borrowings	-	3,381
	14,301	11,432
Chinese Yuan (CNH)		
Financial Assets		
Available for Sale Financial Assets at Cost		
Investment in Un-Listed Entity	303	-
Commitment - Joint Venture Funding Contributions	575	-

Sensitivity Analysis for Foreign Currency Risk

A 10% change in the exchange rate of the Australian Dollar against the US Dollar at reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis included a review of current volatility factors in the market has resulted in management believing that it is reasonable.

	Profit or Loss		**Equity**	
	10% Increase $'000	10% Decrease $'000	10% Increase $'000	10% Decrease $'000
Sensitivity - Foreign Currency Rates				
As At 30 June 2017	-	(1,460)	1,460	(1,460)
As At 30 June 2016	-	-	(673)	823

Derivative Financial Instruments to Manage Foreign Currency Price Risk

	2017 $'000	2016 $'000
The Group has in place derivative financial instruments for cash flow hedging purposes only. These contracts are designed to convert floating rate exposure to fixed rate exposure in respect to liabilities and commitments which at the end of the financial year the value of these derivatives (all due within one year) are:		
USD Payable	-	1,683
CHN Payable	575	-
	575	1,683
At the end of the financial year the value of these derivatives are:		
Gain / (Loss) on Forward Foreign Currency Contract	-	(35)

The fair value of forward foreign currency contracts is determined on the basis of the current value of the difference between the contractual currency rate and the market rate at the end of the financial year.

iii) Equity Valuation Risk

Exposure to equity price risk arises due to the inherent risk of the possibility of unfavourable movements in the market value of the investments.

Exposure to Equity Price Risk

Sensitivity Analysis for Equity Value Risk

A 10% change in the equity value of the Available For Sale Financial Assets at reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or Loss		Equity	
	10% Increase $'000	10% Decrease $'000	10% Increase $'000	10% Decrease $'000
Sensitivity - Equity Valuations				
As At 30 June 2017	-	(1,460)	1,460	(1,460)
As At 30 June 2016	1,481	(1,481)	1,560	(1,560)

The disclosure is shown before the application of any tax effect.

Derivative Financial Instruments to Manage Equity Price Risk

The Group has not entered into any derivative financial instruments to manage equity valuation risk.

	2017	2016
	$'000	$'000

23. Commitments

Future operating lease rentals for continuing operations not provided for in the financial statements and payable:

Property and Facility Operating Lease Commitments

Future operating lease rentals not provided for in the financial statements and payable:

	2017 $'000	2016 $'000
Within One Year	5,858	9,720
One Year or Later and No Later than Five Years	8,842	17,895
More than Five Years	-	332
	14,699	27,948

The Group leases properties and facilities under operating leases. The leases typically run for a period of 3 to 10 years and are not renewed after that date.

Plant and Equipment Operating Lease Commitments

	2017 $'000	2016 $'000
Within One Year	2,171	3,112
One Year or Later and No Later than Five Years	2,900	4,250
More than Five Years	1,139	1,443
	6,210	8,806

The Group leases properties and facilities under operating leases. The leases typically run for a period of 3 to 10 years and are not renewed after that date.

During the year ended 2017, $11,562,000 was recognised as an expense in the statement of Profit or Loss in respect of Operating Property, Plant and Equipment Leases (2016: $11,359,000).

Plant and Equipment Purchases

	2017 $'000	2016 $'000
Within One Year	2,394	1,700

Joint Venture Funding Contributions

	2017 $'000	2016 $'000
Within One Year	575	-

24. 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 30 June 2017 rental guarantees not supported by a dedicated deposit totalled $1,245,000 (2016: $1,230,000).

b) Credit Cards

The Group has a contingent liability for expenses incurred on Corporate Credit cards that may not be recorded on banking statements at year end. The maximum extent of liability is indicated in Note 17.

25. Earnings Per Share

	2017			2016		
		Earnings Per Share			Earnings Per Share	
	$'000	Basic (Cents)	Diluted (Cents)	$'000	Basic (Cents)	Diluted (Cents)
Profit /(Loss) for the Year Attributable to Ordinary Shareholders:						
Continuing Operations	1,744	0.30	0.29	1,684	0.32	0.32
Discontinued Operations	(5,805)	(0.99)	(0.99)	(6,368)	(1.22)	(1.22)
Total	(4,061)	(0.69)	(0.69)	(4,684)	(0.90)	(0.90)

Earnings per Share

Earnings per share is based on the Profit / (Loss) Attributable to Ordinary Shareholders and a weighted number of ordinary shares outstanding during the financial year calculated as follows:

