CAPITOL HEALTH LIMITED

ASX Appendix 4E

Preliminary Final Report to the Australian Securities Exchange
Capitol Health Limited and Controlled Entities – ABN 84 117 391 812
Period ending 30 June 2018

The following information is provided to the ASX under listing rule 4.3A

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

Reporting Period	Financial year ended 30 June 2018
Previous Corresponding Reporting Period	Financial year ended 30 June 2017

2. Results for announcement to the market

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

$ Revenue from Ordinary Activities - current period	$'000	129,072
$ Revenue from Ordinary Activities - previous period	$'000	162,461
$ change in Revenue from Ordinary Activities	$'000	(33,389)
% change from previous corresponding reporting period	% DOWN	-20.6%

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

$ Profit (loss) from ordinary activities after tax - current period	$'000	(10,913)
$ Profit (loss) from ordinary activities after tax - previous period	$'000	(4,061)
$ change in profit (loss) from ordinary activities after tax	$'000	(6,852)
% change from previous corresponding reporting period	% DOWN	-168.7%

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

$ Net profit (loss) attributable to members - current period	$'000	(10,913)
$ Net profit (loss) attributable to members - previous period	$'000	(4,061)
$ change in net profit (loss) attributable to members	$'000	(6,852)
% change from previous corresponding reporting period	% DOWN	-168.7%

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

A fully franked Interim Dividend was declared for the 6 months ending 31st December 2017 at an amount of $0.004 (0.4 cent) per security.

A fully franked Final Dividend has been declared for the 6 months ending 30th June 2018 at an amount of $0.004 (0.4 cent) per security.

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

The record date for determining the entitlement to the Final Dividend is 27th September 2018.

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

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

3. A statement of comprehensive income together with notes to the statement, prepared in compliance with AASB 101 'Presentation of Financial Statements' or the equivalent foreign accounting standard.

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

4. A statement of financial position together with notes to the statement. The statement of financial position may be condensed but must report as line items each significant class of asset, liability, and equity element with appropriate sub-totals.

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

5. A statement of cash flows together with notes to the statement. The statement of cash flows may be condensed but must report as line items each significant form of cash flow and comply with the disclosure requirements of AASB 107 "Statement of Cash Flows', or for foreign entities, the equivalent foreign accounting standard.

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

6. A statement of retained earnings or a statement of changes in equity, showing movements.

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

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

An Interim Dividend was declared for the 6 months ended 31st December 2017 at an amount of $0.004 (0.4 cent) per security. The Interim Dividend total was $3,209,826 was paid on 3rd April 2018 to 802,456,607 shares on issue.

A fully franked Final Dividend has been declared for the 6 months ended 30th June 2018. The Final Dividend is declared at an amount of $0.004 (0.4 cent) per security. The Final Dividend of $3,223,856 is payable on 805,964,190 ordinary shares on issue at the Record Date. All shareholders at the Record Date are eligible to participate in the Dividend Reinvestment Plan. Record Date for the Final Dividend is 27th September 2018. The Payment Date of the Final Dividend is 25th October 2018.

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

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

The shareholders of Capitol Health Limited approved a dividend reinvestment plan at a general meeting held on 20th December 2011.

The last date for receipt of an election notice to participate in the Dividend Reinvestment Plan in relation to the Final Dividend declared is 12th October 2018.

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

Net tangible Assets per Security	Cents	3.069
Previous corresponding period	Cents	(0.586)

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

10.1 Name of the entity.

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

10.2 The date of the gain or loss of control.

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

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

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

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

None

11.1 Name of the associate or joint venture entity.

Not applicable

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

Not applicable

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

Not applicable

12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.

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

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

Not applicable

14. A commentary on the results for the period. The commentary must be sufficient for the user to be able to compare the information presented with equivalent information for previous periods. The commentary must include any significant information needed by an investor to make an informed assessment of the entity's activities and results, which would include but not be limited to discussion of the following.

14.1 The earnings per security and the nature of any dilution aspects.

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

14.2 Returns to shareholders including distributions and buy backs.

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

14.3 Significant features of operating performance.

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

14.4 The results of segments that are significant to an understanding of the business as a whole.

No segment information required as the Company operates as a single segment.

14.5 A discussion of trends in performance.

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

14.6 Any other factors which have affected the results in the period or which are likely to affect results in the future, including where the effect could not be quantified.

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

15. A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed.

This report is based on accounts that have been audited.

16. If the accounts have not yet been audited and are likely to contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.

Not applicable

17. If the accounts have been audited and contain an independent audit report that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.

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

Dated at Melbourne, Victoria this 28th day of August 2018.

Signed in accordance with a resolution of the Directors:

Andrew Harrison
Managing Director
Capitol Health Limited

CAPITOLHEALTH
LIMITED

ABN 84 117 391 812

2018 ANNUAL REPORT

Contents

Corporate Directory

Directors

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

Company Secretary

Ms Melanie Leydin – Company Secretary

Principal Place of Business and Registered Office

Level 3, 81 Lorimer St, Docklands, VIC 3008

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

Auditor

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

Solicitors (Corporate)

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

Dear Fellow Shareholders,

On behalf of the Board of Directors of Capitol Health Limited, it is with great pleasure that I present to you our 2018 Annual Report.

Capitol is a leading provider of diagnostic imaging services to the Australian healthcare market. Our 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.

Despite being a challenging period, the 2018 financial year was a record year for Capitol. The financial results were strong, and these are detailed in the highlights below.

During the 2018 financial year a number of successful acquisitions were competed — I-Rad, a radiology clinic with a strong local patient and referrer base, and Radiology Tasmania, which is one of Tasmania's major diagnostic imaging providers. Both have fitted very well into the Capitol group.

Since balance date, the Company also acquired 9 independent clinics across Perth and Melbourne with service offerings including sub specialty intervention and pain management, Cardiac CT, and general radiology, and resulted in a number of well-respected doctors joining the Capitol group. These acquisitions signify Capitol's entry into the Western Australian market.

During the 2019 financial year, Capitol will continue to make strategic acquisitions within the radiology space across high value growth corridors and new geographic territories.

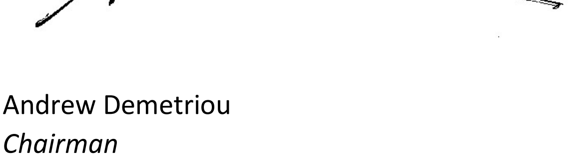
Highlights:

- Revenue of $129.1 million
- EBITDA (before transaction costs) of $24.2 million, up 9% over the prior period and slightly ahead of mid-range of market guidance
- The Company's Balance Sheet remains sound with net cash at year-end of $8 million
- Fully franked dividends for the year of 0.8 cps

The Company made an unsuccessful takeover bid for Integral Diagnostics during the year. While we accept full responsibility for the burden on the business of additional costs related to the transaction, we also believe that strategic consolidation will bring significant benefits to those who participate. In fact we have recently seen significant interest in consolidation from both industry and financial players.

On behalf of the Board, I would like to thank our doctors and employees for their efforts and outstanding patient care during the year. I would also like to thank patients who used our services and importantly the large group of referrers who supported our business. Lastly, our management team led by Managing Director, Andrew Harrison have transformed our business over the last 2 years, created significant value for shareholders, and continue to deliver on our strategy as we move into the 2019 year with great confidence.

Regards,



Andrew Demetriou
Chairman
Melbourne, Victoria
28 August 2018

Dear Fellow Shareholders,

I am once again very pleased to report on a period of significant progress at Capitol Health Limited. We have moved beyond what was a difficult period of restructuring for the Company to a more forward looking and strategically ambitious trajectory.

During the period we performed in line with guidance on EBITDA (before transaction costs) and delivered $24.2m, with a year on year increase in revenue of $10.3m or 9.4% from continuing operations. Operating margins continued to improve through the impact of operational leverage and cost reductions to be ~19% and expect these levels to be maintained through FY19.

We have declared a full year dividend of 0.4 cents per share and when combined with an interim dividend of 0.4 cents per share represents 0.8 cents per share for the period. We believe that this will be the basis for a growing and sustainable dividend stream over coming periods.

I wrote to you in February to report on our achievements in the first half of the year which in themselves were substantial. They included the completion of the sale of our NSW business to I-Med, capital management activities including a share buyback and the reintroduction of dividends, and acquisitive and organic growth of the business. We redoubled our efforts in focussing on our clinicians and the vital role they play in the governance and growth of the whole business. The Company continues to operate several Fellowship training programs and has successfully recruited a number of well-respected doctors to the group.

The second half of the year was another period of achievement. The Company has announced acquisitions across Victoria, Tasmania and Western Australia totalling $50m in consideration with expected annual revenues of $36m and EBITDA of $7.5m (at an average multiple of ~6.7x). Providing both substantial geographic diversification and additional platforms for growth in new territories. The Company continues to evaluate and progress an acquisition pipeline and holds a firm belief in the potential success of these endeavours across each territory.

Balance sheet restructuring was also completed during the period with the $50m unsecured note redemption finalised in May delivering an expected annual interest expense saving of ~ $2m. In conjunction with the note redemption the Company's principal lender, National Australia Bank Limited approved a suite of new banking facilities totalling up to $130m with a significant reduction in margin – up to 30 basis points while financial covenants remain unchanged.

At balance date the Company remains in a strong financial position with net cash of circa $8m and unused facilities of $130m. The new facilities provide enhanced balance sheet flexibility, highlights NAB's continued and strengthened support of Capitol's growth strategy, reduces the company's funding costs and enables the delivery of a strong and accretive acquisition pipeline over the near term.

As part of Capitol's strategy of improved clinical focus and Doctor engagement the Company introduced a Doctor equity incentive scheme. The scheme is intended to be offered to Doctors on an ongoing basis. The first grant of options was completed in May and involves the issue of 27.9 million options (~3.5% of the Company) at a strike price of $0.3006 (30.06 cents per option), to Doctors of the group. 90% of eligible Doctors elected to participate.

The grant of options to eligible Doctors assists in the motivation, retention and reward of Doctors of the Company and its subsidiaries. These options also form an important part of a comprehensive remuneration strategy for the Company's employees, aligning their interests with those of the Company. Further, it seeks to reward performance in support of achievement of business strategy and allows the participant the opportunity to share in the growth in value of the Company.

Significantly, regulatory headwinds experienced in prior periods have abated and industry sentiment is becoming increasingly positive.

A strong focus on revenue and margin quality resulted in the elimination of several reporting relationships with Capital branded (but not Company owned) clinics and other lower margin teleradiology agreements during the period. It is expected that the balance of these relationships will be eliminated in FY19 but will not have a material impact on revenues. In conjunction with this focus on revenue quality, more patchy and subdued revenue growth in the second half (also reflected in Medicare system growth) resulted in the headline value of organic revenue growth being below system growth.

The strong focus for the next period will be to both grow the business through executing an exciting acquisition pipeline and deploy growth capital to investment in additional equipment and modalities at existing clinics, along with investment in a number of new greenfield sites.

Despite the unsuccessful takeover offer for Integral Diagnostics during the period Capitol continues to hold the view that there is strong strategic merit of a combination, and that industry consolidation has and will continue to occur. The Boards intention is always to focus on the disciplined deployment of our resources in order to maximise shareholder returns.

The resultant market performance of the Company reflected these achievements with the market capitalisation reaching a peak of $273m and finished the period up ~ 25% on the previous period.

Finally, I would like to take this opportunity to thank our shareholders and our staff for their ongoing faith in the Company. We have achieved much over the last 12 months and remain focused on maintaining this momentum throughout 2019.

