

CAPITOLHEALTH LIMITED

ABN 84 117 391 812

2019 ANNUAL REPORT

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Corporate Directory

Directors

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

Company Secretary

Ms Melanie Leydin – Company Secretary

Principal Place of Business and Registered Office

Level 3, 81 Lorimer Street, Docklands, Victoria, 3008

Telephone: (61-3) 9348 3333

Facsimile: (61-3) 9646 2260

Auditor

Deloitte Touche Tohmatsu
550 Bourke Street, Melbourne, Victoria, 3000

Solicitors (Corporate)

Clarendons
Level 29, South Tower, 55 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

Chairman's Report

Dear Fellow Shareholders,

On behalf of the Board of Directors of Capitol Health Limited, I am pleased to present our 2019 Annual Report.

Pleasingly, despite a revised guidance in February 2019, the financial year ended 30 June 2019 delivered results that were within that revised guidance.

In 2019 the Company completed the acquisition of a network of eight clinics in Perth including two clinics in the southwest of Western Australia and an additional four clinics in metropolitan Melbourne. The acquisitions deepened the Company's presence in key geographic growth corridors and was another step forward for its disciplined growth agenda.

The Company continued to buy back shares when the share price was not reflective of value and the Company remains committed to providing future returns to shareholders with a steady and sustainable fully franked dividend.

Highlights for the year ended 30 June 2019 included:

- Revenue up 25% to \$149.2m
- Underlying EBITDA of \$26.0m, up 21% over the prior period and in line with market guidance
- Net profit after tax of \$27.5m a substantial increase over the prior year loss
- Earnings per share of 3.5 cents
- The Group's balance sheet remains sound with cash of \$7.3m and unused funding facilities of \$99.7m
- Fully franked dividend declared in FY19 1.0 cent per share

The Company continues its support of Enlitic Inc, a leading medical artificial intelligence company, of which it is a major shareholder with a further investment during the financial year. This expenditure will enhance the value of the Company's exclusive rights in the Australian market and provide for a tangible and competitive point of difference for clinicians, referrers and patients.

The financial year saw several management changes starting with the appointment of Ms Marcell Judkins as Chief Financial Officer. Marcell is a seasoned CFO with extensive experience and a track record of successfully leading teams through periods of growth and change. Her financial skills and collaborative style will make a significant contribution to the senior executive team and add value to the Company's growth trajectory.

Most recently Mr Andrew Harrison stepped down from his role as Managing Director and the Company has retained his industry knowledge and expertise as he returns to a non-executive role. I would like to take the opportunity to sincerely thank Andrew for his efforts over the last 3 years and look forward to continuing to work alongside him. Andrew became Managing Director at a difficult time for the Company and has done an outstanding job.

Mr Justin Walter, who commenced as Chief Operating Officer earlier in the year transitioned to the role of Managing Director in July. We are very pleased to have someone in the business of his calibre and believe that he is well placed to lead the next phase of the Company's growth and success. The Board is looking forward to the next twelve months. With our new management team and strategy being developed by Justin and his team we are confident that Capitol Health will continue to serve our shareholders well.

On behalf of the Board, I would like to thank our radiologists and staff for their efforts and their continued commitment to outstanding patient care; our patients who used our services and the large group of referrers who continue to support our clinics. I would also like to thank my fellow Board members for their contribution to the Company. Lastly, I thank you, the shareholders of Capitol Health, for your continued support of the Company.

Regards



Andrew Demetriou

Chairman

Melbourne, Victoria

27 August 2019

Managing Director's Review

Dear Shareholders

Thank you for your ongoing support of Capitol Health.

I am pleased to report a significant milestone within the Company. We have moved beyond restructuring the Company to strategically planning for organic growth for FY20 and beyond.

In FY19 we delivered an underlying EBITDA of \$26.0m, with a year on year increase in revenue of \$30.2m or 25%. Underlying EBITDA margins were challenged due to the subdued demand in the market and flow on impact of our operational leverage. Despite this, Capitol Health delivered a solid 17% margin. We aim to improve this margin further in FY20.

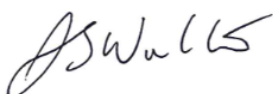
We have declared a fully franked full year dividend of 0.5 cents per share, on top of the FY19 interim dividend of 0.5 cents per share, bringing the total dividend to 1.0 cent per share in respect of the FY19 financial year. This dividend provides a balance between shareholder return and retaining funds for further growth opportunities in the coming year.

The Company continues to integrate the recent acquisitions across Victoria, Tasmania and Western Australia. In FY20, the Company will also build an acquisition pipeline and apply a robust discipline when evaluating all opportunities. Our balance sheet remains strong, with net debt at \$33.4m or ~ 1.4 times underlying EBITDA and unused bank facilities of \$99.7m with NAB.

As part of the Company's strategy of improved employee and customer experience, KPMG have been engaged to better understand the views of our staff, referrer and patients. We intend to use these insights to improve the work place for staff and improve both patient and referral experiences with in the business. In addition, we have invested in operational leadership roles and systems to ensure capability and success.

The strong focus for FY20 will be to deliver organic growth via market share and margin, while delivering a number of greenfield and brownfield developments across the network. This will be complimented by targeted bolt on acquisitions and investment in our people and systems for scalability. We will also undertake a full review of all clinics to ensure our focus and resources are deployed where we have identified growth opportunities.

Finally, I would like to take this opportunity to thank our clinicians and staff for their loyal and valued hard work within our clinics. They will remain a key focus of our plans in FY20 which will be a year of building out our vision and strategic plan to organically grow.



Justin Walter
Managing Director
Melbourne, Victoria
27 August 2019

Directors' Report

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 2019, 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) - 2015 to present and is a Non-Executive Director of Beteasy Pty Ltd.

Mr Andrew Harrison, BCom (Hons)

Managing Director until 30 June 2019

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, debt markets and both local and international mergers and acquisitions, strategic restructuring and turnaround, and the management of distributed branch network organisations. He resigned from his role as Managing Director and Chief Executive Officer effective 1 July 2019 and was reappointed as a Non-Executive Director on 1 July 2019, a position he held before his appointment as an Executive Director.

Mr Justin Walter

Managing Director from 1 July 2019

Mr Walter brings with him thirty years' wealth of experience in healthcare across public and private hospitals, GP and allied health clinics, and consulting along with strong management and leadership skills. He was most recently Managing Director of ASX listed healthcare company Zenitas Healthcare (which grew rapidly and was taken private late in 2018), and has held senior roles managing hospitals for Healthscope, and Spotless Group's health sector.

Other than Zenitas Healthcare Ltd— appointed April 2016 resigned February 2019, Mr Walter has not served as a director of any other listed company in the past three years.

Ms Nicole Sheffield, MBA, BA LLB

Non-Executive Director

Ms Sheffield is Executive General Manager Community & Consumer at Australia Post responsible for delivering seamless experiences across more than 4,300 Post Offices – Australia's largest retail network – the customer contact centre and digital channels, as well as brand, marketing, community and corporate social responsibility.

Ms Sheffield's intrinsic understanding of the Australian consumer and digital transformation has been honed through extensive experience in media, marketing and digital industries, including as Chief Digital Officer for News Corp Australia and Chief Executive of NewsLifeMedia, leading the lifestyle publishing division.

Ms Sheffield is a Director of Chief Executive Women, has previously served as Chair of the Interactive Advertising Bureau (IAB) Australia and is a regular speaker and commentator on business, media and women's issues. She has a Masters of Business (UTS) and a Bachelor of Arts/Bachelor of Laws (Macquarie University).

Directors' Report

Mr Richard Loveridge BCom, LLB, Grad Dip App Fin

Non-Executive Director

Mr Loveridge served as a partner in the Corporate Group of Herbert Smith Freehills for more than 20 years and was Managing Partner of their National Corporate Group for 5 years. Mr Loveridge's experience includes capital raisings, mergers and acquisitions joint ventures, shareholder agreements, company reorganisations, and corporate head office and advisory matters.

Mr Loveridge holds a Bachelor of Commerce and a Bachelor of Laws from the University of Melbourne, along with Graduate Diploma in Applied Finance from the Securities Institute of Australia. He was admitted as a Barrister and Solicitor to the Supreme Court of Victoria in 1988 and is also a council member of Scotch College in Melbourne and a director of Diabetes Victoria. He was appointed a director of Powerwrap Limited (ASX:PWL), in October 2017.

Company Secretary

Ms Melanie Leydin, CA

Company Secretary

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.

Directors' Meetings

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)			Mr R Loveridge (Chairman)		
Mr R Loveridge			Mr A Demetriou		
Ms N Sheffield			Ms N Sheffield		

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 & Remuneration Committee		Audit & Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Mr A Demetriou	12	12	2	2	3	3
Mr A Harrison	12	12	-	-	-	-
Mr R Loveridge	12	12	2	2	3	3
Ms N Sheffield	12	12	2	2	3	3
Mr J Walter*	-	-	-	-	-	-

*Mr Walter was appointed Managing Director on 1 July 2019 and therefore did not attend any meetings in the 2019 financial year

Directors' Report

Interests in Shares and Options of the Company and related bodies Corporate

As at the date of this report, the interests of the directors in the shares and options of the Capitol Health Limited were:

Director	Ordinary Shares	Performance Rights
Mr A Demetriou	200,000	-
Mr A Harrison*	7,069,923	1,695,062
Mr R Loveridge	544,271	-

*Performance rights held by Mr Harrison relate to the FY18 financial year: Performance rights awarded to him in November 2018 in respect of the FY19 financial year lapsed following his resignation as Managing Director.

Dividends

The Board reinstated payment of dividends during 2018 and subject to corporate, legal and regulatory considerations expects this to continue in future years. The Company has a franking account balance of approximately \$9.9m at 30 June 2019.

Dividends Paid on Ordinary Shares	Cents	\$000
FY19 final dividend recommended	0.5	3,842
Dividends paid in the year		
FY19 interim dividend	0.5	3,922
FY18 final dividend	0.4	3,207

All dividends paid were fully franked.

Dividend Reinvestment Plan ("DRP")

The Company operated a DRP in respect of the FY18 final dividend but suspended the operation of the DRP prior to the FY19 interim dividend. The DRP currently remains suspended.

Dividends converted into ordinary shares under the DRP for the FY18 final dividend totalled \$516,321 and \$679,366 in respect of the FY18 interim dividend.

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, Tasmania and Western Australia.

The Company conducts more than 1 million procedures every year and employs over 800 people including specialist radiologists. 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.

Operating and Financial Review

Overview

The Group made a net profit after tax for the year ended 30 June 2019 of \$28.4 million (2018: loss \$10.9 million).

Major Acquisitions and Organic Growth

During the 2019 financial year the Group continued its growth strategy acquiring 16 clinics of which eight were in Victoria and eight were based in Western Australia, as follows:

- Specialist Vein Care - amalgamated with the Company's clinic at Vermont Private Hospital, Melbourne
- Spectrum Imaging with 6 clinics – 3 in Perth and 3 in Melbourne
- Joremo Pty Limited which operates the business of Integrated Radiology – a clinic in East Fremantle, Perth
- Imaging Central - a clinic in Claremont, Perth
- West coast Radiology – with 2 Clinics in Busselton and Eaton in Western Australia
- Quinns Rock – clinic just north of Perth in Western Australia
- Uniradiology with 4 clinics in Melbourne

The one-off costs incurred to the end of the financial year to complete these transactions along with costs related to the review of number of other opportunities are recorded as Transaction Costs in the Consolidated Statement of Profit or Loss.

Operating Review

In the current financial year, Medicare diagnostic imaging service levels grew 2.9% nationally but only 2.2% in Victoria where Capitol predominantly operates. In Tasmania the services grew 2.8% and in Western Australia, where Capital acquired eight clinics during the year, the service levels grew 4.3%, resulting in an overall increase for the Group of 2.8%.

The Group's Operating Revenue from continuing operations increased over the preceding year by 25% - primarily as a result of the current year acquisitions and new clinic openings. A reduction in margins came from slower than anticipated growth, with continued pressure on employee and occupancy costs.

