ASX Appendix 4D

Preliminary Final Report to Australian Securities Exchange
Capitol Health Limited and Controlled Entities – ABN 84 117 391 812
Period Ending 31 December 2018

CAPITOL HEALTH LIMITED

The following information is provided to the ASX under listing rule 4.2A.3

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

Reporting Period	6 Months to 31 December 2018
Previous Corresponding Reporting Period	6 Months to 31 December 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 the ordinary activities.

$ Revenue from Ordinary Activities - current period	$'000	72,342
$ Revenue from Ordinary Activities - previous period	$'000	54,807
$ change in Revenue from Ordinary Activities	$'000	17,535
% change from previous corresponding reporting period	% UP	32.0%

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

$ Profit (loss) from ordinary activities after tax - current period	$'000	11,930
$ Profit (loss) from ordinary activities after tax - previous period	$'000	2,725
$ change in profit (loss) from ordinary activities after tax	$'000	9,205
% change from previous corresponding reporting period	% UP	337.8%

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	11,930
$ Net profit (loss) attributable to members - previous period	$'000	2,890
$ change in net profit (loss) attributable to members	$'000	9,040
% change from previous corresponding reporting period	% UP	312.7%

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

Final Dividend was declared for the year ended 30 June 2018.
The Final Dividend was declared at an amount of $0.004 (0.4 cent) per security.
The Final Dividend is fully franked.

An Interim Dividend has been declared for the 6 months ending 31 December 2018.
The Interim Dividend is declared at an amount of $0.005 (0.5 cent) per security.
The Interim Dividend is fully franked.

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

The Record Date for determining the entitlement to the Interim Dividend is 6th March 2019.

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

Please refer to the Condensed Consolidated Interim Financial Report lodged with this Appendix 4D.

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

Net tangible Assets per Security	Cents	1.09
Previous corresponding period	Cents	8.27

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

4.1 Name of the entity.

Please refer to the Condensed Consolidated Interim Financial Report lodged with this Appendix 4D.

4.2 The date if the gain or loss of control.

Please refer to the Condensed Consolidated Interim Financial Report lodged with this Appendix 4D.

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

Not Applicable.

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

An Interim Dividend of $3,931,803 has been declared for the 6 months ending 31 December 2018 at an amount of $0.005 per security.
Record Date of the Interim Dividend will be 6th March 2019.
Payment Date of the Interim Dividend will be 3rd April 2019.

Final Dividend for the financial year ending 30th June 2018 was declared at an amount of $0.004 (0.4 cent) per security.
A Final Dividend of $3,206,914 was paid on 801,728,585 ordinary shares on issue at the Record Date.
All shareholders at the Record Date were eligible to participate in the Dividend Reinvestment Plan.
Record Date of the Final Dividend was 27 September 2018.
Payment Date of the Final Dividend was 25 October 2018.

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

The shareholders of Capitol Health Limited approved a Dividend Reinvestment Plan at a general meeting convened on 20 December 2011.

The Dividend Reinvestment Plan is currently suspended.

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

Please refer to the Condensed Consolidated Interim Financial Report lodged with this Appendix 4D.

7.1 Name of the associate or joint venture entity.

Enlitic Inc, USA

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

14.8% in Enlitic Inc, USA

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

Immaterial.

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

International Financial Reporting Standards

9. For all entities, if the accounts contain an independent audit report or review that is subject to a modified opinion, emphasis of matter or other matter paragraph, a description of the modified opinion, emphasis of matter or other matter paragraph.

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

CAPITOL HEALTH LIMITED

ABN 84 117 391 812

CONSOLIDATED INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED

31 DECEMBER 2018

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Capitol Health Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Dear Fellow Shareholders,

The Company has continued to pursue a more forward looking and strategically ambitious trajectory with several acquisitions, growth capital deployment and greenfield developments in the six months to December 2018. During this period the company delivered revenue of $72.9 mill (up $16.8 mill or ~30% compared to prior period) and operating EBITDA of $11.9 mill (up $1.6 mill or ~15% compared to prior period)

On the back of this stronger performance, we have declared an interim, fully franked, dividend of 0.05 cps (up from 0.04 cps in the prior period or 25%).