Andrew Harrison
Managing Director
Melbourne, Victoria
28 August 2018

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 2018, 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 Non-Executive Director of Crown Resorts Limited (ASX:CWN) and is a Non-Executive Director of BetEasy Pty Ltd.

Mr Andrew Harrison, BCom (Hons)
Managing Director and Chief Executive Officer

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

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

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

Nicole Sheffield is the Executive General Manager, Community and Consumer at Australia Post and is responsible for the retail network.

Ms Sheffield was previously the Chief Digital Officer of News Corp Australia and was responsible for the company's digital revenue growth and strategy; audience and subscription growth; content optimisation and marketing; and digital product innovation.

Ms Sheffield's other previous roles include General Manager of Foxtel's LifeStyle Channels Group, senior executive roles at Seven West Media's Pacific Magazines and management roles in the multimedia division of Telstra.

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

Mr Richard Loveridge BCom, LLB, Grad Dip App Fin
Non-Executive Director – Appointed 5 September 2017

Mr Loveridge served as a Partner in the Corporate Group at Herbert Smith Freehills Lawyers for more than 20 years. Recently he had Managing Partner responsibility for the National Corporate Group. He is currently a consultant to Herbert Smith Freehills. 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.

Company Secretary

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

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

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

Directorships in Other Listed Entities

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

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

Directors' Meetings

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

Director	Board		Nomination & Remuneration Committee		Audit & Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Mr A Demetriou	23	23	2	2	2	2
Mr A Harrison	23	23	2	2	1	1
Ms N Sheffield	23	20	2	2	2	2
Mr R Loveridge	20	20	-	-	1	1

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, Appointed 13 October 2017)
Ms N Sheffield	Mr A Demetriou
Mr R Loveridge (Appointed 13 October 2017)	Ms N Sheffield
Mr A Harrison (Resigned 13 October 2017)	Mr A Harrison (Resigned 13 October 2017)

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, New South Wales and Tasmania.

The Company conducts more than 1 million procedures every year and employs over 700 people including approximately 60 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 brands of Capital Radiology, Radiology Tasmania and Imaging @ Olympic Park the Company provides a range of diagnostic imaging services. Approximately 90% of revenue is generated through X-Ray, Ultrasound, CT and MRIs; additional offerings include nuclear medicine, mammography/breastscreen, bone densitometry, and other related services.

In August 2017 the Company disposed of its NSW assets to I-Med Radiology Network for total consideration of $81.5m (less $1.2m cash adjustment for employee entitlements).

Results

The Group made a net loss after tax for the year ended 30 June 2018 of $10,913,000 (2017: loss of $4,061,000).

Operating and Financial Review

Overview

Major Acquisitions and Organic Growth

Capitol launched a growth strategy during the financial year after the sale of its NSW clinics in August 2017 with the following acquisitions and organic growth occurring during the financial year:

- Radiology Tasmania Pty Limited – operates 5 clinics in Tasmania and the purchase of 100% of the issued share capital occurred on 1 February 2018.
- I-Rad Radiology – a clinic in Sunshine, Melbourne and the purchase of the business occurred on 23 January 2018.
- Opened two new clinics in Melbourne.

Since the end of the financial year Capitol has continued its growth strategy with the following acquisitions:

- Specialist Vein Care and is being 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, and
- Imaging Central - a clinic in Claremont, Perth

The one-off costs incurred to the end of the financial year to complete these transactions are recorded as Transaction Costs in the Consolidated Statement of Profit or Loss.

Lapsed Takeover Offer

During the financial year the Group made a takeover bid to acquire Integrated Diagnostics Limited ("IDX") with an offer of cash and Capitol shares. The offer was made after previous merger discussions between both companies could not conclude a deal. The potential combined company would have created a strong new force in the Australian diagnostic imaging market that would have delivered benefits to shareholders, patients, doctors and employees of both entities. While the offer had support from a number of institutional investors of both companies it was met with strong opposition from the IDX board and certain shareholders which resulted in Capitol allowing the offer to lapse.

The one-off costs incurred with the offer are included in Transaction Costs in the Consolidated Statement of Profit or Loss.

Operating Review

The current financial year had no material legislative changes that impacted the industry. Capitol welcomes the Government's indexation plans for Medicare rebates from July 2020 – the first indexation since 2004 that was announced in the 2017 Budget.

In the current financial year the national Medicare rebates grew 6.7% but only 6.1% in Victoria and Tasmania where Capitol predominantly operates. The Group's Operating Revenue from continuing operations increased over the preceding year by 10.2% - where 6.1% was attributable to current year acquisitions and new clinic openings.

The benefits of the restructuring program announced in November 2016 have eventuated in the current financial year where the Group's Operating Expenses from Continuing Operations reduced by 4.3% before taking account of the current year acquisitions and new clinic openings and with current year acquisitions and new clinic openings they increased by 2.5% over the preceding year.

Financial Review

Key Financial Metrics

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

- Earnings Before Individually Significant Items ("ISI"), Interest, Income Tax, Depreciation & Amortisation ("EBITDA") increased by 9.0% to $24.2 million (2017: $22.2 million) comprising:

  - Continuing operations increased by 58.0% to of $23.0 million (2017: $ 14.6 million), and
  - Discontinued Operations of $1.2 million (2017: $1.2 million).

- EBITDA Margin (EBITDA as a percentage of Revenue) was 18.7% (with continuing operations being 19.1%) for the current year which was up 5% from 13.5% in 2017.

Individually Significant Items

During the financial year there were a number of ISI being:

- the impairment of unlisted investments of $15,186,000 (2017: Nil) as the Directors deemed the fair value as nil due to either the current uncertainty around ongoing funding negotiations, the absence of any market or similar transactions and the elucidation of ongoing liquidity needs,
- transactions costs of $4,452,000 (2017: Nil) were incurred for the acquisitions completed during the financial year (and those completed subsequent to balance date) and the lapsed takeover offer, and

- costs incurred with the development of opportunities in China were $269,000 (2017: $436,000).

Capital Management Initiatives

During the year the following significant capital management initiatives occurred where the Company:

- received the proceeds of the sale of its NSW clinics which funded the repayment of the Unsecured Notes in May 2018 being the earliest redemption date,
- conducted a share buy-back of 8,641,858 shares, and
- renegotiated with its principal lender – National Australia Bank Limited - to provide a suite of new banking facilities as detailed in Note 16 to the Financial Statements. The highlights their continued and strengthened support of Capitol's growth strategy as well as providing Capitol a significant reduction in ongoing funding costs.

Property and Asset Divestment

During the financial year the Group completed its property sale program and received $0.8m proceeds on the last remaining property.

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.

Significant Changes in the State of Affairs

During the financial year Consolidated Net Assets decreased by $17.2 million (2017: increase of $34.4 million) to $101.9 million. The major contributing factors to this change were:

- the loss for the year of $10.91 million (2017: loss of $4.06 million),
- a reduction in Share Capital as a result of the share buy-back of $2.5 million (2017: Nil),
- the purchase of treasury shares of $2.74 million (2017: Nil), and
- the cash component of the interim dividend of $2.53 million paid during the financial year (2017: Nil)

offset by:

- the consideration received on the exercise of options of $0.37 million,
- derecognition of Currency Translation Reserve of $0.7m (2017: Nil) as a consequence of the impairment of unlisted investments, and
- an increase in the valuation of options on issue of $0.7 million (2017: $0.1 million).

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

The Directors are not aware of any other matter or circumstance that has occurred since the end of the 2018 financial year that has significantly affected or may significantly affect the operations of the Group, the results of these operations or the state of affairs of the Group in subsequent financial years.

Dividends

With the turnaround in the Company's finances and debt position the Board were able to reinstate dividends in the financial year and subject to corporate, legal and regulatory considerations expects this to continue in future years. In this context, Capitol notes that it currently has a franking account balance of approximately $9.16m.

Dividends Paid During the Financial Year

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

	2018		2017	
	$ Per Share	$	$ Per Share	$
Final Dividend for the Preceding Financial Year	$0.000	-	$0.000	-
Interim Dividend for the Year Ending 30 June	$0.004	3,209,826	$0.000	-
		3,209,826		-

All dividends paid were fully franked.

Dividend Reinvestment Plan ("DRP")

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

Dividends converted into ordinary shares under the DRP for the interim dividend paid during 2018 was $679,366 for 2,507,592 shares at an issue price of $0.271 (2017: Nil).

There was no final dividend paid in 2018 and accordingly no shares issued under the DRP (2017: Nil).

Events Subsequent to Balance Date

Subsequent to balance date:

a) the Company declared a fully franked final dividend for the current financial year of $0.004 per share (2017: $0) and based on the number of shares on issue at 30 June 2018 is $3,223,857 (2017: $0) to be paid on 26 October 2018.

b) the Group completed the following acquisitions:

i. on 12 July 2018 it acquired the business of Specialist Vein Care and is amalgamating it with the Company's clinic at Vermont Private Hospital,

ii. on 16 July 2018 it acquired the business of Spectrum Imaging with 6 clinics – 3 in metropolitan Perth and 3 in Melbourne,

iii. on 20 July 2018 it acquired all the shares in Joremo Pty Limited which operates the business of Integrated Radiology – a clinic in East Fremantle, and

iv. on 3 August 2018 it acquired the business of Imaging Central with a clinic in Claremont, Perth.

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 6 Perth clinics is the Group entry into this market and will provide a critical mass to grow the business.

The total cost of these acquisitions is approximately $22.0 million based on amounts paid, bank loans assumed and deferred and contingent consideration payable.

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

Likely Developments, Business Strategies and Prospects

Australia

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

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

International

In February 2017 the Company entered into an equity joint venture agreement ("JV") with CITIC Pharmaceutical (Shenzhen) Co., Ltd ("CITIC Pharmaceutical") to provide consulting and clinic management services to a network of independent imaging clinics to be created by CITIC across mainland China. The name of the Joint Venture is Xin Ao United Medical Imaging Management (Shenzhen) Co., Ltd.

Corporate Governance

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

Directors' Interests

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

Director	Ordinary Shares	Share Options	Performance Rights
Mr A Demetriou	150,000	-	-
Mr R Loveridge	200,000	-	-
Mr A Harrison	3,575,773	10,000,000	1,695,062

Options

Options Granted to Directors and Key Management Personnel

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

Unissued Shares under Option

At the date of this report, there are 42,095,062 unissued ordinary shares of the Company under option or performance rights (2017: 13,000,000).

Indemnification and Insurance

Indemnification of Officers

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

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

Insurance Premiums

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

Indemnification of Auditors

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

Non-Audit Services

The Company's auditor, RSM Australia Partners during the year provided non-audit services of $180,950 (2017: Nil) as detailed in Note 30 to the Financial Statements. These services were provided by their Corporate Finance division for Independent Accountants and similar services.

The Directors are satisfied that the provision of non-audit services provided during the financial year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in Note 30 to the Financial Statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20 of the financial report.