	2017 Number	2016 Number
Weighted Average Number of Ordinary Shares		
Issued ordinary shares at 1 July	523,070,161	522,567,973
Shares Issued	63,696,692	-
Shares issued under Dividend Reinvestment Plan	-	345,769
	586,766,853	522,913,742

Diluted Earnings per Share

Diluted Earnings per share is based on the Profit / (Loss) Attributable to Ordinary Shareholders and a weighted number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares calculated as follows:

Weighted Average Number of Potential Ordinary Shares		
Weighted Average Number of Ordinary Shares	586,766,853	522,913,742
Effect of Share Options on Issue	7,824,658	5,614,754
	594,591,511	528,528,496

26. Controlled Entities

The Parent Entity is Capitol Health Limited, a company incorporated in Australia.

Controlled entity	Country of Incorporation	Equity Interest 2017	Equity Interest 2016
Capital China Operations Pty Ltd	Australia	100%	0%
Capital China Radiology Pty Ltd	Australia	100%	0%
Capital Global Pty Ltd	Australia	100%	100%
Capital Investments Pty Ltd	Australia	100%	0%
Capital Radiology (NSW) Pty Ltd	Australia	100%	100%
Capital Radiology Pty Ltd	Australia	100%	100%
Capital Treasury Pty Limited	Australia	100%	100%
CHL Operations Pty Ltd	Australia	100%	100%
Diagnostic MRI Services Pty Ltd	Australia	100%	100%
Diagnostic MRI Services Unit Trust	Australia	100%	100%
Eastern Radiology Services Pty Limited	Australia	100%	100%
Eastern Radiology Services Unit Trust	Australia	100%	100%
Imaging @ Olympic Park Pty Ltd	Australia	100%	100%
Imaging @ Olympic Park Unit Trust	Australia	100%	100%
MDI Group Pty Ltd	Australia	100%	100%
MDI Manningham Pty Ltd	Australia	100%	100%
MDI Radiology Pty Ltd	Australia	100%	100%
Radiology One Pty Ltd	Australia	100%	100%
CAJ China Operations Pte Ltd	Singapore	100%	0%
CAJ China Radiology Pte Ltd	Singapore	100%	0%
CAJ Consolidated Pte Ltd	Singapore	100%	0%
CAJ Holdings Pte Ltd	Singapore	100%	100%
CAJ Investments Pte Ltd	Singapore	99.99%	99.99%

In the financial statements of the Company investments in subsidiaries are measured at cost. All entity interests held are fully paid ordinary shares or units.

27. Related Parties

	2017 $	2016 $
Key Management Personnel Remuneration		
Salaries and Fees	2,233,452	2,339,981
STI Cash Bonus	1,203,540	626,318
Termination Payments	1,219,703	266,666
Consulting Fees	116,000	160,000
Other Short Term Benefits	38,642	72,135
Post-Employment Benefits		
Contributions to Defined Contribution Plans	100,038	108,189
Long-Term Employee Benefits	6,074	16,214
Share-Based Payments	794,860	113,751
	5,712,310	**3,703,254**

Individual Key Management Personnel Compensation Disclosures

Information regarding individual key management personnel compensation as required by Corporation Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report on pages 11 to 17.

Other Key Management Personnel Transactions with the Company or its Controlled Entities

A number of key management persons, or their related parties, may hold interests or positions in other entities that may result in them having control or significant influence over the financial or operating policies of those entities. A number of those entities may have transacted with the Company or its subsidiaries during the year.

The Boards directive is that the terms and conditions of such transactions are to be no more favourable to the supplier than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis. Transactions of this nature are expected to meet the allowable criteria as stated in Chapter 2E of the *Corporations Act*. Any known or intended transactions of this type are expected to be disclosed to the Board.

Such transactions are detailed below.

Director	Transaction	Transaction Value In Financial Year		Balance Outstanding at end of Financial Year	
		2017 $	2016 $	2017 $	2016 $
Mr J Conidi	Note i) - Rent expenses	61,625	169,728	-	1,160
Mr A Demetriou	Note ii) - Consulting expenses	13,000	147,828	-	22,000

Notes in relation to the table of related party transactions

i) A superannuation fund of which Mr Conidi is amongst its beneficiaries has acquired an interest in the ownership of commercial premises that provide rental accommodation for a single facility of the consolidated entity. Terms for such accommodation was based on market rates, generally accepted market lease terms & conditions and amounts are payable on a monthly basis.

ii) Capitol Health has entered into arrangements with a specialised sponsorship management company that Mr Demetriou is a Director of.

Options and Rights over Equity Instruments

During the reporting year there were options over ordinary shares in Capitol Health Limited granted to key management personnel as detailed in Notes 16 and 18.