The Company also delivered improved operational cash flow to $7.7m, up 97% on prior corresponding period.

However, the company has experienced subdued demand across its network (particularly in Victoria) over the latter part of the first half, which was more evident during the holiday period and has extended into January. Along with some timing delays in growth capital deployment, and the settlement of acquisitions, this has resulted in an overall reduction of organic growth. With these delays, we have continued to deliver year on year growth in operating EBITDA of circa 10%. Whilst we anticipate these conditions to correct in the later part of Q3, if subdued demand persists this is expected to impact the previously guided full year FY19 operating EBITDA in the order of 10% -13%.

The lower level of organic growth of 2.1% is driven by patchy attendance across the clinic network, particularly in Victoria and lower GP attendance which is a strong driver of our referral revenue.

We believe these general market conditions are reflective of the current political and economic uncertainty which is also manifesting in Emergency Department attendances for non-urgent care in Victoria. This reduced demand is being, at least partly driven by reduced consumer confidence and consequent deferral of discretionary expenditure which has extended to healthcare and medical procedures. This is particularly felt in a bulk billed setting.

The company does not view the immediate issues as long term or structural in nature and believes the strong underlying drivers of ageing population and the rapidity of technology development in the sector continues to drive growth in the medium to long term.

The regulatory environment continued to improve for diagnostic imaging as evidenced by the Governments announcement in October 2018 of an increase in Medicare funded MRI services through the issue of 30 new licenses. This number was further increased to 50 new MRI licenses early in 2019. The bulk of the new licenses are still to be announced. Encouragingly, the opposition has also voiced strong support for the sector through supporting the issue of new MRI licenses and access to healthcare through Medicare bulk billing.

Capitol currently has a fleet of 18 MRIs, of these, two have full Medicare licences, eight have partial Medicare licences, and eight do not have Medicare licences and therefore operate without attracting a Medicare rebate. The Company has several sites suitable for Medicare-funded MRI services and is optimistic that the allocation process will be supportive of Capitol's commitment to providing bulk-billed MRI services in communities that need them.

During the period Enlitic Inc. (Enlitic), a world leading company in medical artificial intelligence, closed a US$15m funding round which included significant investments from blue chip institutional and technology investors including a major investment from Marubeni (a large Japanese multinational). As a result of this funding Capitol has released a one off $8.9m gain reflective of the fair value of Capitol's shareholding.

As part of Capitol's $500,000 investment in this funding round, the Company has commenced beta deployment of Enlitic technology with Capitol along with early stage planning for regulatory registrations and approvals. We expect this process will enhance the value of Capitol's exclusivity for Australia and provide for a tangible and competitive point of difference for clinicians, referrals and patients.

Capitol continues to negotiate with Citic Pharmaceutical over its China Imaging Joint Venture.

While the Company has had a disappointing start to the year driven by lower than expected growth in demand for our services, timing delays in the settlement of acquisitions and greenfield developments, the medium to longer term drivers of demand remain strong. In addition, political uncertainty which is negatively contributing to consumer sentiment is expected to largely resolve following the federal election later this year.

The Company still has a strong acquisition pipeline, however there is upward pressure on domestic acquisition multiples which, if it continues, will limit acquisitive growth in the sector.

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
27 February 2019

The Directors present their report together with the financial report of Capitol Health Limited ("Company") and its controlled entities (the "Group"), for the half year ended 31 December 2018, and the auditor's report thereon.

Directors

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

Mr Andrew Demetriou
Non-Executive Director and Chairman

Mr Andrew Harrison
Managing Director

Ms Nicole Sheffield
Non-Executive Director

Mr Richard Loveridge
Non-Executive Director

Review of Operations

The Group made a net profit after tax for the half year ended 31 December 2018 of $11,930,000 (2017 December: $2,890,000).