Audited Remuneration Report

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

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

The KMP of the Group are:

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

The table below outlines the KMP of the group and their movements during the 2018 financial year:

Name	Position Held	Period
Non- Executive Directors		
Mr A Demetriou	Chairman & Non-Executive Director	Full Financial Year
Ms N Sheffield	Non-Executive Director	Full Financial Year
Mr R Loveridge	Non-Executive Director	Appointed 5 September 2017
Executive Directors		
Mr A Harrison	Managing Director	Full Financial Year
Senior Executives		
Ms M Gibson	General Manager Operations (Victoria)	Full Financial Year
Mr K Birchall	Head of Finance	Full Financial Year
Mr R Shnier *	Chief Executive Officer (NSW)	Role Redundant 31 August 2017
Mr J Harkness	Chief Financial Officer	Role Redundant 14 July 2017
Ms J Currie	General Counsel & Company Secretary	Role Redundant 1 September 2017

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

(a) Remuneration Policy

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

The compensation structures take into account:

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

(b) Remuneration Governance

Nomination and Remuneration Committee

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

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

Remuneration Consultants

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

(c) Non-Executive Director Remuneration

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

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. The aggregate maximum amount of remuneration for all Non-Executive Directors, last voted upon by shareholders at the 2017 Annual General Meeting, is not to exceed $600,000 per annum. Directors' fees cover both all main board activities and membership of board committees.

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

(d) Executive Remuneration

The Managing Director and Senior Executives all have written agreements with the Company setting out the terms of their employment. Key terms of employment for the other Executive KMPs are formalised in an Employment Agreement. The major provisions of those agreements relating to remuneration are set out below:

Name	Term of Agreement	Notice Period Provided By Company	Notice Period Provided By Executive
Mr A Harrison	Ongoing	12 months	12 months
Ms M Gibson	Ongoing	3 months	3 months
Mr K Birchall	Ongoing	6 months	3 months

Changes to Key Terms of Managing Director's Employment

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

- the fixed remuneration of the Managing Director was increased by $50,000 to $700,000 per annum effective 28 August 2018,

- the Managing Director's STI remains at 75% of his fixed remuneration subject to a mix of personal and performance objectives determined by the Board, and
- an additional long-term incentive for the current financial year of performance rights up to 75% of total fixed remuneration with appropriate service and performance hurdles to be determined by the Board and subject to shareholder approval.

Fixed Compensation

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

Other Benefits

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

Short-Term Incentives

KMP of the Company were awarded STI payments or bonuses during or related to the 2018 financial year that were dependant on the satisfaction of performance conditions that were chosen deliberately to align the targets and financial performance of the business with the Executives meeting those targets. Whilst those performance conditions were aligned with the Company's short term objectives, they were also consistent with the long term strategy of the Company.

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

Mr A Harrison was awarded a total STI of $487,500 in respect of his performance during the 2018 financial year for the achievement of targets relating to debt restructuring and cost reduction, EBITDA performance, safety and compliance objectives which resulted in a significant improvement in shareholder value including the re-introduction of dividends, increasing the market capitalisation of the Company by more than 24% - more than 2.5 times the Australian Stock Exchange All Ordinaries Index, a substantial growth in the number of clinics – 15 by acquisition and 2 greenfield sites and delivering a stronger and broader institutional shareholder base.

Mr R Shnier was paid an STI of $93,627 in respect of his radiology work.

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

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

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

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

As part of the Employee Incentive Plan:

2018 Financial Year

- 1,695,062 performance rights were issued to Mr Andrew Harrison in December 2017. Vesting of the rights only occurs if the Group exceeds its long-term performance targets over a three-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,

- 1,500,000 employee options were issued to Mr Kenneth Birchall in June 2018. The options have an exercise price of 30.06 cents, with 50% vesting on 15 June 2019, 30% vesting on 15 June 2020, and 20% vesting on 15 June 2021 and the shares issued on exercise to rank equally with all other shares on issue.

2017 Financial Year

- 10,000,000 employee options were issued to Mr Andrew Harrison. The options have an exercise price equal to a 50% premium on the Volume Weighted Average Price (VWAP) for the five trading days ending on 11 November 2016 being 17.85 cents with half vesting on 17 November 2016 and the other half vesting on 17 November 2017.

- 3,000,000 options were issued to key management personnel in November and December 2016 with 2,000,000 options being exercised in the 2018 financial year.

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 Plan rules:

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

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

(e) Consequence of Performance on Shareholder Wealth

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

	Units	**2018**	**2017**	**2016**	**2015**
Net Profit / (Loss) for the Financial Year	$'000	($10,913)	($4,061)	($4,684)	$3,864
Dividends Paid	$'000	$3,210	$0	$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	32.5	26.0	16.0	76.5
Change in Share Price	cents	6.5	10.0	-60.5	32.0
Earnings Per Share (Basic)	cents	-1.36	-0.69	-0.90	0.81

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

Remuneration of Key Management Personnel

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

Key Manager's Name / Financial Year		Short-Term					Post-Employ	Long-Term	Share-Based				
		Salary & Fees	STI Cash Bonus #1	Other Benefits #2	Termination Benefits	Consulting Fees	Super-annuation Benefits	Long Service Leave	Options & Performance Rights	Total	Performance Related	Share-Based Share of Total	Exit Date
		$	$	$	$	$	$	$	$	$	%	%	
Non-Executive Directors													
Mr A Demetriou	2018	254,160	-	-	-	18,000	-	-	-	272,160	0.0%	0.0%	N/A
	2017	205,961	-	-	-	-	6,029	-	-	211,990	0.0%	0.0%	
Ms N Sheffield	2018	90,000	-	-	-	-	-	-	-	90,000	0.0%	0.0%	N/A
	2017	70,000	-	-	-	-	-	-	-	70,000	0.0%	0.0%	
Mr R Loveridge	2018	66,385	-	-	-	-	6,307	-	-	72,692	0.0%	0.0%	N/A
Mr A Harrison	2017	18,308	-	-	-	116,000	-	-	-	134,308	0.0%	0.0%	N/A
Executive Directors													
Mr A Harrison	2018	633,076	487,500	(8,084)	-	-	20,049	-	128,111	1,260,652	48.8%	10.2%	N/A
	2017	395,576	400,000	10,536	-	-	14,335	-	183,830	1,004,277	58.1%	18.3%	
Mr J Conidi #3	2017	192,880	-	14,750	451,000	-	7,545	6,074	541,350	1,213,599	44.6%	44.6%	04-Nov-16
Mr P Lewis	2017	115,385	-	8,875	375,000	-	3,018	-	-	502,278	0.0%	0.0%	19-Aug-16
Senior Managers													
Ms M Gibson	2018	315,702	100,000	4,616	-	-	20,049	-	15,434	455,801	25.3%	3.4%	N/A
	2017	314,037	100,000	14,501	-	-	19,616	-	13,116	461,270	24.5%	2.8%	
Mr K Birchall	2018	264,806	100,000	19,061	-	-	20,049	-	4,001	407,917	25.5%	1.0%	N/A
Mr R Shnier #4	2018	98,127	93,627	12,500	-	-	5,398	-	-	209,652	44.7%	0.0%	31-Aug-17
	2017	530,651	708,540	(27,300)	63,415	-	19,316	-	-	1,294,622	54.7%	0.0%	
Mr J Harkness	2018	20,192	-	1,942	-	-	5,012	-	-	27,146	0.0%	0.0%	14-Jul-17
	2017	188,461	-	3,313	187,500	-	11,317	-	23,087	413,678	5.6%	5.6%	
Ms J Currie	2018	43,269	-	3,128	-	-	3,856	-	-	50,253	0.0%	0.0%	01-Sep-17
	2017	202,194	80,000	13,967	142,788	-	18,862	-	33,477	491,289	23.1%	6.8%	
Total, All Key	2018	1,785,717	781,127	33,163	-	18,000	80,720	-	147,546	2,846,273	32.6%	5.2%	
Management	2017	2,233,452	1,288,540	38,642	1,219,703	116,000	100,038	6,074	794,860	5,797,310	35.9%	13.7%	

Notes:

#1 - STI Bonuses is remuneration paid during the year or accrued at the end of the financial year and specifically allocated to the individual.

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

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

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

(f) Shares and Options and Rights over Equity Instruments

During the reporting year there were options over ordinary shares in Capitol Health Limited granted to key management personnel as detailed in Notes 15 and 17 of the Consolidated Financial Statements.

Movement in Shares

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

Financial Year / Name of Key Management Person	Held at Year Opening	Held at Appoint -ment	Purchases	Disposals	Held at Resignation	Held at Year End
2018						
Mr A Demetriou	150,000	-	-	-	-	150,000
Mr A Harrison	3,575,773	-	-	-	-	3,575,773
Ms N Sheffield	-	-	-	-	-	-
Mr R Loveridge	-	200,000	-	-	-	200,000
Ms J Currie	34,400	-	-	-	(34,400)	-
2017						
Mr A Demetriou	150,000	-	-	-	-	150,000
Mr A Harrison	3,575,773	-	-	-	-	3,575,773
Ms N Sheffield	-	-	-	-	-	-
Mr J Conidi	32,941,264	-	-	-	(32,941,264)	-
Mr P Lewis	900,000	-	-	-	(900,000)	-
Mr R Shnier	100,000	-	-	(100,000)	-	-
Ms J Currie	-	34,400	-	-	-	34,400

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

Movement in Options & Performance Rights

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

Financial Year / Name of Director / Option or Performance Right		Held at Year Opening	Granted	Forfeited	Converted	Held at Year End
2018						
Mr A Harrison	Options	10,000,000	-	-	-	10,000,000
Mr A Harrison	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)	-
2017						
Mr A Harrison	Options	-	10,000,000	-	-	10,000,000
Ms M Gibson	Options	-	1,000,000	-	-	1,000,000
Mr J Conidi	Options	15,000,000	-	(15,000,000)	-	-
Mr J Harkness	Options	-	1,000,000	-	-	1,000,000
Ms J Currie	Options	-	1,000,000	-	-	1,000,000

(g) Other Transactions with Key Management Personnel

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 2018 financial year.

This is the end of the audited Remuneration Report.

Proceedings of Behalf of the Company

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

Rounding of Amounts

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

Dated at Melbourne, Victoria this 28th day of August 2018.

Signed in accordance with a resolution of the Directors:

Andrew Harrison
Managing Director

RSM Australia Partners

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

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

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Capitol Health Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

RSM

RSM AUSTRALIA PARTNERS

J S CROALL
Partner

Dated: 28 August 2018
Melbourne, Victoria

Consolidated Statement of Profit or Loss and Comprehensive Income

For the Year Ended 30 June 2018

	Note	2018 $'000	2017 $'000
Continuing Operations			
Revenue			
Revenue from Services Rendered		118,279	107,356
Other Income	3	1,945	2,569
Total Revenue		120,224	109,925
Expenses			
Employee Benefits	4	70,062	68,590
Equipment Related		5,068	5,847
Occupancy		8,383	7,830
Consumables		4,039	4,162
Telecommunications		2,724	1,854
Computer IT & Support		2,679	2,541
Transaction Costs		4,452	-
Borrowing Costs		5,704	2,443
Impairment of Assets	5	15,186	862
Depreciation & Amortisation		6,517	5,624
Other		4,530	7,717
Total Expenses		129,344	107,471
Profit /(Loss) Before Income Tax		(9,120)	2,454
Income Tax Expense	6	1,936	710
Profit /(Loss) for the Year from Continuing Operations		**(11,056)**	**1,744**
Discontinued Operations			
Profit /(Loss) for the Year from Discontinued Operations	10	143	(5,805)
Profit /(Loss) for the Year		(10,913)	(4,061)
Profit /(Loss) for the Year Attributable to Owners of the Parent		**(10,913)**	**(4,061)**
Other Comprehensive Income / (Loss)			
Items that may be Reclassified Subsequently to Profit or Loss	18		
Exchange Translation Differences		1,292	(731)
Hedge Valuation Differences (Net of Tax)		-	378
Gain / (Loss) on Available for Sale Financial Assets (Net of Tax)		-	-
Total Other Comprehensive Income / (Loss)		1,292	(353)
Total Comprehensive Income / (Loss) for the Year		(9,621)	(4,414)
Total Comprehensive Income / (Loss) for the Year Attributable to Owners of the Parent		**(9,621)**	**(4,414)**
Earnings per Share (cents)	24		
Total Basic Earnings for the Year		(1.38)	0.30
Total Diluted Earnings for the Year		(1.38)	0.29