Movement in Shares

The movement during the reporting period in the number of ordinary shares in Capitol Health Limited held directly, indirectly or beneficially by each key management person, including their related entities is as follows:

Financial Year / Name of Key Management Person	Held at Year Opening	Held at Appoint -ment	Purchases	Disposals	Held at Resignation	Held at Year End
2017						
Mr J Conidi	32,941,264	-	-	-	(32,941,264)	-
Mr A Demetriou	150,000	-	-	-	-	150,000
Mr A Harrison	3,575,773	-	-	-	-	3,575,773
Mr P Lewis	900,000	-	-	-	(900,000)	-
Mr R Shnier	100,000	-	-	(100,000)	-	-
Ms J Currie	-	34,400	-	-	-	34,400
2016						
Mr J Conidi	32,641,264	-	300,000	-	-	32,941,264
Mr A Demetriou	-	-	150,000	-	-	150,000
Mr A Harrison	3,508,773	-	67,000	-	-	3,575,773
Mr D Kucera	1,345,810	-	-	-	(1,345,810)	-
Mr P Lewis	-	-	900,000	-	-	900,000
Mr R Shnier	-	-	100,000	-	-	100,000

No shares were granted to key management personnel during the reporting year or prior reporting year as compensation.

Movement in Options

The movement during the reporting period in the number of ordinary shares in Capitol Health Limited held directly, indirectly or beneficially by each key management person, including their related entities is as follows:

Financial Year / Name of Director	Held at Year Opening	Granted	Forfeited	Converted	Held at Year End
2017					
Mr J Conidi	15,000,000	-	(15,000,000)	-	-
Mr A Harrison	-	10,000,000	-	-	10,000,000
Mr J Harkness	-	1,000,000	-	-	1,000,000
Ms M Gibson	-	1,000,000	-	-	1,000,000
Ms J Currie	-	1,000,000	-	-	1,000,000
2016					
Mr J Conidi	-	15,000,000	-	-	15,000,000

28. 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.

29. Reconciliation of Cash Flows Provided by Operating Activities

	2017 $'000	2016 $'000
Profit / (Loss) for the Year	(4,061)	(4,684)
Adjustments For		
Depreciation and Amortisation	5,624	4,627
Impairment of Assets	862	1,830
Income Tax Expense	(710)	1,526
Interest Expense	2,443	696
Contribution of Discontinued Operations	8,929	9,459
Operating Profit before Changes in Working Capital & Provisions	**13,088**	**13,455**
Change in Trade and Other Receivables	(3,133)	1,425
Change in Net Other Assets	237	195
Change in Trade and Other Payables	8,050	(3,248)
Change in Provisions and Employee Benefits	(2,954)	1,625
Net Cash Provided by Operating Activities	**15,289**	**13,452**

30. Parent Entity Disclosures

	2017 $'000	2016 $'000
Financial Information		
Operating Profit / (Loss)	(3,619)	(3,208)
Total Comprehensive Income / (Loss) for the Year	(3,619)	(3,208)
Current Assets	-	-
Total Assets	119,027	84,641
Current Liabilities	-	-
Total Liabilities	-	-
Issued Capital	125,854	87,849
Retained Earnings	(6,827)	(3,208)
Total Equity	119,027	84,641
Guarantees	9,729	49,820

Dividends

No dividend from a controlled entity was accrued in 2017 (2016: Nil).

Guarantees

The Parent Entity has provided financial guarantees in respect of bank overdrafts, finance leases and loans of the subsidiaries amounting to $9,729,000 (2016: $49,820,000), secured by a first registered charge over the assets of the entity.

All entities within the Group as listed in Note 26 are party to the Deed of Guarantee provided to National Australia Bank.

Other Commitments

The Parent Entity has no commitments (2016: Nil) and has no contingent liabilities.

31. Auditor's Remuneration

Details of the amounts paid or payable to the auditor of the Company, RSM Australia Partners, and its related practices for audit and non-audit services provided during the year are set out below:

	2017	2016
	$	$
Audit Services		
Auditors of the Company		
RSM Australia Partners		
Audit and Review of Financial Reports	353,497	331,105

32. Events Subsequent to Balance Date

The following events arose subsequent to balance date:

- The Group's sale of its NSW radiology businesses as detailed in Note 10 continues to proceed on target. The transaction was subject to Foreign Investment Review Board approval which was received after balance date.

- on 18 August 2017, Capital Health Limited announced a on-market share buy back of up to 52,300,000 shares. Based on the closing price on 17 August 2017 of $0.275 the cash outlay before costs if all shares are acquired would be approximately $14.38 million. The buyback is limited to approximately 6.5% of the Company's existing issued capital and may take place anytime in the 12 month period from 4 September 2017 unless terminated earlier.