The major contributing items to the Group's result for the half year ended 31 December 2018 were:

- Operating revenue from continuing operations for services rendered was up $17.5m over the corresponding period in the prior financial year. This represents an increase of 32% largely driven by revenue from newly acquired businesses. During the period there were no changes in the level of Medicare rebates while Medicare diagnostic receipts continue to grow.

  Reduction in other income largely relates to reduced interest income.

- Total operating expenses increased by $7.5 m (14.5%) in the current half year compared to the same period in the prior financial year. The current half year operating expenses include reversal of impairment expenses in relation to an unlisted investment that was impaired in previous year. After adjusting for the reversal of impairment of $8.9m, the increase in operating expenses is $16.4m (32%) which is in line with increase in revenue from acquired businesses. The increases mainly relate to employee benefits, occupancy, depreciation and amortisation. Total expenses include transaction cost of $2.1m which increased by $0.5m over the previous half year due to number of acquisitions during the current half year.

- Total Borrowing cost decreased by $1m (55%) over the corresponding prior period primarily due to the redemption of unsecured notes in the prior financial year and

- Income Tax Expense was slightly up ($0.1m) over the corresponding period in the prior financial period principally as a consequence of higher profits in the current period and non-assessable revenue items in the prior period.

Events Subsequent to Balance Date

Subsequent to balance date:

a) the Company declared an interim dividend for the half year ending 31 December 2018 of $0.005 per share (2017: $0.004) with the maximum dividend payable subject to elections under the Company's Dividend Reinvestment Plan of $3,931,803 (2017: $3,209,826).

b) on 14 January 2019 the Group acquired 4 clinics in metropolitan Melbourne from Uniradiology. The consideration for the acquisition amounted to $8.1 million plus assumed liabilities for employee entitlements. The consideration is all payable in cash. Settlement has not yet occurred at the date of this Report.

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 6 of the consolidated interim financial report and forms part of the Directors report for the half year ended 31 December 2018.

Rounding of Amounts

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

Signed in accordance with a resolution of the Directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors

Andrew Harrison
Managing Director
Dated at Melbourne, Victoria this 27th day of February 2019.

Deloitte.

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The Board of Directors
Capitol Health Limited
Level 3, 81 Lorimer St,
Docklands, VIC 3008

27 February 2019

Dear Board Members

Capitol Health Limited

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

As lead audit partner for the review of the financial statements of Capitol Health Limited for the half-year ended 31 December 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 review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Anneke Du Toit
Partner
Chartered Accountants

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

for the Half Year Ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Continuing Operations			
Revenue			
Revenue from Services Rendered		72,342	54,807
Other Income		567	1,261
Total		72,909	56,068
Expenses			
Employee Benefits		44,093	32,487
Equipment Related		2,464	2,535
Occupancy		5,718	3,958
Consumables		2,440	1,811
Telecommunications		1,439	1,252
Computer IT & Support		1,387	1,258
Transaction Costs		2,110	1,587
Borrowing Costs		828	1,835
Impairment of assets	6	(8,891)	-
Depreciation & Amortisation		4,288	2,684
Other		3,456	2,407
Total Expenses		59,331	51,815
Profit Before Income Tax		13,578	4,253
Income Tax Expense		1,648	1,528
Profit for the Period from Continuing Operations		**11,930**	**2,725**
Discontinued Operations			
Profit for the Period from Discontinued Operations		-	165
Profit for the Period		11,930	2,890
Profit for the Period Attributable to Owners of the Parent		**11,930**	**2,890**
Other Comprehensive Income / (Loss)			
Items that may be Reclassified Subsequently to Profit or Loss			
Exchange Translation Differences		-	(105)
Total Other Comprehensive Income / (Loss)		-	(105)
Total Comprehensive Income for the Period		11,930	2,785
Total Comprehensive Income for the Period Attributable to Owners of the Parent		**11,930**	**2,785**
Earnings per Share (cents)	12		
Basic Earnings		1.50	0.34
Diluted Earnings		1.43	0.33