The Group's Operating Expenses from Continuing Operations remained unchanged before taking account of the current year acquisitions and new clinic openings. Allowing current year acquisitions and new clinic openings operating expenses increased 27% over the preceding year.

Financial Review

Key Financial Metrics

The Group's improved financial performance is evidenced by the following key financial metrics:

- Underlying Profit ("EBITDA") for Continuing Operations (being Operating Profit before Finance Costs, Income Tax, Depreciation and Amortisation net of Transaction Costs and Revaluation/Impairment Charges) increased by 21% to \$26.0 million (2018: \$21.5 million).
- EBITDA Margin (EBITDA as a percentage of Revenue) was 17.4% for the current year reflecting the pressure of salary and wage growth (2018: EBITDA margin from continuing operations 18.1%).

Individually Significant Items

During the financial year there were a number of Individually Significant Items being:

- The Groups' investment in Enlitic Inc (Enlitic) was written down at 30 June 2018 to nil as it was not possible to determine a fair value at that time due to uncertainty over sizing and pricing of a proposed capital raising. That capital raising ultimately did proceed resulting in a writeback of the Group's investment at 31 December 2018. At 30 June 2019, on the back of a further capital raising offered to sophisticated investors during the second half of FY19, the Group's investment in Enlitic was determined to have a fair market value of \$20.4m. The current capital raising afoot is being well-received and is expecting to close-out in the next few months.

Directors' Report

- Transaction costs of \$4.0m (2018: \$4.2m) were incurred in respect of both completed acquisitions and acquisitions that did not proceed during the financial year.

Capital Management Initiatives

During the year the Company conducted a share buy-back of 39.4 million shares (\$9.6 million).

Significant Changes in the State of Affairs

During the financial year Consolidated Net Assets increased by \$13.8m (2018: decrease of \$17.2m) to \$115.6m.

Acquisitions

During the current financial year, the Group acquired eight clinics based in Western Australia and a further eight clinics in Victoria.

These acquisitions are part of the Company's continued growth strategy by expanding its network and service offering within the Australian diagnostic imaging market that is a substantially accretive deployment of existing resources. The eight clinics based in and around Perth is the Group's entry into this market and will provide a critical mass to grow that business.

The total cost of these acquisitions was approximately \$32.3m based on amounts paid, bank loans assumed and deferred and contingent consideration payable.

Capital Structure

Long term borrowings

During the year the Group drew down \$44.3 million of the \$144 million loan facility that was finalised with the National Australia Bank in May 2018. The funds were used to fund business acquisitions and certain equipment purchases.

The Group continues to reduce its share capital via a share buy back programme that resulted in a total of 39.4 million of the Company's ordinary shares being acquired during the current financial year.

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

Events Subsequent to Balance Date

The Directors are not aware of any matter or circumstance that has occurred since the end of the 2019 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.

Likely Developments, Business Strategies and Prospects

Australia

The Company's focus is to deliver organic growth by developing existing clinics in strategic locations, and opening new clinics across the network during the year. This growth will be complimented by targeted acquisitions and investment in people and systems for scalability.

International

The Company has decided to focus on its domestic business and as result through mutual agreement it will not be pursuing the equity joint venture agreement with CITIC Pharmaceutical (Shenzhen) Co., Ltd ("CITIC Pharmaceutical") that it entered into in February 2017.

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 obligations and is not aware of any breach of those environmental requirements as they apply to the Group.

Share Options

Unissued shares

At the date of this report, there are 29,400,000 unissued ordinary shares of the Company under option and 1,695,062 performance rights (at reporting date there were 3,439,827 performance rights). Refer to the remuneration report for further details of the options outstanding for Key Management Personnel (KMP).

Option holders and performance rights holders do not have any right, by virtue of the option or the performance right, to participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year, a total of 10,000,000 options were exercised to acquire 10,000,000 fully paid ordinary shares in Capitol Health Limited at a weighted average exercised price of 19.79 cents per share.

Indemnification and Insurance

Indemnification of directors and 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.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Deloitte Touche Tohmatsu ("Deloitte"), 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 Deloitte's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Deloitte during or since the financial year.

Directors' Report

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, 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.

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.

Appointment of Auditors

Deloitte Touche Tohmatsu ("Deloitte") were appointed as auditors of the Company at the 2018 Annual General Meeting held in November 2018 replacing RSM Australia Partners (RSM) for the 2019 financial year.

Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19 of the financial report.

Non-Audit Services

Details of amounts paid or payable to the Company's auditor for non-audit services provided during the year by the auditor are outlined in Note 35 to the financial statements.

The directors are satisfied that the provision of non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act*.

The directors are of the opinion that the nature and the scope of the non-audit services as disclosed in Note 35, do not compromise the external auditor's independence.

Remuneration Report (Audited)

This Remuneration Report forms part of the Directors' Report and outlines the remuneration framework and outcomes for Key Management Personnel ("KMP") for the year ended 30 June 2019.

The information provided has been prepared and audited in accordance with section 300A of the *Corporations Act 2001* and the *Corporations Regulations 2001*. All contracts for KMP are denominated in Australia dollars and accordingly all figures in the Remuneration Report are presented in Australian dollars.

1. Remuneration Framework

1.1 Persons Covered by this Report

In this report, KMP are those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly. They comprise:

- Non-Executive Directors
- Executive Director
- Other Senior Executives considered KMP (collectively the "Senior Executives").

Name	Role	Period
Non-Executive Directors		
Mr A Demetriou	Chairman & Non-Executive Director	Full Financial Year
Mr R Loveridge	Non-Executive Director	Full Financial Year
Ms N Sheffield	Non-Executive Director	Full Financial Year
Executive Director		
Mr A Harrison	Managing Director	Full Financial Year
Senior Executives		
Ms M Judkins	Chief Financial Officer (CFO)	Commenced 28 January 2019
Mr J Walter	Chief Operating Officer (COO)	Commenced 6 May 2019
Ms M Gibson	General Manager Operations - Victoria	Until 3 May 2019 ¹
Mr K Birchall	Head of Finance	Ceased 4 February 2019

¹Ceased as KMP on appointment of COO

1.2 Remuneration Policy

The objective of the Company's remuneration strategy is to ensure that all Directors and KMP are remunerated fairly and responsibly at a level that is competitive, reasonable and appropriate, to attract and retain suitably skilled and experienced people. The Company's remuneration strategy is based on the following principles, which determine the remuneration components, their mix and way of delivery.

ALIGNMENT

Remuneration that is designed to promote mutually beneficial outcomes by aiding alignment of Company, Executive, Board and Stakeholder interests.

SUSTAINABILITY

Remuneration that is market competitive, that attracts and retains executives with capabilities and expertise to deliver our strategy.

RELEVANCE

Appropriate mix of fixed and at risk components, short and long term incentives reflecting a balance of financial and non-financial objectives relevant to the non-operating nature of the Company and specific executive roles.

TRANSPARENCY

Remuneration outcomes that build a culture of achievement based on a set of clear objectives and expectations linked to Company strategy.

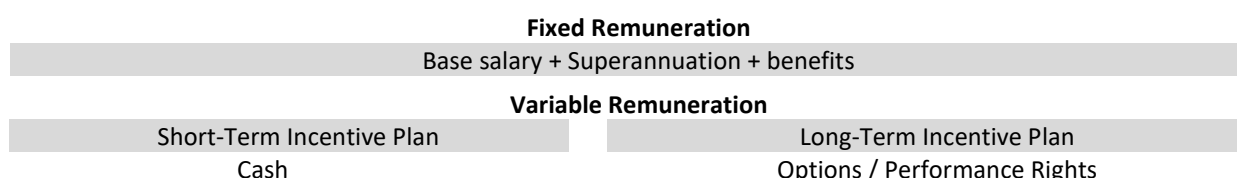
The remuneration structures are also designed to reward the achievement of strategic objectives and achieve the broader outcome of creation of value for shareholders.

Directors' Report

1.3 Executive Director and Senior Executive Component and Pay Mix

The Company's executives are rewarded with a level and mix of remuneration appropriate to their position, responsibilities and performance at a level that is competitive, reasonable and appropriate, in order to attract and retain suitably skilled and experienced people and align with the business strategy.

Executives receive fixed remuneration and variable remuneration consisting of short and long term incentive opportunities. Executive remuneration levels, including the Managing Director (MD), CFO and COO, are reviewed annually by the Nomination & Remuneration Committee with reference to the remuneration guiding principles and market movements.



The compensation structures take into account:

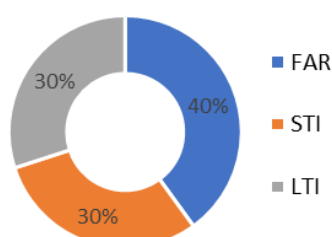
- a) the capability and experience of the KMP;
- b) the KMP's ability to control the relevant segments performance;
- c) the Group's performance including:
 - i. the Group's earnings; and
 - ii. the growth in share price and delivering constant returns on shareholder wealth.

The table below sets out the elements of the KMP remuneration, the performance measures and alignment with the Company's strategy.

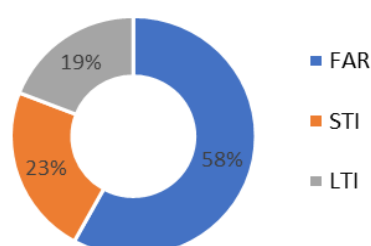
Executive Remuneration Components	Fixed Annual Remuneration (FAR)	Short-Term Incentives (STI) for MD and Senior Executives	Long-Term Incentives (LTI) for MD and Senior Executives
Strategic Intent	Attract and retain executives with capability and experience to deliver on the Company's strategy	Performance incentive directed to achieving Board approved targets	Align performance with the long-term business strategy and shareholders experience
Performance Measure	FAR is set based on market relativities, reflecting responsibilities, qualification, experience and effectiveness	STI performance criteria set by reference to: <ul style="list-style-type: none"> • Financial metric • Strategic objectives • Individual performance and effort relevant to the specific objective 	LTI vesting and granting subject to set KPI service and performance
Delivery	Cash Payment	Cash Payment MD: up to 100% of STI may be taken in equity	Mix of Performance Rights (MD/COO) and Options (CFO)

The charts below provide a summary of the structure of executive remuneration in FY19:

MD/COO Remuneration Mix - Target



CFO Remuneration Mix - Target



1.4 Executive Director

In 2018 the Board amended the remuneration components of the Executive Director's remuneration package after considering a benchmarked remuneration market data report, achievements in the financial year and the importance of retention. The Executive Director's remuneration package comprises FAR, STI and an annual grant of Performance Rights subject to dealing restrictions.

1.5 Senior Executives

Senior Executive remuneration packages comprise FAR, STI and LTI. The STI component is considered appropriate and provides the Managing Director with a management tool to set annual priorities in the context of the Company's longer-term strategic plans reinforced through the attachment of an incentive. Some Company objectives are weighted differently depending on the expected level of input and responsibilities

1.6 Remuneration Governance

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 for the Group.

2. Company Performance and Executive Remuneration Outcomes

2.1 Company Performance

In the current financial year, Medicare diagnostic imaging service levels grew 2.9% nationally but only 2.2% in Victoria where Capitol predominantly operates. In Tasmania the services grew 2.8% and in Western Australia, where Capital acquired eight clinics during the year, the service levels grew 4.3%. Within this market, the Group's organic growth resulted in an overall increase of 2.8% for the year.

The Group's operating revenue from continuing operations increased over the preceding year by 25% - primarily as a result of the current year acquisitions and new clinic openings. A reduction in margins came from slower than anticipated growth, with continued pressure on employee costs and occupancy costs.

The Group's profit overall 2019 from 2018 increased from a loss of \$10.9m in FY18 to a net profit of \$27.5m in FY19. While the turnaround was primarily due to the movement in the Group's investment in Enlitic, the underlying EBITDA increased 15% resulting in a 66% increase in cash flows from operating activities of \$18.3m. This enabled the Company to pay dividends totalling 0.9 cents per share (Final FY18: 0.4 cents and Interim FY19: 0.5 cents).