There are no other matters or circumstances since 30 June 2017 that have significantly affected or may significantly affect the Group's operations, its results or the Group's state of affairs in future years.

Directors' Declaration

In the opinion of the Directors of Capitol Health Limited:

(a) the financial statements and notes thereto and the Remuneration Report contained in the Directors' Report, set out on pages 11 to 17, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and its performance for the financial year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards;

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2017.

Signed in accordance with a resolution of the Directors.

____

Andrew Harrison
Managing Director

Dated at Melbourne, Victoria this 25th day of August 2017.

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INDEPENDENT AUDITOR'S REPORT

To the Members of Capitol Health Limited

Opinion

We have audited the financial report of Capitol Health Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (continued.)

Key Audit Matter	How our audit addressed this matter
Classification and value of Non-current assets held for sale Refer to Note 10 in the financial statements	
During the year the directors and senior management undertook a broad strategic review of the operations and the financial position of the Group, resulting in a decision to sell the company's New South Wales (NSW) radiology business, which eventuated in a binding agreement to sell the business for $81 million in June 2017 with completion expected by 31 August 2017. Consequently, the Group has presented the assets and liabilities in NSW as Non-current assets held for sale in its statement of financial position, as well as presenting its operations as discontinued operations, in accordance with the requirements of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations.* We identified this area as a Key Audit Matter due to the size of the transaction. The quantum of this transaction involved the presentation of net Non-current assets held for sale and liabilities directly associated, amounting to $79 million in the statement of financial position (67% of total net assets of the Group). In addition, approximately 34% of the operations has been disclosed as discontinued operations in the statement of profit or loss.	Our audit procedures in relation to the classification and valuation of Non-current assets held for sale included: • Reading Board minutes, the Group's ASX announcements, and the Asset Sale Agreement involved to understand what assets and liabilities were involved, and the conditions and the effective date of the sale; • Performing an analysis as to whether the criteria set out in AASB5 for presentation as Non-current assets held for sale and discontinued operations were met; • Reviewing the measurement of Non-current asset held for sale, which management has determined was impaired by $6 million, to confirm whether they were held at their fair value less costs to sell; • Performing a detailed substantive review to confirm individual assets re-classified as Non-current assets held for sale belonged to the disposal group; • Performing review and analysis of the transactions classified as discontinued operations to verify their appropriate classification as such, instead of continued operations; • Reviewing of the income tax calculations for the discontinued operations; and • Reviewed the completeness and appropriateness of the disclosure included in the financial report to ensure compliance with the Australian Accounting standards (AASs).

Key Audit Matters (continued.)

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed this matter</th></tr>
<tr><td colspan="2">Carrying value of Goodwill
Refer to Note 12 in the financial statements</td></tr>
<tr><td>At 30 June 2017 the Group has intangible assets with a carrying value of $53 million, which represents approximately 26% of total assets of the Group. Management have performed an impairment assessment of the value in use of the cash generating unit (“CGU”) containing the goodwill, using a discounted cashflow model.

We determined this to be a Key Audit Matter due to the size of the Goodwill balance and because the significant management judgments and assumptions used to determine the value in use of this asset to support that it exceeds the carrying value of Goodwill.

This calculation involves judgements about the future underlying cash flows of the determined CGU, the estimated growth of the CGU for the next 5 years, as well as for perpetuity, and use of discount rates to be applied to the estimated cash flows.</td><td>Our audit procedures in relation to the carrying value of goodwill included:

• Updating our understanding of management’s annual impairment testing process;

• We held discussions with senior management, reviewed of the Group’s ASX announcements and read minutes of the directors’ meetings to gather sufficient information regarding the operations of the 2017 financial year, as well as the expectation going forward;

• Assessing the reasonableness of management’s identification of the CGU at Capitol. We found the identification by management of one CGU to be in accordance with the Australian Accounting Standard AASB136 Impairment;

• Reviewing the impairment testing performed by management, including testing the accuracy of the calculations in the model used, and comparing the cash flow projections to historic performance, observable trends, and supporting evidence;

• We evaluated the methods and assumptions used to estimate the present value of future cash inflows of the CGU, including an assessment of the following:

➢ future growth rates
➢ discount rates
➢ terminal value methodology
➢ cash inflows/ (outflows) included in the model to ensure there are no duplication; and
• Reviewed the completeness and appropriateness of the disclosure included in the financial report to ensure compliance with AASs.</td></tr>
</table>

Key Audit Matters (continued.)