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 2018

	Note	2018 $'000	2017 $'000
Current Assets			
Cash and Cash Equivalents	7	12,137	18,217
Trade and Other Receivables	8	1,670	7,115
Other Financial Assets	9	252	183
Other Assets		747	877
		14,807	26,392
Non-Current Assets Held for Sale	10	-	82,225
Total Current Assets		14,807	108,617
Non-Current Assets			
Other Financial Assets	9	-	14,604
Property, Plant & Equipment	11	30,166	23,267
Intangible Assets	12	77,128	53,190
Deferred Tax Assets	6	5,111	4,597
Other Assets		1,697	-
Total Non-Current Assets		114,102	95,658
Total Assets		128,909	204,275
Current Liabilities			
Trade and Other Payables	13	10,700	12,599
Provisions	14	8,490	7,360
Loans and Borrowings	16	979	1,175
Income Tax Liability / (Refund Due)		36	(161)
		20,205	20,973
Liabilities Directly Associated with Assets Held for Sale	10	-	2,884
Total Current Liabilities		20,205	23,857
Non-Current Liabilities			
Provisions	14	2,890	1,864
Loans and Borrowings	16	3,009	58,554
Deferred Tax Liabilities	6	942	973
Total Non-Current Liabilities		6,841	61,391
Total Liabilities		27,046	85,248
Net Assets		101,863	119,027
Equity			
Issued Capital	17	114,879	125,854
Reserves	18	762	(1,038)
Retained Earnings / (Accumulated Losses)	20	(13,778)	(5,789)
Equity Attributable to Owners of the Parent		101,863	119,027
Total Equity		101,863	119,027

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 2018

	Note	2018 $'000	2017 $'000
Cash Flows From/(Used in) Operating Activities			
Cash Receipts in the Course of Operations		130,448	162,954
Cash Payments in the Course of Operations		(112,023)	(139,185)
Interest Received		1,191	151
Interest Paid		(6,503)	(7,064)
Income Tax Paid		(2,038)	(1,567)
***Net Cash From Operating Activities* #**	28(a)	11,076	15,289
Cash Flows From / (Used in) Investing Activities			
Proceeds from Sale of Non-Current Assets Held for Sale		83,879	875
Payments for Property Plant and Equipment		(6,791)	(7,184)
Payments for Subsidiaries / Business Acquisitions	12	(26,911)	(54)
Payments of Transaction Costs		(4,191)	-
Payments for Investments in Unlisted Entities		-	(4,218)
Proceeds from Sale of Investments In Equity Instruments		442	14
***Net Cash From / (Used in) Investing Activities* #**		46,428	(10,567)
Cash Flows From / (Used in) Financing Activities			
Proceeds from the Issue of Share Capital	17	373	40,184
Payment of Share Issue Costs	17	-	(2,180)
Payments in respect of Share Buyback and Costs	17	(2,507)	-
Payments for Treasury Shares	17	(2,741)	-
Payment of Dividend	19	(2,530)	-
Payment for Leasing Arrangements		(1,179)	(1,583)
Repayment of Secured Loans		(5,000)	(38,670)
Repayment of Unsecured Loans		(50,000)	-
***Net Cash From / (Used in) Financing Activities* #**		(63,584)	(2,249)
Net Increase / (Decrease) in Cash and Cash Equivalents		(6,080)	2,473
Cash and Cash Equivalents at 1 July		18,217	15,744
Cash and Cash Equivalents at End of Year	7	12,137	18,217

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

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

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 2018

	Note	Issued Capital $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
At 1 July 2016		87,849	(825)	(2,383)	84,641
Comprehensive Income / (Loss)					
Profit / (Loss) for the Year		-	-	(4,061)	(4,061)
Other Comprehensive Income / (Loss)		-	(353)	-	(353)
Total Comprehensive Income		-	(353)	(4,061)	(4,414)
Transactions with Equity Holders in their Capacity as Equity Holders					
Shares Issued	*17*	40,184	-	-	40,184
Share Issue Costs	*17*	(2,180)	-	-	(2,180)
Valuation of Options Issued	*18*				
Issued		-	254	-	254
Forfeited		-	541	-	541
Value of Forfeited Options Transferred to Retained Earnings		-	(655)	655	-
Total Transactions with Equity Holders		38,004	140	655	38,799
At 30 June 2017		125,854	(1,038)	(5,789)	119,026
Comprehensive Income / (Loss)					
Profit / (Loss) for the Year		-	-	(10,913)	(10,913)
Other Comprehensive Income / (Loss)		-	1,292	(693)	599
Total Comprehensive Income		-	1,292	(11,606)	(10,314)
Transactions with Equity Holders in their Capacity as Equity Holders					
Shares Issued Through DRP	17	679	-	(679)	-
Exercise of Options	17	373	-	-	373
Option Valuation Transferred On Exercise	17	57	(57)	-	-
Option Valuation Costs	17	(9)	-	-	(9)
Share Buyback	17	(2,499)	-	-	(2,499)
Share Buyback Costs	17	(7)	-	-	(7)
Capital Reduction	17	(6,827)	-	6,827	-
Purchase of Treasury Shares	17	(2,741)	-	-	(2,741)
Dividends Paid	19	-	-	(2,530)	(2,530)
Allocation of Valuation of Options Issued					
Current Year	18	-	194	-	194
Current Year Costs	18	-	(136)	-	(136)
Future Years Pursuant to Acquisitions	18	-	507	-	507
Total Transactions with Equity Holders		(10,974)	508	3,618	(6,849)
At 30 June 2018		114,879	762	(13,778)	101,863

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

1. Summary of Significant Accounting Policies

(a) Reporting Entity

Capitol Health Limited (the "Company") is a company incorporated and domiciled in Australia. Capitol Health Limited is a company limited by shares which are publicly traded on the Australian Securities Exchange. The consolidated financial report of the Company for the year ended 30 June 2018 comprises the Company and its subsidiaries (together referred to as the "Group").

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

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

(b) Basis of Preparation

(i) Statement of Compliance

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

The financial statements were approved by the Board of Directors on 28 August 2018.

(ii) Basis of Measurement

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

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

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

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

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

(iii) Functional Currency

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

(iv) Rounding of Amounts

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

(v) Significant Accounting Policies

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

New and Amended Standards Adopted by the Entity

The Group has reviewed and applied all new accounting standards and amendments applicable for the first time in their annual reporting period commencing 1 July 2017, and determined that there was no material impact on the Group's financial statements in the current reporting year.

(c) Significant Accounting Estimates, Assumptions and Judgements,

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

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are outlined below:

(i) Significant Accounting Estimates and Assumptions

Impairment of Intangible Assets with Indefinite Lives

The Group determines whether the Intangible Assets with indefinite lives being Goodwill and Brand Names and Trademarks 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 Intangible Assets with indefinite lives is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of the Intangible Assets with indefinite lives is discussed in Note 12. If any of these estimates were to significantly change, it may have a material impact on the reported amount of goodwill.

Fair Value of Investments in Unlisted Entities

During the current financial year the valuation of investments in unlisted entities has been impaired to no value as the Directors determined that no fair value could be reasonably determined in the absence of any market or similar transactions and elucidation of ongoing liquidity needs. In the event that in the future a fair value can be determined then the Investments will be revalued accordingly.

Provision for Long Service Leave

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

Lease Make Good Provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises when vacated by the Group. The calculation of anticipated costs involves assumptions on timing and costs and are initially determined on acquisition of a business or on entering into a new property lease and thereafter are periodically reviewed. Any changes are recognised in the Statement of Financial Position unless the provision exceeds the asset whereby the amount will be recognised in the Statement of Profit or Loss.

Estimation of Useful Lives of Plant and Equipment

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

Recovery of Deferred Tax Assets

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

(ii) Significant Accounting Judgements

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

- estimation of useful lives of Property Plant and Equipment at Note 1 (d) (iv) and Professional Peer and Patient Rapport Intangible Asset at Note 1 (d) (v),
- judgement of the number of Cash Generating Units and the estimation of impairment of Intangible Assets with indefinite lives at Note 1 (d) (viii), 5 and 12 (iv),
- impairment of Available for Sale Financial Assets – Note 1 (viii), 5 and 9,
- estimation of Income Tax Payable / Refundable and Income Tax Expense and recognition of Deferred Tax Asset for carried forward tax losses at Note 1 (d) (xi) and 6,
- classification of Non-Current Assets Held for Sale and Discontinued Operations at Note 1 (d (xiii) and 10.

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

(d) Summary of Significant Accounting Policies

(i) Basis of Consolidation

Subsidiaries

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

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

Foreign Operations

The assets and liabilities of foreign operations are translated into Australian dollars using exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into 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.

Transactions Eliminated on Consolidation

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

Non-Controlling Interests

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

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

(ii) Business Combinations

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

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

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

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

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

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

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

(iii) Financial Instruments

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

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

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

a. Cash and Cash Equivalents

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

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

b. Other Financial Assets – Held to Maturity

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

c. Other Financial Assets – Available-For-Sale (AFS)

These are non-derivative financial assets that are designated as available for sale on initial recognition or are not classified in one of the other categories of financial assets. They are carried at their fair value using a valuation methodology appropriate to the type of asset.

If the investment is disposed of, it is determined to be impaired or there is a material and permanent change in foreign currency then the cumulative gain or loss previously accumulated in the Asset-For-Sale Reserve is transferred to Profit or Loss Statement.

d. Trade and Other Receivables

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

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

e. Loans and Borrowings

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

f. Trade and Other Payables

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

(iv) Share Capital

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

The cost of Treasury Shares purchased is shown as a deduction from equity in the Consolidated Statement of Financial Position. When Treasury Shares are sold or re-issued they are credit to equity. As a result, no gain or loss on Treasury Shares is included in the Consolidated Statement of Comprehensive Income.

(v) Property, Plant and Equipment

Recognition and Measurement

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

Subsequent Costs

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

Depreciation

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

The estimated useful lives are as follows:

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

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

(vi) Intangible Assets

Goodwill

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

Goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is an Intangible Asset with an Indefinite Life and accordingly is subject to an annual impairment test.

Brands and Trademarks

Brands and Trademarks are recognised on an acquisition of a business and are measured at cost based on independent valuation using the 'Relief from Royalty' method. The carrying value of the asset is periodically reviewed by considering the strength of the brand, its longevity and the likelihood of its continued support and development. Typically these assets are considered to have an indefinite useful life. In the event a review determines the life becomes finite the cost will then be amortised over its remaining useful life and the charge recognised in the Statement of Profit or Loss. Brands and Trademarks is an Intangible Asset with an Indefinite Life and accordingly is subject to an annual impairment test.

Professional Peer & Patient Rapport

Professional Peer & Patient Rapport is recognised on an acquisition of a business and is measured at cost based on independent valuation using the 'Multi-Period Excess Earnings' method. The asset recognises the loyalty of both referring practitioners and patients with the medical specialists and technologists in the acquired business. The cost is amortised on a straight-line basis over the period of their expected benefit being their finite useful life of 8 years.