	Units	2019	2018	2017	2016
Net Profit/(Loss) for the financial year	\$'000	\$27,534	(\$10,913)	(\$4,684)	\$3,864
Dividends Paid	\$'000	\$7,130	\$3,210	\$3,397	\$5,290
Share Price at beginning of the financial year	cents	26.0	16.0	76.5	44.5
Share Price at end of the financial year	cents	23.0	26.0	16.0	76.5
Change in Share Price	cents	(3.0)	10.0	(60.5)	32.0
Earnings Per Share (Basic)	cents	3.50	(1.36)	(0.90)	0.81

2.2 Performance against STI measures

KMP of the Company are awarded STI payments or bonuses during or related to the 2019 financial year that are dependent 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 Managing Director. 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 Harrison received no STI in respect of his performance during the 2019 financial year as performance hurdles were not met. In addition, due to the timing of the appointment of Ms Judkins as CFO and Mr Walter as COO in the second half of the year no STI payments were received by them in respect of the 2019 financial year.

2.3 Performance against LTI measures

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 either options over ordinary shares or performance rights 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 Plan's terms and conditions.

As part of the Employee Incentive Plan:

2019 Financial Year

- 1,500,000 employee options issued to Mr K Birchall on 15 June 2018 were cancelled on him ceasing employment in February 2019 and did not vest. Total valuation on grant date \$159,300.
- 1,000,000 employee options were granted to Ms M Judkins on 12 March 2019. The options, granted on 12 March 2019 had a weighted average exercise price of 23.72 cents, with Tranche 1 (50% of the options) vesting 24 months from the grant date on 12 March 2021 and Tranche 2 (50% of the options) vesting 36 months from the grant date on 12 March 2022 and the shares issued on exercise to rank equally with all other shares on issue. Total valuation on grant date \$60,000.
- 1,744,765 Performance rights were granted to Mr A Harrison in November 2018 in respect of the FY19 year. These performance rights lapsed following his resignation as CEO and Managing Director on 1 July 2019. Total valuation on grant date \$418,700.

2018 Financial Year

- 1,695,062 performance rights were issued to Mr A Harrison in December 2017. Vesting of the rights only occurs if the Group exceeds its long-term performance targets over a 3-year performance period with 50% of the rights vesting subject to achievements of earnings per share and 50% of the rights vesting subject to achievement of Total Shareholder Return conditions. Total valuation on grant date \$406,815.

Directors' Report

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's 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.

During the year Mr Harrison received a one-off cash payment representing a true-up of prior year long term incentive plan obligations in respect of his 2016 options totalling \$239,839.

2.4 Remuneration Decisions and Outcomes for FY19

Details of the nature and amount of each major element of KMP remuneration is set out in the table below:

Key Manager Name/Financial Year	Short-Term				Termination Benefits	Post-Employ Super-annuation Benefits	Long-term Long Service Leave	Share-Based Options & Performance Rights	Total	Performance Related	Share-Based Share of Total
	Salary & Fees	STI Cash Bonus #1	Other Benefits #2								
	\$	\$	\$	\$	\$	\$	\$	\$	%	%	
2019											
Executive Director											
Mr A Harrison	674,255	239,839	10,565	-	20,531	(3,110)	23,348	965,428	27.3%	2.4%	
Senior Executives											
Ms M Judkins#3	134,960	-	5,874	-	4,500	-	7,559	152,893	4.9%	4.9%	
Mr J Walter#4	57,885	-	4,453	-	-	-	-	62,338	0.0%	0.0%	
Ms M Gibson#5	272,789	-	9,929	-	18,162	10,282	4,083	315,245	1.3%	1.3%	
Mr K Birchall #6	174,546	-	-	184,753	13,038	(4,993)	(4,001)	363,343	-1.1%	-1.1%	
Total	1,314,435	239,839	30,821	184,753	56,231	2,179	30,989	1,859,247	14.6%	1.7%	
2018											
Executive Director											
Mr A Harrison	633,076	487,500	(8,084)	-	20,049	-	128,111	1,260,652	48.8%	10.2%	
Senior Executives											
Ms M Gibson	315,702	100,000	4,616	-	20,049	-	15,434	455,801	25.3%	3.4%	
Mr K Birchall	264,806	100,000	19,061	-	20,049	-	4,001	407,917	25.5%	1.0%	
Mr R Shnier#7	98,127	93,627	12,500	-	5,398	-	-	209,652	44.7%	0.0%	
Mr J Harkness#8	20,192	-	1,942	-	5,012	-	-	27,146	0.0%	0.0%	
Ms J Currie #9	43,269	-	3,128	-	3,856	-	-	50,253	0.0%	0.0%	
Total	1,375,172	781,127	33,163	-	74,413	-	147,546	2,411,421	38.5%	6.1%	

#1 STI bonuses is remuneration paid or accrued at the end of the financial year and specifically allocated to the individual

#2 Other benefits comprise the increase in annual leave entitlement over the financial year and any reportable fringe benefits received during the financial year

#3 Ms M Judkins commenced as CFO on 29 January 2019

#4 Mr J Walter commenced as COO on 6 May 2019

#5 Ms M Gibson ceased being KMP on 3 May 2019, following the appointment of Mr J Walter as COO

#6 Mr K Birchall exit date from the Group was 4 February 2019 and options granted to him were forfeited on that date

#7 Mr R Shnier exit date from the Group was 31 August 2017

#8 Mr J Harkness exit date from the Group was 14 July 2017

#9 Ms J Currie exit date from the Group was 1 September 2017

Directors' Report

2.5 Actual Remuneration Earned by Executives in FY19

The actual remuneration earned by KMP is set out in the table below. This provides shareholders with a view of the remuneration actually paid to executives for performance in FY19 and the value of LTS's that vested during the period.

	Fixed Remuneration ¹ \$	Termination Payments ² \$	STI \$	LTI Vested \$	Total Actual Remuneration Earned \$
Mr A Harrison	694,787	-	487,500	239,839	1,422,126
Ms M Judkins	139,460	-	-	-	139,460
Mr J Walter	57,885	-	-	-	57,885
Ms M Gibson	299,028	-	100,000	-	399,028
Mr K Birchall	187,584	184,753	100,000	-	472,337

1)Base salary, superannuation and non-monetary benefits such as mobile phone and motor vehicle allowance

2)Termination payments paid during the financial year

3. Non-Executive Director Remuneration

3.1 Overview of Non-Executive Director Remuneration

Capitol Health's Non-Executive Director 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. In accordance with best practice corporate governance, the structure of Non-Executive Director remuneration is clearly distinguished from that of executives.

3.2 Non-Executive Director Remuneration Outcomes

The maximum remuneration for Non-Executive Directors is determined by resolution of shareholders. At the 2017 Annual General Meeting, shareholders approved a maximum aggregate remuneration of \$600,000 per annum for Non-Executive Directors. A total of \$460,000 was paid in Non-Executive Director fees in 2019.

The Company's Non-Executive Director fees cover all main board activities as well as membership of the two board committees.

The Chair of the Board attends all committee meetings but does not receive any additional committee fees in addition to base fees.

Director fees	Chair	Non-Executive Director
Base fee	\$260,000	\$100,000

Non-Executive Directors may also be reimbursed for expenses reasonably incurred in attending to the Company's affairs. They do not participate in incentive plans or receive any retirement benefits other than statutory superannuation contributions.

There were no changes in Non-Executive Director remuneration base fees in 2019.

All Non-Executive Directors enter into a service agreement with the Company setting out the terms of their appointment as directors including remuneration and the board policies relevant to the office of director.

Directors' Report

3.3 Non-Executive Director Shareholdings

Executive Director and Senior Executives	Shares held at 1 July	Acquired during the year	Held at appointment/ (resignation)	Shares held at 30 June
2019				
Mr A Demetriou	150,000	50,000	-	200,000
Mr R Loveridge	200,000	344,271	-	544,271
2018				
Mr A Demetriou	150,000	-	-	150,000
Mr R Loveridge	-	-	200,000	200,000

3.4 Non-Executive Director Remuneration

Non- Executive Directors	Short-term Benefits Board & Committee Fees		Post-Employment		Total \$
	\$	\$	\$	\$	
2019					
Mr A Demetriou	260,000	-	-	-	260,000
Ms N Sheffield	100,000	-	-	-	100,000
Mr R Loveridge	91,324	-	8,676	-	100,000
	451,324	-	8,676	-	460,000
2018					
Mr A Demetriou	254,160	18,000	-	-	272,160
Ms N Sheffield	90,000	-	-	-	90,000
Mr R Loveridge	66,385	-	6,307	-	72,692
	410,545	18,000	6,307	-	434,852

4. Additional Disclosures

4.1 Reconciliation of Ordinary Shares held by Executive Director and Senior Executives

Executive Director and Senior Executives	Shares held at 1 July	Acquired during the year	Sold during the year	Held at appointment/ (resignation)	Shares held at 30 June
2019					
Mr A Harrison	3,575,773	3,494,150	-	-	7,069,923
2018					
Mr A Harrison	3,575,773	-	-	-	3,575,773
Ms J Currie	34,000	-	-	(34,000)	-

4.2 Reconciliation of Options and Performance Rights held by KMP

Executive Director and Senior Executives	Number held at 1 July	Number held at 1 July	Granted	Forfeited	Converted	Options held at 30 June
2019						
Mr A Harrison	Options	10,000,000	-	-	(10,000,000)	-
	Performance Rights	1,695,062	1,744,765	-	-	3,439,827
Mr K Birchall	Options	1,500,000	-	(1,500,000)	-	-
Ms M Gibson	Options	1,000,000	-	-	-	1,000,000
Ms M Judkins	Options	-	1,000,000	-	-	1,000,000
2018						
Mr A Harrison	Options	10,000,000	-	-	-	10,000,000
	Performance Rights	-	1,695,062	-	-	1,695,062
Ms M Gibson	Options	1,000,000	-	-	-	1,000,000
Mr K Birchall	Options	-	1,500,000	-	-	1,500,000
Mr J Harkness	Options	1,000,000	-	-	(1,000,000)	-
Ms J Currie	Options	1,000,000	-	-	(1,000,000)	-

Directors' Report

4.3 Managing Director and Senior Executive Service Agreements

The Managing Director and Senior Executives all have written agreements with the Company setting out the terms of their employment. 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 ¹	12 months	12 months
Ms M Judkins	Ongoing	6 months	6 months
Mr J Walter	Ongoing	6 months	6 months
Ms M Gibson	Ongoing	3 months	3 months

¹ Resigned as Managing Director and appointed Non-Executive Director effective 1 July 2019

4.3.1 Managing Director

An amended service contract for the Managing Director, Mr A Harrison, was agreed on 28 August 2018. Under the terms of this contract the Managing Director receives:

- FAR of \$700,000 per annum effective 28 August 2018
- Maximum STI of 75% of FAR subject to achievement of agreed key performance indicators
- Eligibility to participate in LTI up to 75% of FAR in the form of performance rights subject to appropriate service and performance hurdles and to receiving appropriate shareholder support
- Mr Harrison resigned as Managing Director on 1 July 2019

4.4 Share Trading and Hedge Prohibition

Performance Rights granted under the Company's LTI plan must remain at risk until fully vested. This is consistent with the Company's share trading policy that prohibits directors and employees from engaging in

- Short-term trading of any Capitol Health securities
- Buying or selling Capitol Health securities if they possess unpublished price sensitive information; or
- Trading in derivative products over the Company's securities or entering into transactions in products that limit the economic risk of their security holdings in the Company.

4.5 Clawback Policy

In the event of serious misconduct or a material misstatement in the Group's financial statement, the Board has the discretion to reduce, cancel or clawback any unvested STI or LTI.

4.6 Other Transactions and Balances with KMP and their Related Parties

During the financial year the Company had no other transactions with Key Management Personnel or their related parties.

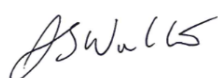
No loans have been made to KMP during the 2019 financial year.

This is the end of the audited Remuneration Report.