Key Audit Matter	How our audit addressed this matter
Revenues	
At Capitol the majority of processing is centralised, however, the initiation of revenue transactions are largely decentralised at the individual clinic level. After the acquisitions in the last two financial years, Capitol's revenue has significantly increased, including a model that incorporates gap-charging and decentralised transactions in New South Wales (NSW). Therefore, we have considered the validity of the revenue transactions to be a Key Audit Matter.	We assessed Capitol's key operational systems and internal controls surrounding revenue transactions; • We tested the key controls identified, including samples of revenue transactions in both Victoria and NSW; • Reviewing the appropriateness and security of the delegation of tasks assigned in the management systems used for revenue transactions; • Assessing management's policy for the recognition and measurement of revenue against the requirements of AASB 118 Revenue; • We performed substantive detail testing to verify samples of revenue transactions against the doctor referrals, radiologist report and invoices; • Undertaking analytical test by comparing revenue for the year set out expectation, based on the average number of scans and average service amount. Also, we performed trend analysis of revenues by month and by geographical area to identify any unusual activity; • We performed testing to determine that revenue transactions and receivable balances had been recognised in the correct period; and • Involving Computer Assisted Audit Techniques (CAATS), we analysed the revenue data to identify and review unusual transactions.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 17 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Capitol Health Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

RSM

RSM AUSTRALIA PARTNERS

J S CROALL
Partner

Melbourne, Victoria
25 August 2017

Details of Shares and Options as at 3 August 2017:

Top Holders

The 20 largest holders of each class of equity security as at 3 August 2017 were:

Fully Paid Ordinary Shares

Name	No. of Shares	%
National Nominees Limited	92,584,387	11.43
J P Morgan Nominees Australia Limited	59,840,053	7.39
RBC Investor Services Australia Nominees Pty Ltd <Vfa A/C>	58,500,015	7.22
HSBC Custody Nominees (Australia) Limited	40,469,650	5.00
Citicorp Nominees Pty Limited	34,059,623	4.20
Idinoc Pty Ltd <J & R Conidi Family A/C>	29,227,886	3.61
UBS Nominees Pty Ltd	24,955,503	3.08
HSBC Custody Nominees (Australia) Limited - A/C 2	17,953,416	2.22
HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	16,082,667	1.99
Gia Chau Pty Ltd	13,100,000	1.62
Nick Conidi Pty Ltd <Conidi Family A/C>	10,014,740	1.24
Stelhaven Smsf Pty Ltd <Stelhaven Super Fund A/C>	9,677,419	1.19
Hishenk Pty Ltd	8,000,000	0.99
Mr Nicola Conidi + Mrs Giannina Conidi <Nick & Jan Conidi S/F A/C>	7,303,253	0.90
Teleah Pty Ltd <Jr Sauvey Super Fund A/C>	4,009,792	0.49
Aust Executor Trustees Ltd <Cyan C3G Fund>	3,600,000	0.44
Mr Andrew Duncan Harrison + Mrs Katrina Ellen Harrison <Harrison Super Fund A/C>	3,575,772	0.44
Fulton Securities Pty Ltd <Stephen Fulton Super A/C>	3,300,000	0.41
Arnold Court Pty Ltd <Mcgregor Family S/F A/C>	3,049,250	0.38
Mr Wayne David Mcgregor	3,049,249	0.38
	442,352,675	**54.60**

Distribution Schedules

A distribution of each class of equity security as at 3 August 2017:

Fully paid ordinary shares

Range			Holders	No. of Shares	%
1	-	1,000	476	203,103	0.03
1,001	-	5,000	1,796	5,674,071	0.70
5,001	-	10,000	1,534	12,346,993	1.52
10,001	-	100,000	4,021	142,663,647	17.61
100,001	-	Over	702	649,210,651	80.14
Total			**8,529**	**810,098,465**	**100.00**

Substantial shareholders

The names of substantial shareholders and the number of shares to which each substantial shareholder and their associates have a relevant interest, as disclosed in substantial shareholding notices given to the Company, are set out below:

Fully paid ordinary shares

Substantial Shareholder	No. of Shares	%
Paradice Investment Management Pty Limited	76,500,000	9.44
Wilson Asset Management Group	57,983,890	7.16

Unmarketable Parcels

Holdings less than a marketable parcel of ordinary shares (being 1,819 at $0.275 per share as at 3 August 2017):

Fully paid ordinary shares

	Holders	No. of Shares	%
Holdings less than a marketable parcel	780	623,984	0.08

Voting Rights

The voting rights attaching to ordinary shares are:

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options do not carry any voting rights.

On-Market Buy Back

There is no current on-market buy-back.

END OF REPORT