(vii) Leased Assets

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

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

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

(viii) Impairment

Financial Assets

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

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

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

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

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

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

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

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

Non-Financial Assets

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

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

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

(ix) Employee Benefits

Wages and Salaries, Annual Leave and Long Service Leave

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

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

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

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

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

Share-Based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 15.

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

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

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

(x) Revenue

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

Services

Revenue is recognised when the service is rendered.

Interest Income

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

(xi) Income tax

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

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

Tax Consolidation

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

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

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

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

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

Tax Funding Arrangements

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

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

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

(xii) Goods and Services Tax

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

Receivables and payables are stated inclusive of GST.

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

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

(xiii) Non-Current Assets Held for Sale

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

(xiv) Earnings Per Share

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

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

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

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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting year. The Group's management assess the impact of these new standards, their applicability to the Group and early adoption where applicable.

The following applicable Australian Accounting Standards (AASs) and interpretations had been issued but were not mandatory for the financial year ended 30 June 2018. The Group has not, and does not intend to, adopt these standards early.

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

Note:

i) No Impact or impact expected to be insignificant

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

iii) It is expected that at the application date that the recognition of an asset being Right to Use Assets and offsetting Liabilities will be $ 22,100,000.

2. Capital Management

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

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

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

The key capital management initiatives undertaken during the financial year were:

- a share buy back as announced on 18 August 2017 as detailed in Note 17,

- the $50 million Unsecured Notes were repaid as detailed in Note 16, and

- the Secured Loan Facility with National Australia Bank was refinanced as detailed in Note 16. The relevant capital covenants are unchanged and also noted there.

	Note	2018 $'000	2017 $'000
3. Other Income			
From Ordinary Activities			
Interest Income on Financial Assets Measured at Amortised Cost		1,191	151
Miscellaneous Income		754	697
		1,945	848
Other Items			
Profit on Sale of Fixed Assets		-	221
Reversal of Contingent Consideration Recognised in Prior Period Business Acquisition		-	1,500
		1,945	2,569

4. Employee Benefits

	2018 $'000	2017 $'000
Continuing Operations		
Wages, Salaries and Self-Employed Contractors Expenses	58,329	54,648
Other Associated Personnel Expenses	3,223	3,743
Defined Contribution Superannuation Expenses	3,353	3,306
Annual and Long Service Leave Entitlements	4,601	5,803
Non-Executive Directors Fees	362	294
Valuation of Share Options Granted During the Year	194	254
Forfeiture of Share Options Granted in Prior Year	-	541
	70,062	68,590
Discontinued Operations	5,000	33,570
	75,062	102,159

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

5. Impairment of Assets

	Note	2018 $'000	2017 $'000
Continued Operations			
Listed Investment	9	-	779
Unlisted Investment	9	15,186	-
Property Plant and Equipment		-	83
		15,186	863
Discontinued Operations			
Intangibles - Goodwill	10	-	6,195
		15,186	7,058

6. Income Tax

(a) Income Tax Expense

The major components of income tax expense are:

	Note	2018 $'000	2017 $'000
Current Income Tax			
Current Income Tax charge		1,866	784
Deferred Income tax - Adjustments Relating to:			
Origination and Reversal of Timing Differences		98	(102)
Income Tax Expense Reported in the Statement of Profit or Loss		1,964	682

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

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

	Note	2018 $'000	2017 $'000
Total Accounting Profit before Income Tax from:			
Continuing Operations		(9,120)	2,454
Discontinued Operations	10	170	(5,832)
		(8,949)	(3,378)
At the Group's statutory income tax rate of 30% (2017: 30%)		(2,685)	(1,013)
Adjusted for the Effects of			
Non Deductible / (Assessable) Items			
Capital Acquisition Costs		339	-
Impairment of Unlisted Investments		4,556	-
Impairment of Goodwill		-	1,859
Valuation of Share Options Granted		58	238
Prior Year Capital Losses Utilised		(180)	(23)
Capital Losses Incurred But Not Recognised		-	457
Non Assessable Revenue Items		-	(617)
Other Items		(124)	(220)
Income Tax Expense		1,964	682
Income Tax Expense Attributible to Profit / (Loss) from:			
Continuing Operations		1,936	710
Discontinued Operations	10	28	(28)
		1,964	682

(c) Deferred Tax Assets and Liabilities

	2018		2017	
	Items at Pre Tax Amount $'000	Items at After Tax Amount $'000	Items at Pre Tax Amount $'000	Items at After Tax Amount $'000
Deferred Tax Asset				
Employee Benefits	10,374	3,112	9,224	2,767
Accrued Expenses	4,474	1,342	4,023	1,207
Impairment				
Other Items	2,188	656	2,075	623
		5,111		4,597
Deferred Tax Liability				
Prepayments	74	22	137	41
Leases	3,000	900	3,106	932
Other Items	67	20	-	-
		942		973
Net Deferred Tax Asset		4,169		3,624
Represented by:				
Recognised in Profit or Loss		3,825		3,624
Recognised in Other Comprehensive Income		-		-
Recognised in Business Acquisitions		344		-
		4,169		3,624

(d) Unrecognised temporary differences

The Group has no unrecognised temporary differences at 30 June 2018 (2017: Nil).

(e) Tax losses

The Group has no carried forward operating losses at 30 June 2018 (2017: Nil).

The Group had carried forward capital losses of $18,897,000 (2017: $2,164,000). 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.

(f) Tax consolidation

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

	Note	2018 $'000	2017 $'000
7. Cash and Cash Equivalents			
Cash on Hand		16	19
Cash at Bank		12,121	18,198
		12,137	18,217

	Note	2018 $'000	2017 $'000
8. Trade and Other Receivables			
Trade Receivables		1,351	2,230
Allowance for Credits		(115)	(115)
		1,236	2,115
Other Receivables		435	5,000
		1,670	7,115

9. Other Financial Assets

	Note	2018 $'000	2017 $'000
Current			
Rental Bonds - Held to Maturity		252	183
		252	183
Non-Current			
Investment in Unlisted Entities - At Cost			
At Start Of Year		14,604	14,813
Investment During the Year		-	303
Change in Foreign Currency Valuation		582	(512)
Impairment Charge for the Year	5	(15,186)	-
Fair Value At End Of Year		-	14,604
Investment in Listed Entity			
Market Value At Start Of Year		-	790
Investment During the Year		-	445
Impairment Charge for the Year	5	-	(779)
Proceeds Received / Receivable on Disposal for the Year		-	(455)
Fair Value At End Of Year		-	-
Total Fair Value		-	14,604

10. Discontinued Operations and Non-Current Assets Held for Sale

(a) Description

At 30 June 2017 the Group had classified the following assets as Non-Current Assets Held for Sale:

- a freehold property which was disposed of during the financial year, and
- the Group's NSW radiology businesses which were sold to I-Med Radiology Network. The sale was completed on 31 August 2017.

The proceeds on the sale of Non-Current Assets Held for Sale was at carrying value and accordingly there was no gain or loss on in the current financial period.

The Financial Statements for the current financial year present the performance of these businesses as discontinued operations in the Statement of Profit or Loss and Other Comprehensive Income.

	Note	2018 $'000	2017 $'000
(b) Financial Performance and Cash Flow Information			
Revenue		8,848	54,257
Expenses			
Operating		7,652	46,619
Borrowing		659	4,541
Depreciation & Amortisation	-	368	2,734
Impairment of Assets	5	-	6,195
		8,678	60,089
Profit for the Year		170	(5,832)
Income Tax Expense	6	28	(28)
Profit from Discontinued Operations		143	(5,805)
Net Cash Flows from Discontinued Operations			
Operating Activities		(891)	1,497
Investing Activities		-	(1,860)
Financing Activities		-	-
		(891)	(363)

(c) Assets Held for Sale and Associated Liabilities

	Total Non-Current Assets Held for Sale $'000	Liabilities Directly Associated $'000	Net Assets $'000
Freehold Property			
At 1 July 2016	4,612	-	4,612
Book Value of Assets Disposed	(3,729)	-	(3,729)
Impairment	(83)	-	(83)
At 30 June 2017	800	-	800
Book Value of Assets Disposed	(800)	-	(800)
At 30 June 2018	-	-	-
NSW Radiology Businesses			
At 1 July 2016	-	-	-
Book Value of Assets Classified as Held for Sale	85,175	2,884	82,291
Book Value of Assets Disposed	(3,750)	-	(3,750)
At 30 June 2017	81,425	2,884	78,541
Book Value of Assets Disposed	(81,425)	(2,884)	(78,541)
At 30 June 2018	-	-	-
Total			
At 30 June 2017	82,225	2,884	79,341
At 30 June 2018	-	-	-

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

	2018 $'000	2017 $'000
Freehold Property		
Proceeds Received	800	875
Book Value of Assets Disposed	800	654
Gain / (Loss) on Sale	-	221
NSW Radiology Businesses		
Proceeds		
Received	77,833	-
Receivable at Period End	708	-
	78,541	-
Book Value of Assets Disposed	78,541	-
Gain / (Loss) on Sale	-	-
Total Gain / (Loss)	-	221

11. Property Plant & Equipment

	Plant & Equipment $'000	Leasehold Improve-ments $'000	Other Operating Assets $'000	Assets Under Construction ("AUC") $'000	Total $'000
At 1 July 2016	24,048	10,187	567	967	35,769
Additions					
Purchases	-	-	-	6,529	6,529
Transfer from AUC	5,980	268	523	(6,771)	-
Transfer to Assets Held for Sale	(7,017)	(3,551)	(43)	(38)	(10,649)
Transfers between categories	(23)	-	-	-	(23)
Depreciation & Amortisation	(6,846)	(895)	(617)	-	(8,358)
At 30 June 2017	16,142	6,010	430	686	23,267
Represented By:					
Cost	35,948	9,415	992	686	47,041
Accumulated Depreciation	(19,807)	(3,405)	(562)	-	(23,774)
Net Carrying Amount	16,142	6,010	430	686	23,267
At 1 July 2017	16,142	6,010	430	686	23,267
Additions					
Purchases	-	-	-	6,173	6,173
Transfer from AUC	5,698	1,772	177	(6,788)	859
Acquired on Acquisition	4,020	1,999	64	-	6,083
Depreciation & Amortisation	(5,249)	(866)	(103)	-	(6,217)
At 30 June 2018	20,611	8,915	568	72	30,166
Represented By:					
Cost	44,594	13,183	1,724	72	59,573
Accumulated Depreciation	(23,983)	(4,268)	(1,157)	-	(29,408)
Net Carrying Amount	20,611	8,915	568	72	30,166

12. Intangibles

	Note	Goodwill $'000	Brands and Trademarks $'000	Professional Peer & Patient Rapport $'000	Total $'000
At 1 July 2016		129,970	-	-	129,970
Transfer to Assets Held for Sale	10	(70,585)	-	-	(70,585)
Impairment Charge for the Year	5	(6,195)	-	-	(6,195)
At 30 June 2017		53,190	-	-	53,190
Represented By:					
Cost		53,190	-	-	53,190
Accumulated Amortisation and Impairment		-	-	-	-
Net Carrying Amount		53,190	-	-	53,190
At 1 July 2017		53,190	-	-	53,190
Additions					
Acquisition of Entities & Businesses	i, ii, iv	21,370	739	1,929	24,038
Amortisation Charge for the Year	iv	-	-	(100)	(100)
At 30 June 2018		74,560	739	1,829	77,128
Represented By:					
Cost		74,560	739	1,929	77,228
Accumulated Amortisation and Impairment		-	-	(100)	(100)
Net Carrying Amount		74,560	739	1,829	77,128

Business Combinations

(i) Acquisition of Corporate Entities

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

2018 Financial Year

Radiology Tasmania Pty Limited – ACN 123 131 760 Date: 1 February 2018

(ii) Acquisition of Business Assets

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

2018 Financial Year

I-Rad Radiology Date: 23 January 2018

(iii) Revenue and Profit from Businesses Acquired

The acquired businesses contributed revenues and net profits as follows:

2018 Financial Year

- Radiology Tasmania Pty Limited with revenues of $5,991,000 and net profit of $362,000 for the period from the acquisition date to the end of the financial year at a notional tax rate of 30%, and
- I-Rad Radiology with revenues of $1,270,000 and net profit of $56,000 for the period from the acquisition date to the end of the financial year at a notional tax rate of 30%.