Corporate Governance

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

Signed in accordance with a resolution of the Directors:



Justin Walter
Managing Director
Melbourne, Victoria
27 August 2019



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27 August 2019

The Board of Directors
Capitol Health Limited
Level 3, 81 Lorimer Street
DOCKLANDS VIC 3008

Dear Board Members

Capitol Health Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Capitol Health Limited.

As lead audit partner for the audit of the financial statements of Capitol Health Limited for the financial year ended 30 June 2019, 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.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Anneke Du Toit
Partner
Chartered Accountants

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Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 30 June 2019

	Notes	2019 \$000	2018 \$000
Continuing Operations			
Revenue	5	149,238	119,033
Wages, contractor costs and salaries	6.1	(91,024)	(70,062)
Occupancy costs		(10,962)	(8,383)
Medical equipment and consumable supplies		(9,049)	(9,107)
Service costs		(12,176)	(9,933)
Transaction Costs		(3,990)	(4,452)
Revaluation/(impairment) of financial assets	7	19,915	(15,186)
Operating Profit before Finance Costs, Income Tax, Depreciation and Amortisation		41,952	1,910
Depreciation and amortisation	6.2	(8,900)	(6,517)
Profit/(Loss) before Finance Costs and Income Tax		33,052	(4,607)
Net finance costs	8	(1,655)	(4,513)
Profit/(Loss) before Income Tax		31,397	(9,120)
Income tax expense	9	(3,863)	(1,936)
Net Profit/(Loss) after Income Tax from Continuing Operations		27,534	(11,056)
Discontinued Operations			
Profit for the period from Discontinued Operations	23	-	143
Profit/(Loss) for the Year		27,534	(10,913)
Attributable to:			
Equity holders of the parent		27,534	(10,913)
Other Comprehensive Income/(Loss)			
Exchange rate translation differences		(9)	1,292
Other comprehensive income, net of tax		(9)	1,292
Total Comprehensive Income/(Loss)		27,525	(9,621)
Attributable to:			
Equity holders of the parent		27,525	(9,621)
Basic Earnings per share (cents)	22	3.50	(1.38)
Diluted Earnings per share (cents)	22	3.35	(1.38)

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 2019

	Notes	2019 \$000	2018 \$000
Assets			
Cash and cash equivalents	10	7,330	12,137
Trade and other receivables	11	2,662	1,670
Other financial assets	12	256	252
Income tax receivable		1,273	-
Other assets		683	748
Total Current Assets		12,204	14,807
Non-Current Assets			
Plant and equipment	13	42,544	30,166
Intangible assets	14	107,294	77,128
Other financial assets	12	20,408	-
Other receivables		1,166	1,697
Deferred tax asset	9.3	4,499	5,111
Total Non-Current Assets		175,911	111,402
Total Assets		188,115	128,909
Liabilities			
Trade and other payables	15	11,498	10,700
Interest-bearing loans and borrowings	16	2,005	979
Employee benefit liabilities	17	11,115	8,490
Income tax liability		-	36
Total Current Liabilities		24,618	20,205
Non-Current Liabilities			
Interest-bearing loans and borrowings	16	43,656	3,009
Provisions	18	1,170	1,006
Employee benefit liabilities	17	844	1,884
Deferred tax liability	9.3	2,194	942
Total Non-Current Liabilities		47,864	6,841
Total Liabilities		72,482	27,046
Net Assets		115,633	101,863
Equity			
Issued capital	19	107,632	114,879
Reserves	20	1,374	762
Accumulated profits/(losses)		6,627	(13,778)
Total Equity		115,633	101,863

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 2019

Notes	2019 \$000	2018 \$000
Operating Activities		
	150,398	130,448
	(125,890)	(112,022)
	90	1,191
	(1,883)	(6,503)
	(4,385)	(2,038)
	18,330	11,076
Investing Activities		
	-	83,879
	(14,747)	(6,791)
	(35,568)	(31,102)
	-	442
	(50,315)	46,428
Financing Activities		
	-	373
	(9,667)	(2,507)
	38,750	(5,000)
	1,785	(2,741)
	(6,613)	(2,530)
	4,553	-
	(1,630)	(1,179)
	-	(50,000)
	27,178	(63,584)
	(4,807)	(6,080)
	12,137	18,217
10	7,330	12,137

The 2018 Consolidated Statement of Cash Flows includes cash flows from discontinued operations as detailed in Note 23.

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 2019

	Contributed equity	Reserves	Accumulated profit/(losses)	Total
Balance at				
1 July 2017	125,854	(1,038)	(5,789)	119,027
<i>Comprehensive Income/(Loss)</i>				
Loss for the year	-	-	(10,913)	(10,913)
Other Comprehensive Income for the year	-	1,292	(693)	599
Total Comprehensive Income/(Loss)	-	1,292	(11,606)	(10,314)
<i>Transactions with Equity Holders</i>				
Capital reduction	(6,827)	-	6,827	-
Purchase of Treasury shares	(2,741)	-	-	(2,741)
Share buy-back and costs	(2,506)	-	-	(2,506)
Dividend paid	-	-	(2,531)	(2,531)
Shares issued through DRP	679	-	(679)	-
Exercise of options	372	-	-	372
Valuation of Issued Options	48	(57)	-	(9)
Allocation of Issued Options	-	565	-	565
Total Transactions with Equity Holders	(10,975)	508	3,617	(6,850)
Balance at				
30 June 2018	114,879	762	(13,778)	101,863
<i>Comprehensive Income/Loss</i>				
Profit for the year	-	-	27,534	27,534
Other Comprehensive Income for the year	-	(9)	-	(9)
Total Comprehensive Income	-	(9)	27,534	27,525
<i>Transactions with Equity Holders</i>				
Share buy-back and costs	(9,667)	-	-	(9,667)
Dividend paid	-	-	(6,613)	(6,613)
Shares issued through DRP	516	-	(516)	-
Exercise of options	1,785	-	-	1,785
Valuation of Issued Options	119	(119)	-	-
Allocation of Issued Options	-	740	-	740
Total Transactions with Equity Holders	(7,247)	621	(7,129)	(13,755)
Balance at				
30 June 2019	107,632	1,374	6,627	115,633

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

1. General Information

1.1 Reporting Entity

Capitol Health Limited (the Company) is a for-profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The consolidated financial report of the Company for the year ended 30 June 2019 comprises the Company and its subsidiaries (together referred to as the Group).

1.2 Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group.

The financial statements were approved by the Board of Directors on 27 August 2019.

1.3 Corporate Information

The Group is principally engaged in the provision of diagnostic imaging services. Further information of the nature of the operations and principal activities of the Group is provided in the Directors' Report. Information on the Group's structure is provided in Note 27. Information on other related party relationships of the Group is provided in Note 31.

1.4 Going Concern

The financial statements have been prepared on a going concern basis. For the year ended 30 June 2019, the consolidated entity made a profit of \$27.5m (2018: Loss (\$10.9m) and had net current liabilities of \$12.4m (2018: \$5.4m).

The following matters have been considered by the directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- i) in the previous financial year ended 30 June 2018, the consolidated entity secured a new \$144m debt facility from the National Bank of Australia. As a result, the consolidated entity will have sufficient working capital to enable it to meet its objectives and financial obligations.
- ii) the consolidated entity generated net operating cash inflow for the year ended 30 June 2019 of \$18.3m (2018: \$11.1m). Management expect that the operating costs will be further reduced in the succeeding financial year as a result of integration of newly acquired businesses and ongoing restructuring of the group's operations, which will further increase operating cash flows.

The directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements as at 30 June 2019. Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

2. Significant Accounting Policies

2.1 Basis of Preparation

The financial report has been prepared on a historical cost basis, except for derivative financial instruments and debt and equity financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to recognise changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

Compliance with International Financial Reporting Standards

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.2 Functional Currency

The financial report is presented in Australian dollars and all 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.

2.3 Rounding

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 (\$000) or in certain cases to the nearest dollar.

2.4 Comparative Information

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

2.5 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement(s) with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group’s voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6 Summary of Significant Accounting Policies

2.6.1 Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in transaction costs.

When the Group acquires a business, it assesses the acquired financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.6.2 Investment in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating decisions of the investee.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.2 Investment in Associates and Joint Ventures (continued)

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI (OCI). In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group. After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.6.3 Current and Non-current Classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- ▶ Expected to be realised or intended to be sold or consumed in the normal operating cycle
- ▶ Held primarily for the purpose of trading
- ▶ Expected to be realised within twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- ▶ It is expected to be settled in the normal operating cycle
- ▶ It is held primarily for the purpose of trading
- ▶ It is due to be settled within twelve months after the reporting period

Or

- ▶ There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.6.4 Fair Value Measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability

Or

- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.4 Fair Value Measurement (continued)

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as investment properties and unquoted financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is determined annually with selection criteria including market knowledge, reputation, independence and whether professional standards are maintained.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- ▶ Disclosures for valuation methods, significant estimates and assumptions Notes 3, 14, and 26
- ▶ Quantitative disclosures of fair value measurement hierarchy Note 26
- ▶ Investment in non-listed equity shares (discontinued operations) Note 12 and Note 23
- ▶ Financial instruments (including those carried at amortised cost) Note 26

2.6.5 Revenue

Revenue from Services Provided

The Group is in the business of providing diagnostic imaging services to the Australian healthcare market, through the operation of clinics in Victoria, Tasmania and Western Australia. Revenue is recognised when the service is rendered, and payment is either rebated via Medicare or payable on date of service.

As a health service provider, the Group does not have volume rebates, rights of return, warranties, or contracts with significant financing components.

2.6.6 Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.6 Taxes (continued)

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ▶ When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- ▶ When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it reflects new information obtained about facts and circumstances that exist at the acquisition date that, if known, would have affected the amount recognised at that date where recognised during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.6 Taxes (continued)

Tax Consolidation

The Company and its wholly-owned Australian controlled entities are part of a tax-consolidated entity.

The head entity within the tax-consolidated entity is Capitol Health Limited. All members of the tax-consolidated group continue to account for their own current and deferred tax amounts.

The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

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.

In addition to its own current and deferred tax amounts, Capitol Health Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed in Note 9.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- ▶ When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable
- ▶ When receivables and payables are stated with the amount of GST included

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

2.6.7 Foreign Currencies

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.7 Foreign Currencies (continued)

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI.

Group companies

The revenue and expenses of foreign operations are translated in Australian dollars using the average exchange rate for the reporting period. All resulting foreign exchange differences are recognised in Other Comprehensive Income through the currency translation reserve.

2.6.8 Cash Dividend

The Company recognises a liability to pay a dividend when the distribution is authorised, and the distribution is no longer at the discretion of the Company. As per the corporate laws of Australia, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

2.6.9 Plant and Equipment

Recognition and Measurement

Construction in progress is stated at cost, net of accumulated impairment losses, if any. Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to significant accounting judgements, estimates and assumptions (Note 3).

Depreciation

Depreciation is recognised in profit or loss on a diminishing-value or straight-line basis over the estimated useful lives 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

Leasehold improvements are depreciated over either the unexpired period of the lease or the estimated useful lives of the improvements. Depreciation methods, useful lives and residual values of plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.6.10 Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.10 Leases (continued)

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.6.11 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.6.12 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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 acquiree 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 so that the asset will be available for use or sale, and
- ▶ management has the intention and ability to complete the intangible assets for use or sale.

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

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.13 Financial Instruments – Initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets and liabilities

Initial recognition, measurement and de-recognition

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. Financial assets except trade receivables, are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Group's financial assets include cash, trade receivables and other financial assets.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts. The Group does not have any derivative financial instruments other than as noted in Note 26.2.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when the obligation under the liability is extinguished, discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Classification and subsequent measurement of financial assets

For purposes of subsequent measurement, financial assets are classified in four categories:

- ▶ Financial assets at amortised cost (debt instruments)
- ▶ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- ▶ Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost, and where applicable, are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes cash, trade receivables and rental bonds held to maturity.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.13 Financial Instruments (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

The Group's investment in Enlitic has been treated as a financial asset at fair value through profit or loss.