AASB 3 *Business Combinations* require a consolidated pro-forma 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 this period of the acquired businesses is impracticable to report and is consistent with definitions contained within paragraph 5 (a) through (c) (ii) of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as the records are not available to the Group or are misleading. Notwithstanding that the Group considers the revenues for this period to be sufficiently reliable and accordingly for Radiology Tasmania Pty Limited and I-Rad Radiology are estimated to be $8,330,000 and $1,802,000 respectively.

(iv) Consideration

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

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

2018 Financial Year

	Note	Radiology Tasmania $'000	I-Rad Radiology $'000	Total $'000
Payment for 100% of the Issued Shares in the Entity	i	24,632	-	24,632
Payment for Business Assets	i	-	2,862	2,862
Deferred & Contingent Consideration Payable		1,000	500	1,500
Employee Entitlements Assumed		982	165	1,147
Financial Liabilities Assumed		444	644	1,087
Make Good Provision Assumed		128	19	147
Cash Acquired	i	(582)	-	(582)
Recognition of Financial Assets		(327)	-	(327)
Recognition of Property Plant & Equipment		(5,190)	(893)	(6,083)
Recognition of Other Intangible Assets				-
Brand Names		(739)	-	(739)
Professional Peer & Patient Rapport		(1,570)	(359)	(1,929)
Recognition of Deferred Tax Asset		(294)	(50)	(344)
Goodwill Acquired		18,482	2,888	21,370

Note

i The sum of the acquired shares and business assets less the cash acquired is $26,911,000 which is included in the Investing Activities section of the Consolidated Statement of Cash Flows

The Property, Plant and Equipment and the Other Intangible Assets comprising Brand Names and Professional Peer and Patient Rapport were all independently valued at acquisition. The Property, Plant and Equipment is depreciated over their remaining useful life as detailed in Note 1 (d) (iii) (v). The Brand Names are considered to have an indefinite useful life and accordingly are not amortised but considered for impairment testing in conjunction with goodwill. The Professional Peer & Patient Rapport intangible asset is the value of our customer relationships with both patients and referring medical professionals with the Company's doctors and medical technicians. This intangible asset is constantly evolving with new patients and referring medical professionals but accounting standards do not permit the recognition or replenishment of such an internally generated intangible asset and accordingly is amortised over 8 years.

(iv) Impairment Testing of Intangible Assets with Indefinite Lives

Intangible Assets with indefinite lives being Goodwill and Brand Names and Trademarks are tested for impairment annually or earlier when circumstances indicate their carrying value may be impaired. For the current financial year management have undertaken a review of the judgements to determine the allocation of goodwill to cash generating units and have concluded that the Group operates as a single CGU for impairment testing purposes. This is consistent with the operating Segment Information in Note 27.

Impairment testing is based on value-in-use ('VIU') calculation using anticipated future cash flows estimated from a basis of recent and near-term budgeted performance that is discounted by a rate that takes account of the current actual cost of debt and equity cost based on market comparatives.

The following table sets out the Directors prudent determination of key assumptions used in the impairment assessment:

	2018	2017
	%	%
Pre-Tax Discount Rate	16.3%	17.1%
Terminal / Prepetual Growth Rate		
Revenue	3.0%	3.0%
5 Year Forecast Growth Rates		
Revenue	4.0%	5.0%
Operating Expenses	3.0%	3.0%

As noted in Note 1, the Directors have made judgements and estimates in respect to impairment testing of Intangible Assets with Indefinite Lives. Should these judgements and estimates not occur the resuling valuation may decrease. The sensitivities that would result in an impairment charge are:

Increase in Pre-Tax Discount Rate to	22.2%	22.1%
Decrease in Revenue in the 5 Year Forecast Period and into Perpetuity by	1.5%	3.5%

The revenue growth assumption was determined after reference to the annual growth in the markets Capitol predominantly operates for the preceding 10 year period that averages 5% per annum in services performed and 7% per annum in Medicare billings. Market growth is expected to continue, supported by the ageing and expanding Australian population and continuing high demand for diagnostic imaging. The terminal value growth has been included in the estimate of recoverable amount, again predicated on the continued demand for diagnostic imaging beyond the immediate five-year forecast period.

13. Trade and Other Payables

	2018	2017
	$'000	$'000
Trade Creditors	1,130	3,329
Other Creditors and Accruals	9,570	9,270
	10,700	12,599

14. Provisions

	2018 $'000	2017 $'000
Current		
Employee Benefits		
Annual Leave	4,683	3,958
Long Service Leave	3,807	3,402
	8,490	7,360
Non-Current		
Employee Benefits		
Long Service Leave	1,884	1,864
Leased Property Make Good Allowance	1,006	-
	2,890	1,864

15. Share Based Payments

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

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

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

During the financial year 31,095,062 options (2017: 13,000,000) were issued pursuant to the Plan to executives as listed in Remuneration Report. The options are unlisted and the exercise price and vesting information is contained in Note 17.

16. Loans and Borrowings

	Note	2018 $'000	2017 $'000
Current			
Secured Equipment Finance Facilities	i	979	1,175
		979	1,175
Non-Current			
Secured Bank Loan	ii	-	5,000
Secured Equipment Finance Facilities	i	3,009	3,554
Senior Unsecured Notes	iii	-	50,000
		3,009	58,554
	iv	3,988	59,729

Notes on Terms of Loans and Borrowings

i) The contractual cash flows of finance lease liabilities at maturity, including interest, are disclosed in Note 21.

ii) The Secured Bank Loan facility with National Australia Bank was refinanced in May 2018. The facility totals $144m comprising $130 cash advance facility - $60m with a 3 year term, $40m a with a 5 year term, and $30m accordian (uncommitted), $9m in overdraft and guarantee facilities, and $5m equipment leasing facility. Capitol Health and each Australian subsidiary in the Group has granted a security interest over the whole of its assets and undertakings and granted the right to register that security interest under the Personal Property Securities Act.

The pricing on the new secured facility has fallen up to 30 basis points - up to 20 basis points on margin pricing and 10 basis points on facility fees.

The Group's financial covenants under the new secured 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 covenants requirements throughout the financial year.

iii) The Senior Unsecured Notes which were issued in 2016 were repaid in full in May 2018.

The Notes bore interest at a fixed rate of 8.25%. The Company incurred an early repayment penalty of 3% paid on redemption.

iv) For more information about the Group's exposure to market and liquidity risk, see Note 21.

Utilisation of Secured Facilities

	Facility $'000	Utilised $'000	Available $'000
At 30 June 2018			
Secured Bank Loan	135,000	-	135,000
Equipment Leasing Facility	5,000	-	5,000
Rental Guarantee	4,000	641	3,359
Credit Card	400	34	366
	144,400	675	143,725
At 30 June 2017			
Secured Bank Loan	30,000	5,000	25,000
Rental Guarantee	10,000	1,245	8,755
Credit Card	400	34	366
	40,400	6,279	34,121

Finance Lease Liabilities

The contractual cash flows of finance lease liabilities at maturity including interest are disclosed at Note 21.

	2018	2017
	$'000	$'000

17. Issued Capital

	2018 $'000	2017 $'000
Issued Capital		
795,964,199 (2017: 810,098,465) Fully Paid Ordinary Shares	114,879	125,854

The following movements in issued capital occurred during the year:

	Note	2018 Number of Shares	2018 $'000	2017 Number of Shares	2017 $'000
Balance at the Beginning of the Year		810,098,465	125,854	523,070,161	87,849
Issue of Shares		-	-	287,028,304	40,184
Exercise of Options		2,000,000	373	-	-
Option Valuation Transferred from Reserves		-	57	-	-
Option Valuation Costs		-	(9)	-	-
Capital Reduction	i	-	(6,827)	-	-
Share Buyback		(8,641,858)	(2,499)	-	-
Share Buyback Costs		-	(7)	-	-
Treasury Shares Purchased	ii	(10,000,000)	(2,741)	-	-
Dividend Reinvestment Plan		2,507,592	679	-	-
Share Issue Costs		-	-	-	(2,180)
Balance at the End of the Year		795,964,199	114,879	810,098,465	125,854
Treasury Shares at the End of the Year	ii	10,000,000	2,741	-	-

Note

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

ii) During the financial year the Treasury Shares were purchased on behalf of the Company in order for the Company to satisfy its obligations under the Capital Health Limited Employees Incentive Plan. The shares will be tranferred to Mr Andrew Harrison upon him exercising his 10,000,000 options that at balance date are fully vested. As at 30 June 2018 the market value of the Treasury Shares is $3,250,000

The Company does not have authorised capital or par value in respect of its issued shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regards to the Company's residual assets.

Options

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

	Note	2018 Number	2018 Weighted Average Exercise Price (Cents)	2017 Number	2017 Weighted Average Exercise Price (Cents)
Balance at the Beginning of the Year		13,000,000	18.12	15,000,000	22.42
Granted	i, ii	31,095,062	28.42	13,000,000	18.12
Exercised		(2,000,000)	18.66	-	-
Forfeited		-	-	(15,000,000)	22.42
Balance at the End of the Year		42,095,062	25.71	13,000,000	18.12
Represented by:					
Options		40,400,000	26.78	13,000,000	18.12
Performance Rights		1,695,062	-	-	-
		42,095,062	25.71	13,000,000	18.12

Note:

i) During the financial year 29,400,000 options (2017: 13,000,000) were issued pursuant to the Plan at an exercise price of 30.06 cents:

- 27,900,000 options pursuant to the Doctors' Equity Incentive Scheme, with 10% vesting on 15 June 2019, 20% vesting on 15 June 2020 and 70% vesting on 15 June 2021, and
- 1,500,000 options to Mr K Birchall with 50% vesting on 15 June 2019, 30% vesting on 15 June 2020 and 20% vesting on 15 June 2021,

and the shares issued on exercise to rank equally with all other shares on issue.

ii) During the financial year 1,695,062 performance rights (2017: 0) were issued to Mr A Harrison and were approved at the Company's Annual General Meeting on 22 November 2017. Each performance right upon vesting converts into 1 share of the Company with no consideration payable. The number of performance rights that will vest is subject to his continuing employment and depends on two equally weighted conditions over a 3 year period commencing from the financial year ending 30 June 2018 as detailed below:

		Performance Rights Vesting Conditions	
		Total Shareholder Return	Earnings Per Share
		Weighting	
Vesting Tier	Vesting Percentage	50%	50%
1	0%	< 50th Percentile	Growth < 10%
2	25%	Not Applicable	Growth = 10%
3	50%	= 50th Percentile	Not Applicable
4	100%	>= 75th Percentile	Growth >= 30%
5	Pro - Rata	>50th & < 75th Percentile	Growth >10% & <30%

18. Reserves

	Note	Currency Translation $'000	Cash Flow Hedges $'000	Option $'000	Total $'000
	Note	i	ii	iii	
At 1 July 2016		(561)	(378)	114	(825)
Exchange Differences on Translation of Foreign Subsidiaries		(731)	-	-	(731)
Valuation of Interest Rate Hedges		-	540	-	540
- Deferred Tax Thereon		-	(162)	-	(162)
Revaluation of Investments		-	-	-	-
- Deferred Tax Thereon		-	-	-	-
Allocation of Valuation of Options					
Issued		-	-	254	254
Forfeited		-	-	541	541
Value of Forfeited Options Transferred to Retained Earnings		-	-	(655)	(655)
At 30 June 2017		(1,292)	-	254	(1,038)
Exchange Differences on Translation of Foreign Subsidiaries		1,292	-	-	1,292
Allocation of Valuation of Options Issued					
Current Year	4	-	-	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 Financial Year		1,292	-	509	1,801
At 30 June 2018		-	-	762	762

Note

i The Currency Translation Reserve accumulates all foreign currency differences on the translating the results and net assets of foreign operation that the Company controls.

ii The Cash Flow Hedging Reserve (net of Deffered Tax) accululates after tax gains or losses on cash flow hedges.

iii The Option Reserve accumulates the recognised value of 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.