The Group does not have any other financial assets and accordingly does not have any financial assets treated at fair value through OCI, either with recycling or not, of cumulative gains and losses (debt instruments)

Classification and subsequent measurement of financial liabilities

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the (EIR). The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 16.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.13 Financial Instruments (Continued)

ii) Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- ▶ Disclosures for significant assumptions Note 3
- ▶ Trade receivables Note 11

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. The ECL is measured through a loss allowance at an amount equal to:

- ▶ 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- ▶ lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for lifetime expected credit losses is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

iii) Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the consolidated statement of financial position, if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.6.14 Derivative Financial Instruments

Initial recognition and subsequent measurement

For the purpose of hedge accounting, hedges are classified as:

- ▶ Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- ▶ Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- ▶ Hedges of a net investment in a foreign operation

The sole derivative financial instrument held by the Group is an interest rate swap that is used as a cash flow hedge to, in part, cover the cash flow variability of interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.15 Impairment of Non-Financial Assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- ▶ Disclosures for significant assumptions Note 3
- ▶ Plant and equipment Note 13
- ▶ Intangible assets Note 14
- ▶ Goodwill and intangible assets with indefinite lives Note 24

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets for the following years, which are prepared separately for the Group's CGUs to which the individual assets are allocated. These budgets calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually in June and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually in June at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.6.16 Cash and Short-Term Deposits

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.17 Treasury Shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share-based payments reserve.

2.6.18 Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Long Service Leave and Annual Leave

The Group does not expect its long service leave or annual leave benefits to be settled wholly within 12 months of each reporting date. The Group recognises a liability for long service leave and annual leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Contingent Liabilities Recognised in a Business Combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

2.6.19 Share-Based Payments

Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 25.

That cost is recognised in employee benefits expense (Note 6.1), together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.6.19 Share-Based Payments (continued)

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 22).

2.7 Changes in Accounting Policies and Disclosures

2.7.1 New Accounting Standards and Interpretations Applied for the Current Year

In the current year, the Group adopted the following new and revised standards and interpretations issued by the Australian Accounting Standards Board (AASB) that were effective for the financial year beginning 1 July 2018:

- AASB 9 Financial Instruments
- AASB 15 Revenue from Contracts with Customers
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
- AASB 2017-1 Amendments to Australian Accounting Standards – Annual Improvements 2014-2016

Refer Note 3 for the impacts of adopting AASB 9 and AASB 15 on the Group.

The adoption of all other amending standards above did not have any impact on the disclosures or amounts recognised in the condensed consolidated financial statements for the year ended 30 June 2019.

2.7.2 Standards Issued but not yet Adopted

The Standards and Interpretations that were issued and available for early adoption but not yet effective are listed below including the Group's assessment of the impact of these standards and interpretations. The Group has not early adopted these standards.

The Group has not early adopted AASB 16 *Leases* which will be applied for the Group with effect from 1 July 2019. A summary of the nature of the changes and impact is set out below:

AASB16 Leases

Nature of change:

AASB 16 Leases introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 Leases and the related interpretations when it becomes effective.

AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The standard removed distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. This standard must be implemented retrospectively, either with the restatement of comparative information or with the cumulative impact of application recognised as at 1 July 2019 under the modified retrospective approach.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

2.7.2 Standards not yet adopted (continued)

AASB 16 contains several practical expedients. Under the modified retrospective approach, on a lease-by-lease basis, the right of use of an asset may be deemed to be equivalent to the liability at transition or calculated retrospectively as at inception of the lease.

Assessment of impact:

The Group has made progress in its assessment of the impact of adoption of AASB 16, including completion of the following:

- Identifying leases and contracts that could be determined to include a lease
- Collection of lease data required to calculate the impact assessment
- Identifying areas of complexity or judgement and
- Identifying necessary changes to processes required to enable reporting and accounting in the new standard.

The full financial impact of adopting AASB 16 has not yet been determined, however the following impacts are expected on implementation date:

- A material right-of-use asset and a lease liability will be recognised on the balance sheet
- Finance costs will increase due to the interest component of the lease liability
- Depreciation expense will increase due to depreciation of the right-of-use asset
- Lease rental operating expenses will reduce to close to 'nil'
- In the Statement of Cash Flows, operating cash outflows will decrease, and financing cash outflows will increase as repayment of the principal balance in the lease liability will be classified as a financing activity.

The Group will be adopting the modified retrospective approach where the right-of-use asset is deemed to be equivalent to the liability at transition. The Group has approximately 94 property and equipment leases and it is expected that the right-of-use asset and the lease liability will be material with respect to total assets and liabilities.

There are no other standards that are not yet effective that are expected to have a material impact on the Group in the current or future reporting periods or on foreseeable future transactions.

3. 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 of revenue, expenses, assets and liabilities and the accompanying disclosures and the disclosure of contingent liabilities. Estimates and underlying assumptions are reviewed on an ongoing basis. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. 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.

Estimates and judgements 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.

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) Impairment of Goodwill and other intangibles

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 14. If any of these estimates were to significantly change, it may have a material impact on the reported amount of goodwill.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

3. Significant Accounting Estimates, Assumptions and Judgements (continued)

(ii) Other Financial Assets

The Group's investment in Enlitic Inc (Enlitic) has been treated as an investment in an unlisted entity and valued at fair value through the profit or loss under AASB 9 as management considers that the Group does not have significant influence over the operations of Enlitic. The value of the Group's investment in Enlitic, has been set based on a recent capital raising offered to sophisticated investors on an arm's length valuation at fair market value. Whilst management are confident in the arm's length valuation at this point in time, subsequent events could have a material impact on this valuation.

(iii) Provision for Expected Credit Losses (ECL)

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due by for groupings by customer type that have similar loss patterns (ie bulk bill, third party and private patients).

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 11.

(iv) Provision for Long Service Leave

The calculation of long service leave has been based on estimates and judgements made by management. 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.

(v) Recovery of Deferred Tax Assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

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.

(vi) 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.

(vii) Share-Based Payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses a binomial model for Senior Executive Plan (SEP). The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 25.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

3. Significant Accounting Estimates, Assumptions and Judgements (continued)

(viii) Fair Value Measurement and Valuation Process of Financial Assets

Financial instruments are carried at fair value in the consolidated statement of financial position. The best evidence of fair value is quoted prices in an active market. If the market for financial instrument is not active, we determine fair value based on present value estimates or other market accepted valuation techniques. The selection of appropriate valuation techniques, methodologies and inputs require judgement. The details of fair value of financial instruments and measurements are included in Note 26.

The detailed information about the significant judgements is included in:

- estimation of Income Tax Payable / Refundable and Income Tax Expense at Note 2.6.6 and Note 9,
- estimation of Goodwill Impairment at Note 2.6.1 5 and Note 24,
- recognition of Deferred Tax Asset for carried forward tax losses at Note 2.6.6 and Note 9,
- classification of Non-Current Assets Held for Sale and Discontinued Operations at Note 23.

4. 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.

In order to achieve this overall objective, the Group's capital management, amongst other things aim to ensure that it meets its financial covenants attached to the interest-bearing loans and borrowings that defined the capital structure requirements. Breaches in meeting the financial covenants would permit the bank to call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current financial year.

The Company continues to buy-back its shares under the arrangement announced on 18 August 2017 and at 30 June 2019 has the ability to buy-back a further 4,301,326 ordinary shares under that authority.

The Group's Loans and Other Financial Liabilities with relevant capital covenant requirements are detailed in Note 16.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

5. Revenue

The Group solely operates within Australia and accordingly is only in one geographic market and only has one product and service category:

	2019 \$000	2018 \$000
Major service category		
Diagnostic imaging services	149,136	118,279
Other operating revenue	102	754
Total Revenue	149,238	119,033
Timing of revenue recognition		
Services transferred at a point in time	149,238	119,033

6. Other Income and Operating Expenses

6.1 Salaries and employee benefits expenses

	2019 \$000	2018 \$000
Wages, contractor costs and salaries	(78,616)	(61,914)
Superannuation expenses	(4,580)	(3,353)
Employee leave entitlements	(7,088)	(4,601)
Share-based employment expense	(740)	(194)
	(91,024)	(70,062)

Employee Benefits for Discontinued Operations are included in Operating Expenses – refer Note 23).

6.2 Depreciation and amortisation

		2019 \$000	2018 \$000
Depreciation	13	(7,852)	(6,217)
Amortisation of intangible assets	14	(517)	(100)
Other amortisation		(531)	(200)
		(8,900)	(6,517)

7. Revaluation/(Impairment charge)

		2019 \$000	2018 \$000
Unlisted investments	12	19,915	(15,186)
		19,915	(15,186)

8. Net Finance Costs

		2019 \$000	2018 \$000
Interest income		90	1,191
Interest on borrowings		(1,342)	(636)
Establishment fee		-	(194)
Interest rate swap		(78)	-
Finance lease interest		(294)	(209)
Interest on debenture		-	(4,646)
Other interest		(30)	(19)
		(1,655)	(4,513)

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

9. Income Tax

9.1 Income tax expense

	2019 \$000	2018 \$000
The major components of income tax expense are:		
Current income tax expense	(3,111)	(1,866)
Deferred income tax expense	(786)	(98)
Current income tax benefit - prior year	80	-
Current tax expense - from acquired subsidiary	(46)	-
Income tax expense reported in the statement of profit or loss	(3,863)	(1,964)*

* Includes \$28k Discontinued operations Current income tax expense – see note 23

9.2 Reconciliation of income tax expense

Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate:

	2019 \$000	2018 \$000
Accounting profit/(loss) before income tax from:		
Continuing Operations	31,397	(9,120)
Discontinued Operations	-	170
	31,397	(8,950)
Prima face income tax expense at 30% (2018: 30%)	(9,419)	2,685
Adjustments to current tax with respect to prior year	42	-
Tax effect of permanent differences:		
Capital acquisition costs	(254)	(339)
Non-assessable income	510	-
Revaluation/(impairment) of unlisted investments	5,975	(4,556)
Valuation of share options granted	(221)	(58)
Prior year capital losses utilised	-	180
Other items	(496)	124
Income tax expense reported in statement of profit or loss	(3,863)	(1,964)
Income tax expense attributable to profit/(loss) from:		
Continuing Operations	(3,863)	(1,936)
Discontinued Operations	-	(28)
	(3,863)	(1,964)

9.3 Deferred tax assets and liabilities

	2019		2018	
	Items at Pre tax	Items at post tax \$000	Items at Pre tax	Items at post tax \$000
Deferred tax assets:				
Employee benefits	11,921	3,576	10,374	3,112
Accrued expenses and other items	3,077	923	6,662	1,999
		4,499		5,111
Deferred tax liabilities:				
Intangible assets	(3,928)	(1,178)	-	-
Prepayments	(25)	(6)	(74)	(22)
Leases	(3,255)	(976)	(3,000)	(900)
Other Items	(112)	(34)	(67)	(20)
		(2,194)		(942)

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

9.3 Deferred tax assets and liabilities (continued)

	2019 \$000	2018 \$000
Net deferred tax asset	2,306	4,169
Movement represented by:		
Recognised in Profit or Loss	2,205	3,825
Recognised in Business Acquisitions	101	344
	2,306	4,169

9.4 Unrecognised temporary differences

The Group has no unrecognised temporary differences at 30 June 2019 (2018: Nil).

9.5 Tax losses

The Group has no carried forward operating losses at 30 June 2019 (2018: Nil).

The Group had carried forward capital losses of \$18,897,000 (2018: \$18,897,000). 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.

9.6 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.