19. Dividends

Total Dividends Paid on Ordinary Shares During the Year

		2018		2017	
	Note	$ Per Share	$'000	$ Per Share	$'000
Final Dividend for the Preceding Financial Year		$0.000		$0.000	
Interim Dividend for the Year Ending 30 June		$0.004		$0.000	
Cash			2,530		-
Dividend Reinvestment Plan	17		679		-
			3,210		-

Dividends Not Recognised at Year End

Since the end of the year the Directors have declared a final dividend as detailed in Note 31.

	Note	2018 $'000	2017 $'000
20. Retained Earnings			
Retained Earnings at the Beginning of the Year		(5,789)	(2,383)
Profit / (Loss) for the Year		(10,913)	(4,061)
Accumulated Losses Offset By Capital Reduction	17	6,827	-
Derecogninition of Foreign Currency Translation		(693)	
Dividends Issued During the Year	19	(3,210)	-
Transfer Valuation of Forefeited Options from Option Reserve		-	655
Retained Earnings / (Accumulated Losses) at the End of the Year		(13,778)	(5,789)

21. Information on Financial Risk

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

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

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

a) Financial Assets and Liabilities

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

	2018	2017
	$'000	$'000
Financial Assets		
Cash and Cash Equivalents	12,137	18,217
At Amortised Cost		
Trade and Other Receivables	1,670	7,115
Financial Assets Held to Maturity	252	183
	1,922	7,298
At Fair Value		
Available for Sale Financial Assets	-	-
At Cost		
Investment in Un-Listed Entity	-	14,604
	14,059	40,119

	2018	2017
	$'000	$'000
Financial Liabilities		
At Amortised Cost		
Trade and Other Payables	10,700	12,599
Bank Loans	-	5,000
Senior Unsecured Notes	-	50,000
Secured Equipment Finance	3,988	4,729
	14,689	72,327

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

b) Credit Risk

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

Exposure to Credit Risk

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

	2018	2017
	$'000	$'000
Cash and Cash Equivalents	12,137	18,217
Other Financial Assets	252	183
Trade and Other Receivables	1,670	7,115
	14,060	25,515

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

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. The Group's trade receivables are mainly related to federal Government funded Medicare rebate claims and therefore management has assessed the related credit risk as insignificant. The Group reviews trade and other receivables regularly to estimate incurred losses and establish an allowance for impairment, if required. At 30 June 2018 the Group has determined that an impairment allowance on its trade receivables of $115,000 (2017: $115,000).

c) Liquidity Risk

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

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

Exposure to Liquidity Risk

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

	Carrying Amount $'000	Contractual Cash Flows $'000	Less Than 1 Year $'000	1 - 5 Years $'000	More Than 5 Years $'000
30 June 2018					
Trade and Other Payables	10,700	10,700	10,700	-	-
Secured Equipment Finance	3,988	4,380	1,415	2,965	-
	14,689	15,080	12,115	2,965	-
30 June 2017					
Trade and Other Payables	12,599	12,599	12,599	-	-
Secured Bank Loans	5,000	5,000	-	5,000	-
Secured Equipment Finance	4,729	5,851	1,471	4,380	-
Senior Unsecured Notes	50,000	50,000	-	50,000	-
	72,327	73,450	14,070	59,380	-

d) Market Risk

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

i) Interest Rate Risk

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

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

Exposure to Interest Rate Risk

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

	2018 $'000	2017 $'000
Fixed Rate Instruments		
Financial Assets	252	183
Financial Liabilities	3,988	54,729
	(3,736)	(54,546)
Variable Rate Instruments		
Financial Assets	12,137	18,217
Financial Liabilities	-	5,000
	12,137	13,217

Sensitivity Analysis for Variable Interest Rate Instruments

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

	Profit or Loss		**Equity**	
	100 bp Increase $'000	100 bp Decrease $'000	100 bp Increase $'000	100 bp Decrease $'000
Sensitivity - Variable Interest Rate Instruments				
As At 30 June 2018	121	(121)	121	(121)
As At 30 June 2017	132	(132)	132	(132)

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

Derivative Financial Instruments to Manage Variable Interest Rate Risk

At the end of the financial year the Group has financial liabilities that bear interest at a variable rate. Accordingly the Group as derivative financial instruments to manage variable interest rate risk.

ii) Foreign Currency Risk

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

Exposure to Foreign Currency Price Risk

At the end of the financial year the foreign currency profile of the Group's financial instruments was:

	2018 $'000	2017 $'000
US Dollars (USD)		
Financial Assets		
Available for Sale Financial Assets at Cost		
Investment in Unlisted Entity	-	14,301
Available for Sale Financial Assets at Fair Value		
Investment in Unlisted Entity	-	-
	-	14,301
Chinese Yuan (CNH)		
Financial Assets		
Available for Sale Financial Assets at Cost		
Investment in Un-Listed Entity	-	303
Commitment - Joint Venture Funding Contributions	596	575

Sensitivity Analysis for Foreign Currency Risk

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

	Profit or Loss		**Equity**	
	10% Increase $'000	10% Decrease $'000	10% Increase $'000	10% Decrease $'000
Sensitivity - Foreign Currency Rates				
As At 30 June 2018	-	-	54	(66)
As At 30 June 2017	-	(1,460)	1,460	(1,460)

Derivative Financial Instruments to Manage Foreign Currency Price Risk

	2018	2017
	$'000	$'000
The Group has in place derivative financial instruments for cash flow hedging purposes only. These contracts are designed to convert floating rate exposure to fixed rate exposure in respect to liabilities and commitments which at the end of the financial year the value of these derivatives (all due within one year) are:		
CHN Payable	-	575
	-	575
At the end of the financial year the value of these derivatives are:		
Gain / (Loss) on Forward Foreign Currency Contract	-	-

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

iii) Equity Valuation Risk

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

Exposure to Equity Price Risk

The Group is exposed to equity risk on its Available-For-sale Assets carried at fair value as listed in Note 9.

Sensitivity Analysis for Equity Value Risk

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

	Profit or Loss		**Equity**	
	10% Increase $'000	10% Decrease $'000	10% Increase $'000	10% Decrease $'000
Sensitivity - Equity Valuations				
As At 30 June 2018	-	-	-	-
As At 30 June 2017	-	(1,460)	1,460	(1,460)

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

Derivative Financial Instruments to Manage Equity Price Risk

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

	2018	2017
	$'000	$'000

22. Commitments

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

Property and Facility Operating Lease Commitments

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

	2018 $'000	2017 $'000
Within One Year	6,603	5,858
One Year or Later and No Later than Five Years	10,334	8,842
More than Five Years	624	-
	17,561	14,699

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

Plant and Equipment Operating Lease Commitments

	2018 $'000	2017 $'000
Within One Year	1,518	2,171
One Year or Later and No Later than Five Years	1,867	2,900
More than Five Years	835	1,139
	4,220	6,210

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

During the year ended 2018, $7,774,000 was recognised as an expense in the statement of Profit or Loss in respect of Operating Property, Plant and Equipment Leases (2017: $11,562,000).

Plant and Equipment Purchases

	2018 $'000	2017 $'000
Within One Year	2,590	2,394

Joint Venture Funding Contributions

	2018 $'000	2017 $'000
Within One Year	596	575

23. Contingencies

Contingent Liabilities

a) Rental Guarantees

The Group has an obligation to provide rental property guarantees when requested by the owners of rented premises which may be classed as a contingent liability unless supported by value for value specific deposits.

As the end of the current financial year rental guarantees not supported by a dedicated deposit totalled $641,000 (2017: $1,245,000).

b) Credit Cards

The Group has a contingent liability for expenses incurred on Corporate Credit cards that may not be recorded on banking statements at year end. The maximum extent of liability is indicated in Note 16.

24. Earnings Per Share

	2018			2017		
		Earnings Per Share			Earnings Per Share	
	$'000	Basic (Cents)	Diluted (Cents)	$'000	Basic (Cents)	Diluted (Cents)
Profit /(Loss) for the Year Attributable to Ordinary Shareholders:						
Continuing Operations	(11,056)	(1.38)	(1.38)	1,744	0.30	0.29
Discontinued Operations	143	0.02	0.02	(5,805)	(0.99)	(0.99)
Total	(10,913)	(1.36)	(1.36)	(4,061)	(0.69)	(0.69)

Earnings per Share

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

	2018 Number	2017 Number
Weighted Average Number of Ordinary Shares		
Issued ordinary shares at 1 July	810,098,465	523,070,161
Shares Issued	-	63,696,692
Shares issued through exercise of options	1,142,466	-
Shares issued under Dividend Reinvestment Plan	611,440	-
Share Buyback	(6,939,392)	-
Treasury Shares Purchased	(2,759,154)	-
	802,153,825	586,766,853

Diluted Earnings per Share

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

Weighted Average Number of Potential Ordinary Shares		
Weighted Average Number of Ordinary Shares	802,153,825	586,766,853
Effect of Share Options on Issue	13,253,175	7,824,658
	815,406,999	594,591,511

25. Controlled Entities

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

Controlled entity	Country of Incorporation	Equity Interest	
		2018	2017
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%	0%
Capital Treasury Pty Limited	Australia	100%	100%
Capitol Health Holdings Pty Limited	Australia	100%	0%
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%	0%
CAJ China Operations Pte Ltd	Singapore	100%	100%
CAJ China Radiology Pte Ltd	Singapore	100%	100%
CAJ Consolidated Pte Ltd	Singapore	100%	100%
CAJ Holdings Pte Ltd	Singapore	100%	100%
CAJ Investments Pte Ltd	Singapore	99.99%	99.99%

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

26. Related Parties

Key Management Personnel Remuneration

	2018 $	2017 $
Salaries and Fees	1,785,717	2,233,452
STI Cash Bonus	781,127	1,288,540
Termination Payments	-	1,219,703
Consulting Fees	18,000	116,000
Other Short Term Benefits	33,163	38,642
Post-Employment Benefits		
Contributions to Defined Contribution Plans	80,720	100,038
Long-Term Employee Benefits	-	6,074
Share-Based Payments	147,546	794,860
	2,846,273	5,797,310

Individual Key Management Personnel Compensation Disclosures

Information regarding individual key management personnel compensation as required by Corporation Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report on pages 13 to 19.

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

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

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

During the financial year there was no such transactions.