Notes to the Consolidated Financial Statements
For the Year Ended 30 June 2019

10. Cash and Cash Equivalents

	2019 \$000	2018 \$000
Cash on hand	16	16
Cash at bank	7,314	12,121
	7,330	12,137

11. Trade and Other Receivables

	2019 \$000	2018 \$000
Trade receivables	1,906	1,351
Allowance for expected credit loss	(115)	(115)
	1,791	1,236
Other receivables	871	434
	2,662	1,670

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The movement in the allowance for credit losses can be reconciled as follows:

	2019 \$000	2018 \$000
Reconciliation of allowance credit losses		
Balance 1 July	115	115
Amounts written off (uncollectable)	-	-
Impairment loss	-	-
Balance 30 June	115	115

12. Other Financial Assets

	2019 \$000	2018 \$000
<i>Current</i>		
Rental bonds – held to maturity	256	252
<i>Non-current</i>		
Investment in unlisted entity	20,408	-
Movement in Investment in unlisted entity		
Fair value – opening balance	-	14,604
Investment during the year	493	-
Change in foreign currency valuation	-	582
Revaluation/(Impairment charge)	19,915	(15,186)
Fair value – closing balance	20,408	-

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

13. Plant and Equipment

Details of the Company's plant and equipment and their carrying amount are as follows:

	Leasehold Improve- ments \$000	Plant & Equipment \$000	Other Operating Assets \$000	Assets Under Construction (AUC) \$000	Total \$000
At 1 July 2018					
Net of accumulated depreciation	20,611	8,915	568	72	30,166
Additions	-	-	-	13,406	13,406
Reallocation - AUC	10,174	1,709	451	(12,334)	-
Acquired on acquisition	6,824	-	-	-	6,824
Depreciation for period	(6,752)	(956)	(144)	-	(7,852)
At 30 June 2019					
Net of accumulated depreciation	30,857	9,668	875	1,144	42,544
At 30 June 2019					
Cost value	61,386	14,893	2,176	1,144	79,599
Accumulated depreciation	(30,529)	(5,225)	(1,301)	-	(37,055)
Total	30,857	9,668	875	1,144	42,544

	Leasehold Improve- ments \$000	Plant & Equipment \$000	Other Operating Assets \$000	Assets Under Construction (AUC) \$000	Total \$000
At 1 July 2017					
Net of accumulated depreciation	16,142	6,010	430	686	23,268
Additions	-	-	-	6,173	6,173
Reallocation - AUC	5,698	1,772	177	(6,787)	860
Acquired on acquisition	4,020	1,999	64	-	6,083
Depreciation for period	(5,249)	(866)	(103)	-	(6,218)
At 30 June 2018					
Net of accumulated depreciation	20,611	8,915	568	72	30,166
At 30 June 2018					
Cost value	44,594	13,183	1,724	72	59,573
Accumulated depreciation	(23,983)	(4,268)	(1,156)	-	(29,407)
Total	20,611	8,915	568	72	30,166

All depreciation and impairment charges are included within depreciation, amortisation and impairment of non-financial assets.

All plant & equipment have been pledged as security for the Company's other bank borrowings (see Note 16). The Company has a contractual commitment to acquire equipment and leasehold improvements of \$650,000 payable in FY20.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

14. Intangibles Assets

	Goodwill	Brands and Trademarks	Referrer Relationships	TOTAL
	\$000	\$000	\$000	\$000
At 1 July 2018	74,560	739	1,829	77,128
Acquisition of entities and businesses	27,757	-	2,496	30,253
Adjustment re prior year acquisitions ¹⁾	287	23	120	430
Amortisation charge	-	-	(517)	(517)
At 30 June 2019	102,604	762	3,928	107,294
Cost value	102,604	762	4,545	107,911
Accumulated amortisation & impairment	-	-	(617)	(617)
Total at 30 June 2019	102,604	762	3,928	107,294

1) Adjustment on finalisation of acquisition accounting re Radiology Tasmania

	Goodwill	Brands and Trademarks	Referrer Relationships	TOTAL
	\$000	\$000	\$000	\$000
At 1 July 2017	53,190	-	-	53,190
Acquisition of entities and businesses	21,370	739	1,929	24,038
Amortisation charge	-	-	(100)	(100)
At 30 June 2018	74,560	739	1,829	77,128
Cost value	74,560	739	1,929	77,228
Accumulated amortisation & impairment	-	-	(100)	(100)
Total at 30 June 2018	74,560	739	1,829	77,128

Details of the acquisition of entities and businesses is included in Note 24.

The Brand and Trademarks are considered to have an indefinite useful life and accordingly are not amortised but considered for impairment testing in conjunction with goodwill.

Relationships with referrers, are capable of being separated or divided and are considered a valuable asset within the radiology industry. The Referrer Relationships intangible asset reflects the revenue stream from referrers on forwarding patients to a clinic and reflect the relationships that the clinics and the Company's doctors and medical technicians have established with the referrers and the patients over time. This intangible asset is constantly evolving with new patients and referring medical professionals, and as a result it is amortised over 8 years.

15. Trade and Other Payables

	2019	2018
	\$000	\$000
<i>Current</i>		
Trade creditors	562	1,130
Other creditors and accruals	10,936	9,570
	11,498	10,700

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

16. Interest-Bearing Loans and Borrowings

	2019 \$000	2018 \$000
<i>Current</i>		
Finance lease liability	2,005	979
<i>Non-current</i>		
Borrowings	38,750	-
Finance lease liability	4,906	3,009
	43,656	3,009

Bank facilities

The Group successfully renegotiated a loan facility with National Australia Bank in May 2018 and drew on this facility during the year. The bank facility totalling \$144 million was made up of the following:

- Cash advance facility limit up to \$60 million for a period of 3 years
- Cash advance facility limit up to \$70 million for a period of 5 years
- Overdraft and bank guarantee facilities with limit of \$9 million
- Equipment leasing facilities \$5 million
- Accordian facility up to \$30 million (uncommitted)

In accordance with Australian Accounting Standards, loan establishment fees have been capitalised and are being amortised over the life of these facilities.

The Group's financial covenants under the new loan facility remain unchanged at:

- 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 covenant requirements throughout the financial year.

Utilisation of secured facilities

	Facility \$000	Utilised \$000	Available \$000
At 30 June 2019			
Secured bank loan	130,000	38,750	91,250
Equipment financing	5,000	4,553	447
Overdraft	5,000	-	5,000
Bank guarantee facility	4,000	1,035	2,965
At 30 June 2019	144,000	44,338	99,662
At 30 June 2018			
Secured bank loan	130,000	-	130,000
Equipment financing	5,000	-	5,000
Overdraft	5,000	-	5,000
Bank guarantee facility	4,000	641	3,359
	144,000	641	143,359

Finance Lease Liabilities

The contractual cash flows of finance lease liabilities at maturity including interest are disclosed at Note 26. Finance leases are secured as the rights to the leased assets, recognised in the Consolidated Financial Position.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

17. Employee Benefit Liabilities

	2019 \$000	2018 \$000
<i>Current</i>		
Annual leave	5,933	4,683
Long service leave	5,182	3,807
	11,115	8,490
<i>Non-current</i>		
Long service leave	844	1,884
	844	1,884

18. Provisions

	2019 \$000	2018 \$000
<i>Non-current</i>		
Lease property make good allowance	1,170	1,006

19. Issued Capital

	2019 \$000		2018 \$000	
Issued Capital	107,632		114,879	

	2019		2018	
	Number of shares	\$000	Number of shares	\$000
Balance at 1 July	795,964,199	114,879	810,098,465	125,854
Exercise of options	10,000,000	1,785	2,000,000	372
Dividend reinvestment plan	1,837,442	516	2,507,592	679
Capital reduction	-	-	-	(6,827)
Treasury shares purchased	-	-	(10,000,000)	(2,741)
Share buy-back	(39,356,816)	(9,667)	(8,641,858)	(2,506)
Option valuation	-	119	-	48
Balance at 30 June	768,444,825	107,632	795,964,199	114,879
Treasury shares at the end of the year	-	-	10,000,000	2,741

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

The Group operates share option schemes under which options to subscribe for the Group's shares have been granted to certain senior executives and doctors. Refer to Note 25 for further details.

Share options exercised are settled using treasury shares of the Group. The reduction in the treasury share equity component is equal to the cost incurred to acquire the shares, on weighted average basis.

During the financial year to 30 June 2019 the Treasury Shares purchased in 2018 in order for the Company to satisfy its obligations under the Capitol Health Limited Employees Incentive Plan were transferred to Mr Andrew Harrison upon him exercising his 10,000,000 options.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

19 Issued Capital (continued)

Options and Performance Rights

The Company operates an incentive plan referred to as the Capitol Health Limited Employee Incentive Option (the Plan). The table below summarises the number of options and performance rights that were outstanding, their weighted average exercise price as well as the movements during the year:

	2019		2018	
	Number	Weighted average exercise price (cents)	Number	Weighted average exercise price (cents)
Balance at 1 July	42,095,062	26.78	13,000,000	18.12
Granted	2,744,765	23.72	31,095,062	30.06
Exercised	(10,000,000)	17.85	(2,000,000)	18.66
Forfeited	(2,000,000)	30.06	-	-
Balance at 30 June	32,839,827	28.96	42,095,062	26.78
Represented by:				
Options	29,400,000	28.96	40,400,000	26.78
Performance rights	3,439,827	-	1,695,062	-
Balance at 30 June	32,839,827	28.96	42,095,062	26.78

During the financial year 2,744,765 options and performance rights were issued pursuant to the Plan with the shares issued on exercise to rank equally with all other shares on issue as follows:

- 1,000,000 options were granted on 22 March 2019 to Ms Judkins with 50% vesting on 11 March 2021 and 50% vesting on 11 March 2022 at an exercise price of 23.72 cents.
- 1,744,765 performance rights were granted to Mr Harrison in respect of FY19 and were approved at the Company's Annual General Meeting on 19 November 2018. Each performance right upon vesting is convertible into 1 fully paid ordinary share with no consideration payable subject to the terms of the Plan and various service and performance conditions. The number of performance rights that will vest is subject to his continuing employment and as a result of his resignation as Managing Director on 30 June 2019, the FY19 performance rights have lapsed.
- The performance rights granted to Mr Harrison in FY18 depend on two equally weighted conditions over a 3 year period commencing from the financial year ending 30 June 2019, being:
 - Total shareholder return performance
 - Growth in earnings per share

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

20. Reserves

	Currency translation \$000	Option \$000	Total \$000
Balance at 1 July 2017	(1,292)	254	(1,038)
Exchange differences on translation of foreign subsidiaries	1,292	-	1,292
Allocation of valuation options issued			
Current year	-	194	194
Current year costs	-	(136)	(136)
Future years pursuant to acquisitions	-	507	507
Amount transferred to Issued Capital on conversion of options	-	(57)	(57)
Movement for the financial year	1,292	508	1,800
Balance at 30 June 2018	-	762	762
Exchange differences on translation of foreign subsidiaries	(9)		(9)
Allocation of valuation options issued – current year		740	740
Amount transferred to Issued Capital on conversion of options		(119)	(119)
Movement for the financial year	(9)	621	612
Balance at 30 June 2019	(9)	1,383	1,374

- i) The currency translation reserve accumulates all foreign currency differences on the translation of the results and net assets of foreign operation that the Company controls
- ii) The Option Reserve accumulates the recognised values of the share options granted and that have not yet expired. Such value is included in the value of shares issued on the exercise of such options.

21. Dividends

Total dividends paid on ordinary shares during the year

	2019		2018	
	Cents per share	\$000	Cents per share	\$000
Cash dividend on ordinary shares declared and paid				
Final dividend for 2018				
Cash	0.4	2,691	-	-
Dividend Reinvestment Plan	0.4	516	-	-
Interim dividend for 2019 - Cash	0.5	3,923	0.4	3,210
		7,130		3,210
Proposed dividend on ordinary share				
Final cash dividend	0.5	3,842		

Since the end of the half year the Directors have declared a final dividend of \$0.5 cents per share which is not recognised as a liability at 30 June 2019.

The Dividend Reinvestment Plan (DRP) is currently suspended.