27. Segment Information

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

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

28. Cash Flow Information

a) Reconciliation of Cash Flows Provided By Operating Activities

	2018 $'000	2017 $'000
Profit / (Loss) for the Year	(10,913)	(4,061)
Adjustments For		
Depreciation and Amortisation	6,517	5,624
Impairment of Assets	15,186	862
Income Tax Expense	(102)	(710)
Interest Expense	(799)	2,443
Contribution of Discontinued Operations	(1,034)	8,929
Operating Profit before Changes in Working Capital & Provisions	8,855	13,088
Change in Trade and Other Receivables	799	(3,133)
Change in Net Other Assets	(54)	237
Change in Trade and Other Payables	1,743	8,050
Change in Provisions	(267)	(2,954)
Net Cash Provided by Operating Activities	11,076	15,289

b) Non-Cash Investing and Financial Activities

During the year the Property Plant and Equipment of $1,376,000 was acquired by means of finance leases and other liabilities.

	2018	2017
	$'000	$'000

29. Parent Entity Disclosures

Financial Information		
Operating Profit / (Loss)	(7,936)	(3,619)
Total Comprehensive Income / (Loss) for the Year	(7,936)	(3,619)
Total Assets	100,878	119,027
Total Liabilities	-	-
Issued Capital	114,879	125,854
Reserves	762	254
Retained Earnings	(14,763)	(6,827)
Total Equity	100,878	119,281
Guarantees	3,988	9,729

Dividends

No dividend from a controlled entity was accrued in 2018 (2017: Nil).

Guarantees

The Parent Entity has provided financial guarantees in respect of bank overdrafts, finance leases and loans of the subsidiaries amounting to $3,988,000 (2017: $9,728,000), secured by a first registered charge over the assets of the entity.

All entities within the Group as listed in Note 25 are party to the Deed of Guarantee provided to National Australia Bank.

Other Commitments

The Parent Entity has no commitments (2017: Nil) and has no contingent liabilities.

30. Auditor's Remuneration

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

	2018	2017
	$	$
Auditors of the Company		
RSM Australia Partners		
Audit and Review of Financial Reports	288,534	353,497
Other Services		
Independent Accountant Services	164,550	-
Other Corporate Finance Services	16,400	-
	469,484	353,497
Network Firm of RSM Australia Partners		
Audit and Review of Financial Reports	23,500	-
	492,984	353,497

31. Events Subsequent to Balance Date

Subsequent to balance date:

a) the Company declared a fully franked final dividend for the current financial year of $0.004 per share (2017: $0) and based on the number of shares on issue at 30 June 2018 is $3,223,857 (2017: $0) to be paid on 26 October 2018, and

b) the Group completed the following acquisitions:

   i. on 12 July 2018 it acquired the business of Specialist Vein Care and is amalgamating it with the Company's clinic at Vermont Private Hospital,

   ii. on 16 July 2018 it acquired the business of Spectrum Imaging with 6 clinics – 3 in metropolitan Perth and 3 in Melbourne,

   iii. on 20 July 2018 it acquired all the shares in Joremo Pty Limited which operates the business of Integrated Radiology – a clinic in East Fremantle, and

   iv. on 3 August 2018 it acquired the business of Imaging Central with a clinic in Claremont, Perth.

These acquisitions are part 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 6 Perth clinics is the Group entry into this market and will provide a critical mass to grow the business.

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

	Specialist Vein Care $'000	Spectrum Imaging $'000	Joremo Pty Limited $'000	Imaging Central $'000	Total $'000
Payment for					
100% Issued Shares	-	-	1	-	1
Business Assets	1,800	9,524	-	3,974	15,298
Deferred & Contingent Consideration Payable	550	2,000	277	1,000	3,827
Employee Entitlements Assumed	-	180	11	47	239
Financial Liabilities Assumed	-	-	2,903	-	2,903
Recognition of Property Plant & Equipment	(6)	(2,505)	(2,255)	(1,290)	(6,056)
Recognition of Deferred Tax Asset	-	(54)	(3)	(14)	(72)
Goodwill Acquired	2,344	9,145	934	3,717	16,140

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

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

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 13 to 19, 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 2018.

Signed in accordance with a resolution of the Directors.

____

Andrew Harrison
Managing Director

Dated at Melbourne, Victoria this 28th day of August 2018.

RSM Australia Partners

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

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

www.rsm.com.au

INDEPENDENT AUDITOR'S REPORT

To the Members of Capitol Health Limited

Opinion

We have audited the financial report of Capitol Health Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

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

Basis for Opinion

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

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

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

Key Audit Matters

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

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed this matter
Carrying Value of Goodwill Refer to Note 12 in the financial statements	
At 30 June 2018, the Group's goodwill carrying value amounted to $74.5 million, which represents approximately 58% of total assets of the Group. Management have performed an impairment assessment of the value in use of the cash generating unit ("CGU") containing the goodwill, using a discounted cashflow model. We determined this to be a Key Audit Matter due to the size of the Goodwill balance and because the significant management judgments and assumptions used to determine the value in use of this asset to support that it exceeds the carrying value of Goodwill. This calculation involves judgements about the future underlying cash flows of the determined CGU, the estimated growth of the CGU for the next 5 years, as well as for perpetuity, and use of discount rates to be applied to the estimated cash flows.	Our audit procedures in relation to the carrying value of goodwill included: • Updating our knowledge and understanding of management's annual impairment testing process; • Holding discussions with senior management, reviewing the Company's ASX announcements and reading minutes of the directors' meetings to gather sufficient information regarding the operations of the 2018 financial year, as well as the expectations going forward; • Assessing the reasonableness of management's identification of a single CGU in accordance with AASB136 *Impairment of Assets*; • Reviewing impairment testing performed by management, including testing the accuracy of the calculations in the financial model used, and comparing the cash flow projections to historic performance, observable trends, and supporting evidence; • Evaluating the methods and assumptions used to estimate the present value of future cash inflows of the Group, including an assessment of the following: ➢ Future growth rates; ➢ Discount rates; ➢ Terminal value methodology; ➢ Cash inflows/ (outflows) included in the model; and • Reviewing the completeness and appropriateness of the disclosure included in the financial report to ensure compliance with Australian accounting standards.

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed this matter
Revenues	
The Group revenue transactions are centralised; however, the initiation of these transactions is largely decentralised at the individual clinic level. In addition, the Group's revenue has increased in recent years and is comprised of a significant volume of small value transactions. We have considered the validity of the revenue transactions to be a Key Audit Matter.	Our audit procedures in relation to the assessment of revenue included: • Assessing the Group's key operational systems and internal controls surrounding revenue transactions; • Testing the key controls identified, including samples of revenue transactions in both Victoria and Tasmania; • Reviewing the appropriateness and security of the delegation of tasks assigned in the management systems used for revenue transactions; • Assessing management's policy for the recognition and measurement of revenue against the requirements of AASB 118 *Revenue*; • Performing substantive testing to verify samples of revenue transactions against the doctor referrals, radiologist report and invoices; • Undertaking analytical testing by comparing revenue for the year against set out expectations based on the average number of scans and average service charges. Also, performing trend analysis of revenues by month and by geographical area to identify any unusual activity; and • Performing cut-off testing to corroborate revenue transactions and receivable balances had been recognised in the correct period.

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed this matter
Impairment of investment in Enlitic Inc (Enlitic) Refer to Note 5 and 9 in the financial statements	
The Group holds an investment in the USA based unlisted company Enlitic Inc. ("Enlitic") with a carrying value of $14.8m. The underlying asset held by Enlitic, and therefore supporting the value of this investment, relates to the development of a deep learning technology which, as at the date of this report, has not achieved commercialization. The Company's management, in accordance with the requirements of the Australian accounting standards, has performed an assessment to determine whether there is any objective evidence that this investment was impaired as at 30 June 2018. As a result of this assessment, management has concluded the asset should be fully impaired. Due to the significance of this matter we have considered it a Key Audit Matter.	Our audit procedures in relation to the carrying value of the investment in Enlitic included: • Holding discussions with management to gather sufficient information about the status of the development of the technology held by Enlitic and the potential to achieve commercialisation; • Reviewing the evidence supporting management's conclusion that the investment in Enlitic is fully impaired in accordance with AASB 139 *Financial Instrument: Recognition and Measurement*; and • Reviewing the disclosure included in the financial statements to ensure compliance with Australian accounting standards.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

Responsibilities of the Directors for the Financial Report (Continued.)

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 19 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Capitol Health Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

RSM AUSTRALIA PARTNERS

J S CROALL
Partner

Dated: 28 August 2018
Melbourne, Victoria

Details of Shares and Options as at 6 August 2018:

Top Holders

The 20 largest holders of each class of equity security as at 6 August 2018 were:

Fully Paid Ordinary Shares

Name	No. of Shares	%
J P Morgan Nominees Australia Limited	115,958,905	14.39
HSBC Custody Nominees (Australia) Limited	81,992,111	10.17
National Nominees Limited	74,515,769	9.25
Citicorp Nominees Pty Limited	69,804,344	8.66
UBS Nominees Pty Ltd	35,668,274	4.43
BNP Paribas Noms Pty Ltd <Drp>	34,358,318	4.26
Idinoc Pty Ltd <J & R Conidi Family A/C>	29,227,886	3.63
HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	18,271,963	2.27
Gia Chau Pty Ltd	12,700,000	1.58
Nick Conidi Pty Ltd <Conidi Family A/C>	10,014,740	1.24
McNeil Nominees Pty Limited	10,000,000	1.24
Stelhaven SMSF Pty Ltd <Stelhaven Super Fund A/C>	6,320,843	0.78
Brispot Nominees Pty Ltd <House Head Nominee A/C>	6,318,797	0.78
Mr Nicola Conidi + Mrs Giannina Conidi <Nick & Jan Conidi S/F A/C>	6,160,486	0.76
HSBC Custody Nominees (Australia) Limited - A/C 2	4,984,287	0.62
Aust Executor Trustees Ltd <Gffd>	4,933,404	0.61
Teleah Pty Ltd <Jr Sauvey Super Fund A/C>	4,068,978	0.50
Mr Andrew Duncan Harrison + Mrs Katrina Ellen Harrison <Harrison Super Fund A/C>	3,575,772	0.44
Mr Thanh Phuoc Lu + Mrs Thi Anh Tuyet Lu	3,368,668	0.42
Julsan Pty Ltd <Ponte Super Fund A/C>	3,089,757	0.38
	535,333,302	**66.42**

Distribution Schedules

A distribution of each class of equity security as at 6 August 2018:

Fully paid ordinary shares

Range			Holders	No. of Shares	%
1	-	1,000	449	160,403	0.02
1,001	-	5,000	1,619	4,927,040	0.61
5,001	-	10,000	1,242	9,937,852	1.23
10,001	-	100,000	3,143	107,098,612	13.29
100,001	-	Over	532	683,840,292	84.85
Total			**6,985**	**805,964,199**	**100.00**

Substantial shareholders

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

Fully paid ordinary shares

Substantial Shareholder	No. of Shares	%
Paradice Investment Management Pty Limited	76,500,000	9.49

Unmarketable Parcels

Holdings less than a marketable parcel of ordinary shares (being 1,695 at $0.295 per share as at 6 August 2018):

Fully paid ordinary shares

	Holders	No. of Shares	%
Holdings less than a marketable parcel	706	505,743	0.06

Voting Rights

The voting rights attaching to ordinary shares are:

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

Options do not carry any voting rights.

On-Market Buy Back

There is no current on-market buy-back.

END OF REPORT