22. Earnings per Share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent (after adjusting for outstanding options) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

22. Earnings per Share (EPS)(continued)

The following table reflects the income and share data used in the basic and diluted EPS calculations:

	2019 \$000	2018 \$000
Profit/(loss) attributable to ordinary equity holders of the parent:		
Continuing operations	27,534	(11,056)
Discontinued operations	-	143
	27,534	(10,913)
<i>Weighted average ordinary shares used as the denominator in calculating:</i>	Number	Number
Basic earnings	786,579,903	802,153,825
Effect of dilution from share options	35,485,029	13,253,175
Diluted earnings	822,064,932	815,407,000
<i>Earnings per share – Continuing operations:</i>	Cents	Cents
Basic	3.50	(1.38)
Diluted	3.35	(1.38)
<i>Earnings per share – Discontinued operations:</i>		
Basic	-	0.02
Diluted	-	0.02

There have been no other transactions involving ordinary share or potential ordinary shares between the reporting date and date of the authorisations of these financial statements.

23. Discontinued Operations

23.1 Assets held for sale

At 30 June 2019 there were no assets identified as being held for sale.

Discontinued operations in the Statement of Profit for Loss and other comprehensive income at 30 June 2018 are in respect of the sale of a freehold property and the Group's NSW radiology businesses on 31 August 2017.

23.2 Financial Performance and Cash Flow Information

	2019 \$000	2018 \$000
Revenue	-	8,848
Expenses	-	
Operating	-	(7,652)
Borrowing	-	(658)
Depreciation & amortisation	-	(368)
Profit for the year	-	170
Income tax expense	-	(27)
Profit from Discontinued Operations	-	143
Net cash flows from discontinued operations		
Operating activities	-	(891)
	-	(891)

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

23.3 Gain/(Loss) on Sale of Assets held for Sale	2019 \$000	2018 \$000
Freehold Property		
Proceeds received	-	800
Book value of assets disposed	-	(800)
Gain/(Loss) on Sale	-	-
NSW Radiology Businesses		
Proceeds received	-	78,541
Book value of assets disposed	-	(78,541)
Gain/(Loss) on Sale	-	-

24. Business Combinations

24.1 Acquisitions

During the financial year the Group purchased the following entities and businesses and their contribution to revenue and net profit for the financial year is as shown below:

Date of acquisition	Business Name/ Legal entity	Acquired	Revenue \$000
12 July 2018	Specialist Vein Care	Business assets ²	513
16 July 2018	Spectrum Imaging	Business assets ²	8,150
20 July 2018	Joremo Pty Ltd	Issued capital ³	708
3 August 2018	Imaging Central	Business assets ²	3,707
12 Sep 2018	Quinns Medical Imaging	Business assets ²	1,449
3 November 2018	West Coast Radiology	Business assets ²	2,650
22 March 2019	Uniradiology ¹	Business assets ²	1,280
			18,457

¹ Provisional valuation

² Control obtained through purchase of the operating and legal business assets of the vendors and recognition of identifiable assets and liabilities

³ Control obtained through purchase of 100% of the issued share capital of Joremo Pty Ltd (ACN 613 347 596) and recognition of identifiable assets and liabilities

Revenue and profit contribution from the date of acquisition to 30 June 2019:

The revenue generated by the acquired businesses for the year to 30 June 2019 from the date of acquisition has been broadly in line with expectations at \$18.5m as shown in the above table. As the acquired businesses have been integrated into the existing business, it is not practically possible to calculate the profit contribution by the acquired businesses on a standalone basis.

AASB3 *Business Combinations* require a consolidated pro-form revenue and profit for the current financial year as if the acquisition occurred at the start of the financial year. However, management has determined that the net profit for the period the acquired business is impracticable to report and is consistent with definition contained within paragraph 5(a) through (c) of AASB 1008 *Accounting Policies, Changes in Accounting Estimates and Errors* as the records are not available to the Group or are misleading. Notwithstanding the Group considers the revenues for the period to be sufficiently reliable and have reported those in the table above.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

24.2 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 acquisitions met the Group's objectives of establishing a foot print in Western Australia and increasing market share in Victoria.

The fair value of the consideration transferred at acquisition date for each of the acquisitions was made up of the following components:

	Glen Waverley Vein	Spectrum Imaging	Joremo Pty Ltd	Imaging Central	Quinns Medical Imaging	West Coast Radiology	Uni- Radiology	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payment for 100% of the Issued Shares in the Entity	-	-	2,904	-	-	-	-	2,904
Payment for Business Assets	1,800	9,524	-	3,974	750	4,977	8,004	29,029
Deferred & Contingent Consideration Payable	550	2,000	277	1,000	50	300	-	4,177
Assumed:								
-Employee Entitlements	10	124	9	67	48	80	141	479
-Make Good Provision	-	113	19	19	19	38	76	284
Net current assets acquired	-	-	(227)	-	-	-	-	(227)
Recognition of Plant & Equipment	-	(3,139)	(1,612)	(588)	(572)	(914)	(174)	(6,999)
Other intangible asset								
- Referrer Relationship	-	(879)	-	(491)	(58)	(1,068)	-	(2,496)
Recognition of Deferred Tax Asset	(3)	(37)	(3)	(20)	(14)	(24)	(42)	(143)
Recognition of Deferred Tax Liability	-	264	-	147	17	321	-	749
	2,357	7,970	1,367	4,109	240	3,709	8,005	27,757

The accounting for the acquisition of all of these businesses except for Uniradiology have been finalised.

The plant and equipment and other intangible asset comprising the referrer relationship of all the finalised acquisitions were independently valued at acquisition. The plant and equipment is depreciated over their remaining useful life as detailed in Note 2.6.9.

The Referrer Relationships intangible asset reflects the revenue stream from referrers on forwarding patients to a clinic and reflect the relationships that the clinics and the Company's doctors and medical technicians have established with the referrers and the patients over time that is considered separable. This intangible asset is constantly evolving with new patients and referring medical professionals, and as a result it is amortised over 8 years.

The accounting for the acquisition of Uniradiology has been provisionally determined at the end of the reporting period. At the date of finalisation of these consolidated financial statements, the necessary market valuations and other calculations had not been finalised in respect of Uniradiology and they have therefore only been provisionally determined based on the directors' best estimate of the values.

The acquisitions were funded by way of bank loans.

In certain cases, where the contingent consideration was not met, the contingent consideration was reflected in the profit or loss statement.

24.3 Impairment Testing for Cash-Generating Units (CGU) Containing Goodwill and Brand Names

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating unit (CGU), or group of CGUs, expected to benefit from the synergies of the business combination. The recoverable amount of each CGU has been determined based on a value in use calculation which use cash flow projections from financial budgets approved by the Board. In accordance with *AASB 136 Impairment of Assets*, the Group's operations have been tested for any potential impairment charge applicable to the Goodwill valuation carried in the accounts of the Group.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

24.3 Impairment Testing for Cash-Generating Units (CGU) Containing Goodwill and Brand Names (continued)

Management consider that the Groups' operations have identifiable cash flows representing one CGU which was tested for impairment based on value-in-use calculations. The discount rates (pre-tax) used to determine recoverable amounts as at 30 June 2019 for the CGU is 15.0% (2018: 16.3%). The discount rate includes the current actual cost of debt and equity cost based on market comparatives. A terminal value discount rate of 2.5% was applied (2018: 2.5%).

Discounted cash flows for the total operating entity have been estimated based on the Board approved budget for the year ending 30 June 2020. This was then used as the basis to arrive at estimated cash flows for the four years ending 30 June 2024 based on a revenue growth assumption of 3% per annum for the four-year period. The revenue growth assumption was determined after reference to the historical annual growth since 2000 in the applicable sector markets which has averaged over 5% per annum in services performed and over 7% per annum in Medicare billings. While the Group experienced a slowdown in growth during FY19, market growth is expected to continue, supported by the ageing and expanding Australian population and continuing high demand for diagnostic imaging, and therefore has been conservatively estimated at 3%. The operating expense growth has also been conservatively estimated at 3% per annum after reference to an independent reputable economic forecasting service which estimates CPI of 2.3% for 2020 and 2.5% for 2021 and beyond. The terminal value including 2.5% growth has been included in the estimate of recoverable amount, predicated on the continued demand for diagnostic imaging beyond the immediate five year forecast period.

No impairment was noted as a result of this review.

25. Share-Based Payments

Capitol Health Limited operates an incentive plan known as the Capitol Health Limited Employee Incentive Plan ("Plan") which was 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 1,000,000 options and 1,744,765 performance rights (2018: 13,000,000) were issued pursuant to the Plan to executives as listed in the Remuneration Report. The options are unlisted, and the exercise price and vesting information is contained in Note 19.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

26. Financial Assets and Financial Liabilities

26.1 Categories of financial assets and liabilities

Note 2.6.13 provides a description of each category of financial assets and financial liabilities and the related accounting policy. The carrying amount of financial assets financial liabilities are as follows:

\$000	Fair value through profit or loss*	Financial Assets #	Total
30 June 2019			
Financial Assets			
Other financial asset (current)	-	256	256
Other financial asset (non-current)	20,408	-	20,408
Trade and other receivables	-	2,662	2,662
Cash and cash equivalents	-	7,330	7,330
	20,408	10,248	30,656

\$000	Fair value through profit or loss*	Other Liabilities #	Total
30 June 2019			
Financial Liabilities			
Non-current borrowings	-	43,656	43,656
Current borrowings	-	2,005	2,005
Trade and other payables	-	11,498	10,650
	-	57,159	56,311

\$000	Financial Assets #	Total
30 June 2018		
Financial Assets		
Other financial asset (current)	252	252
Other financial asset (non-current)	-	-
Trade and other receivables	1,670	1,670
Cash and cash equivalents	12,137	12,137
Total	14,059	14,059

\$000	Other Liabilities #	Total
30 June 2018		
Financial Liabilities		
Non-current borrowings	3,009	3,009
Current borrowings	979	979
Trade and other payables	10,700	10,700
Total	14,688	14,688

Carried at amortised cost

* Carried at fair value

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

26.2. Derivative Financial Instruments

Cash flow hedge

At 30 June 2019, the Company had an interest rate swap agreement in place with a notional amount of \$10.0m (2018: \$nil) representing 26% of total loan facility as required under the loan facility documents. The swap is being used to hedge the exposure to changes to cash flows related to interest rates under the loan facility. Other than the cash flow hedge referred to above, the Group does not have any other derivative financial instruments.

26.3. Borrowings at Amortised Cost

Borrowings include the following financial liabilities:

	Current		Non-current	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
Carrying amount at amortised cost:				
• External bank borrowings	-	-	38,750	-
• Finance lease liabilities	2,005	979	4,906	3,009
	2,005	979	43,656	3,009
Carrying amount at fair value:				
• External bank borrowings	-	-	38,750	-
• Finance lease liabilities	2,005		4,906	3,009
	2,005	979	43,656	3,009

External borrowings are secured by leasehold improvements and equipment owned by the Company (see Note 13). Current interest rates are variable and average 3.5% (2018: 3.9%). The carrying amount of the external borrowings is considered to be a reasonable approximation of the fair value.

The carrying amount of the all borrowings is considered to be a reasonable approximation of the fair value.

26.4. Other Financial Instruments

The carrying amount of the following financial assets and liabilities is considered a reasonable approximation of fair value:

- trade and other receivables
- cash and cash equivalents
- trade and other payables

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

27. Controlled Entities

	Country of Incorporation	Equity Interest	
		2019	2018
Capital China Operations Pty Ltd	Australia	100%	100%
Capital China Radiology Pty Ltd	Australia	100%	100%
Capital Global Pty Ltd	Australia	100%	100%
Capital Investments Pty Ltd	Australia	100%	100%
Capital Radiology (NSW) Pty Ltd	Australia	100%	100%
Capital Radiology Pty Ltd	Australia	100%	100%
Capital Radiology (WA) Pty Ltd	Australia	100%	-
Capital Treasury Pty Limited	Australia	100%	100%
Capitol Health Holdings Pty Limited	Australia	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%
Radiology Tasmania Pty Ltd	Australia	100%	-
CAJ China Operations Pte Ltd	Singapore	a)	100%
CAJ China Radiology Pte Ltd	Singapore	a)	100%
CAJ Consolidated Pte Ltd	Singapore	a)	100%
CAJ Holdings Pte Ltd	Singapore	100%	100%
CAJ Investments Pte Ltd	Singapore	99.9%	99.9%
Joremo Pty Limited	Australia	100%	100%

a) De-registered 8 April 2019

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.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

28. Parent Entity Disclosure

	2019 \$000	2018 \$000
Financial information		
Operating profit/(loss)	12,785	(7,936)
Total Comprehensive Income	12,785	(7,936)
Total Assets	107,028	100,878
Total Liabilities	-	-
Issued capital	107,632	114,879
Reserves	1,374	762
Retained earnings	(1,978)	(14,763)
Total Equity	107,028	100,878
Guarantees	1,035	3,988

Guarantees

The parent entity has provided financial guarantees in respect of bank overdrafts, finance leases and loans of the subsidiaries totalling \$ 1,035,000 (2018: \$3,988,000), secured by a first registered charge over the assets of the entity.

All entities within the Groups as listed in Note 27 are party to the Deed of Guarantee provided to the company's bankers, National Australia Bank.

Other commitments

The parent entity has no commitments or contingent liabilities (2018: nil).

29. Commitments

Future operating lease rental for continuing operations not provided for in the financial statements and payable are as follows:

	2019 \$000	2018 \$000
Property and facility operating lease commitments		
Within one year	10,917	6,603
One year or later or less than five years	11,999	10,334
More than five years	2,569	624
	25,485	17,561

The Group leases properties and facilities under operating leases. The lease typically run for a period of 3 to 10 years. No renewal options have been assumed to be exercised in the commitment.

Plant and Equipment operating lease commitments		
Within one year	649	1,518
One year or later or less than five years	1,945	1,867
More than five years	1,914	835
	4,508	4,220

During the year ended 30 June 2019 \$8,399,000 was recognised as an expense in the Consolidated Statement of Profit or Loss (2018: \$7,774,000).

The company has the following capital expenditure commitments contracted for

	2019 \$000	2018 \$000
Plant and equipment purchases	650	-

Commitments for capital expenditure include costs associated with the fit-out and refurbishment of certain clinics and related plant and equipment.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

30. Contingencies

30.1 Rental Guarantees

The Group has an obligation to provide rental property guarantees when requested by landlords of the rental premises. These are classified as a contingent liability unless supported by value for value specific deposits.

31. Related Parties

31.1 Key management personnel remuneration

	2019 \$000	2018 \$000
Salaries and fees	1,765,758	1,785,717
STI cash bonus	239,839	781,127
Other short term benefits	30,821	33,163
Termination payments	184,753	-
Consulting fees	-	18,000
Post - employment benefits:		
Superannuation	64,907	80,720
Long term employee benefits	2,179	-
Share-based payments	30,989	147,546
	2,319,246	2,846,273

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to the key management personnel including directors.

Information regarding individual key management personnel compensation as required by Corporation Regulations 2M.3.03 are provided in the Remuneration Report as part of the Directors' Report on pages 11 to 18.

31.2 Other key management personnel transactions with the Company or its subsidiaries

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 Board's 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.

During the financial year there was no such transactions.

32. Events Subsequent to Balance Date

No other matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the results of those operations or the state of affairs of the Group in subsequent financial years.

Notes to the Consolidated Financial Statements

For the Year Ended 30 June 2019

33. Segment Information

The Group has one business segment which is the operation of diagnostic imaging facilities in Australia. The segment is defined by 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 disclosures are required. Overseas controlled entities did not trade during the period.

34. Reconciliation of Cash Flows from Operating Activities

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2019 \$000	2018 \$000
Reconciliation to net cash flows from operations:		
Net profit/(loss) before tax		
Continuing operations	31,397	(9,120)
Discontinuing operations	-	143
Profit/(loss) before income tax	31,397	(8,977)
Adjustments for non-cash income and expense items:		
Depreciation and amortisation	8,900	6,517
Revaluation/(impairment charge)	(19,915)	15,186
Share-based payment expense	740	194
Writeback of contingent consideration	(1,700)	-
Other non-cash expense	487	-
Net finance expense	1,655	4,513
Movements in provisions and employee benefit liabilities	1,749	(267)
Working capital adjustments:		
Decrease in trade and other receivables	991	799
Increase in other net assets	(593)	(54)
Increase in trade and other payables	797	1,743
Contribution of discontinued operations	-	(1,034)
	24,508	18,426
Interest received	90	1,191
Interest paid	(1,883)	(6,503)
Income tax paid	(4,385)	(2,038)
Net cash flows from operating activities	18,330	11,076

35. Auditors Remuneration

Deloitte Touche Tohmatsu was appointed the Company's auditor at the 2018 Annual General Meeting in November 2018. All prior year balances reflect amounts paid to the previous auditor, RSM Australia Partners. The following total remuneration which was received, or is due and receivable, by the auditor of the company in respect of:

	2019 \$000	2018 \$000
Amounts received or due and receivable for:		
Audit of the financial statements	225,000	288,534
Other services:		
Independent Accountant services	-	164,550
Other corporate finance services	52,500	16,400
Network firm of RSM Australia Partners		
Audit and review of Financial Reports	-	23,500
	277,500	492,984

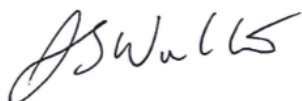
Directors' Declaration

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 2018 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 2019.

Signed in accordance with a resolution of the Directors.



Justin Walter
Managing Director
Melbourne, Victoria
27 August 2019

Independent Auditor's Report to the members of Capitol Health Limited

Report on the Audit of the Financial Report

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 2019, 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 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 2019 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 for 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 Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Accounting for business combinations</i></p> <p>The Group completed seven business combinations during the year ended 30 June 2019. The total purchase consideration was \$36.1m and goodwill arising on acquisition amounted to \$27.6m.</p> <p>Accounting for the acquisition required management judgement in relation to the identification and valuation of the assets acquired and the liabilities assumed at acquisition date.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating management’s assessment of the transactions in accordance with the relevant accounting standards. • Evaluating completeness of the assets and liabilities identified in the acquisition accounting against the sale and purchase agreement and our understanding of the businesses acquired, including the estimate of contingent consideration where applicable. • Assessing management’s purchase price allocation in relation to the acquisition, including relevant information that management obtained from their valuation specialists in relation to the identification and valuation of identifiable assets acquired and liabilities assumed are in accordance with the relevant accounting standards. • In conjunction with our valuation specialists challenging the work performed by management by: <ul style="list-style-type: none"> • Assessing the competence and objectivity of management’s experts where applicable; • Assessing the appropriateness of the models utilised in the valuation of identifiable assets acquired; and • Validating the assumptions used in the model against historical performance and industry benchmarks. • Evaluating the useful lives associated with the acquired tangible and intangible assets including assessment of management’s estimation and whether it is consistent with Group policy and/or the relevant accounting standards. <p>We also assessed the appropriateness of the disclosures in Note 24 to the financial statements.</p>
<p><i>Carrying value of goodwill</i></p> <p>As at 30 June 2019, goodwill totalling \$102.6m has been recognised as disclosed in Note 14.</p> <p>The Group is required to annually assess the carrying value of goodwill. This is performed through value-in-use discounted cash flow models. The value in use calculations include key assumptions and judgements in the calculation of the recoverable amounts, namely forecast future cash flows, the long term growth rate and discount rate assumptions.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness of management’s identification of the Group’s CGU to which the goodwill is allocated. • Assessing the reasonableness of cash flow projections and assessing growth rates. • Engaging our valuation specialists to assess the key assumptions and methodology used by management in the impairment model, in particular the discount rate and the terminal growth rate. • Evaluating the value in use estimates determined by the Group against its market capitalisation. • Testing the mathematical accuracy of the impairment model. <p>We have also assessed the appropriateness of the disclosures in Note 14 to the financial statements.</p>

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Carrying Value of Investment in unlisted entity</i></p> <p>As disclosed in Note 12, the Group has an investment in an unlisted entity ('Enlitic') carried at \$20.4m as at 30 June 2019. For the year ended 30 June 2019, the investment is accounted for at fair value through profit or loss (FVTPL).</p> <p>The assessment of the fair value requires management to exercise significant judgement in determining the appropriate valuation method to be applied and the key inputs used in the valuation model, namely the valuation of Capitol Health's share in Enlitic is based on the enterprise value as determined through the current capital raise.</p>	<p>Our audit procedures included, but were not limited to;</p> <ul style="list-style-type: none"> • Obtaining an understanding of the process that management have undertaken to assess the fair value of the unlisted investment. • Engaging our valuation specialists to assess the key assumptions and methodology used by management in the fair value calculation, namely the appropriateness of using the enterprise value implicit in the current capital raise to value Capitol Health's share holdings. • Verifying key inputs used in the valuation model. • Testing the mathematical accuracy of the valuation model. <p>We have also assessed the appropriateness of the disclosures in Note 12 to the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 has 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 18 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Capitol Health Limited, for the year ended 30 June 2019, 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.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Anneke Du Toit
Partner
Chartered Accountants
Melbourne, 27 August 2019

Shareholder Information

Details of Shares and Options as at 8 August 2019:

Top Holders

The 20 largest holders of each class of equity security as at 8 August 2019 were:

Fully Paid Ordinary Shares

Name	No. of Shares	%
J P Morgan Nominees Australia Pty Limited	89,865,416	11.69
HSBC Custody Nominees (Australia) Limited	72,036,226	9.37
National Nominees Limited	69,368,354	9.03
Citicorp Nominees Pty Limited	47,491,313	6.18
UBS Nominees Pty Ltd	44,247,492	5.76
BNP Paribas Nominees Pty Ltd <DRP>	43,004,189	5.60
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	31,968,627	4.16
Idinoc Pty Ltd <J & R Conidi Family A/C>	27,477,886	3.58
CS Third Nominees Pty Limited < HSBC Cust Nom Au Ltd 13 A/C>	22,257,755	2.90
HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	13,865,967	1.80
Gia Chau Pty Ltd	12,100,000	1.57
Nick Conidi Pty Ltd <Conidi Family A/C>	11,764,740	1.53
Neweconomy Com Au Nominees Pty Limited <900 Account>	11,738,017	1.53
Stelhaven Smsf Pty Ltd <Stelhaven Super Fund A/C>	6,320,843	0.82
Mr Nicola Conidi + Mrs Giannina Conidi <Nick & Jan Conidi S/F A/C>	6,160,486	0.80
Teleah Pty Ltd <Jr Sauvey Super Fund A/C>	4,126,900	0.54
Mr Andrew Duncan Harrison + Mrs Katrina Ellen Harrison <Harrison Super Fund A/C>	3,575,772	0.47
Relentless Corporation Pty Ltd <Sun Tzu A/C>	3,494,150	0.45
Mr Thanh Phuoc Lu + Mrs Thi Anh Tuyet Lu	3,368,668	0.44
Julsan Pty Ltd <Ponte Super Fund A/C>	3,133,740	0.41
	52,736,6541	68.63

Distribution Schedules

A distribution of each class of equity security as at 8 August 2019:

Range	Total holders	No. of shares	% Units
1 - 1,000	463	149,410	0.02
1,001 - 5,000	1,329	4,033,500	0.52
5,001 - 10,000	1,001	7,974,864	1.04
10,001 - 100,000	2,619	92,803,647	12.08
100,001 Over	481	663,483,404	86.34
	5,983	768,444,825	100%

Shareholder Information

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:

Substantial Shareholder	No. of shares	%
Challenger Limited	71,682,740	9.27
National Nominees Ltd ACF Australian Ethical Investment Limited	60,315,023	7.82
Paradice Investment Management Pty Ltd	59,087,062	7.66
Lennox Capital Partners Pty Ltd	58,314,530	7.52
Regal Funds Management Pty Ltd	45,040,206	5.84

Unmarketable Parcels

Holdings less than a marketable parcel of ordinary shares (being 2,222 at \$0.225 per share as at 8 August 2019):

Fully Paid Ordinary Shares	Holders	No. of shares	%
Holdings less than a marketable parcel	913	904,496	11.77

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

The Company has a current on-market buy-back with ability to acquire up to 76,844,482 ordinary shares over a 12 month period to 8 August 2020.

END OF REPORT