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

Condensed Consolidated Interim Statement of Financial Position
as at 31 December 2018

	Note	31 December 2018 $'000	30 June 2018 $'000
Current Assets			
Cash and Cash Equivalents		5,838	11,542
Trade and Other Receivables		3,067	1,670
Income Tax Receivable		913	-
Other Assets		1,085	747
Total Current Assets		10,903	13,959
Non-Current Assets			
Investment in Associate	6	9,384	-
Other Financial Assets	5	849	847
Property, Plant & Equipment		39,670	30,166
Intangible Assets	7	98,937	77,128
Deferred Tax Assets		5,024	5,111
Other Assets		1,433	1,697
Total Non-Current Assets		155,297	114,949
Total Assets		166,200	128,908
Current Liabilities			
Trade and Other Payables		13,608	10,700
Provisions		9,590	8,490
Loans and Borrowings	13	4,880	979
Income Tax Liability		-	36
Total Current Liabilities		28,078	20,205
Non-Current Liabilities			
Provisions		3,098	2,890
Loans and Borrowings	13	26,559	3,009
Deferred Tax Liabilities		960	942
Total Non-Current Liabilities		30,617	6,841
Total Liabilities		58,695	27,046
Net Assets		107,505	101,863
Equity			
Issued Capital	9	111,497	114,879
Reserves	10	1,063	762
Accumulated Losses		(5,055)	(13,778)
Equity Attributable to Owners of the Parent		107,505	101,863
Total Equity		107,505	101,863

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

Condensed Consolidated Interim Statement of Cash Flows
for the Half Year Ended 31 December 2018

	Note	31 December 2018 $'000	31 December 2017 $'000
Cash Flows From/(Used in) Operating Activities			
Cash Receipts in the Course of Operations		72,950	65,136
Cash Payments in the Course of Operations		(62,453)	(59,003)
Interest Received		333	531
Interest Paid		(742)	(2,440)
Income Tax Paid		(2,378)	(355)
Net Cash From Operating Activities #		7,710	3,869
Cash Flows From / (Used in) Investing Activities			
Proceeds from Sale of Non-Current Assets Held for Sale		-	77,982
Payments for Property Plant and Equipment		(7,338)	(3,825)
Payments for Business Acquisitions		(23,929)	(800)
Payments of Transaction Costs		(2,220)	(1,009)
Payments for Investments in Associate	6	(493)	-
Proceeds from Sale of Investments In Equity Instruments		-	442
Net Cash From / (Used in) Investing Activities #		(33,980)	72,790
Cash Flows From / (Used in) Financing Activities			
Net Proceeds on Issue of Share Capital		1,420	175
Payments in respect of Share Buyback and Costs		(5,802)	(2,507)
Payment of Dividend		(2,691)	-
Payment for Leasing Arrangements		(614)	(648)
Proceeds/(Repayment) of Secured Loans		28,253	(5,000)
Repayment of Unsecured Loans		-	(1,479)
Net Cash From / (Used in) Financing Activities #		20,566	(9,459)
Net Increase / (Decrease) in Cash and Cash Equivalents		(5,704)	67,200
Cash and Cash Equivalents at 1 July		11,542	18,217
Cash and Cash Equivalents at End of Period		5,838	85,417

The Condensed Consolidated Statement of the Cash Flows at 31 Dec 2017 includes cash flows from discontinued operations.

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

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

Condensed Consolidated Interim Statement of Changes in Equity
for the Half Year Ended 31 December 2018

	Note	Issued Capital $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
At 1 July 2017		125,854	(1,038)	(5,789)	119,026
Comprehensive Income / (Loss)					
Profit / (Loss) for the Period		-	-	2,890	2,890
Other Comprehensive Income / (Loss)		-	(105)	-	(105)
Total Comprehensive Income		-	(105)	2,890	2,785
Transactions with Equity Holders in their Capacity as Equity Holders					
Exercise options	*9*	175	-	-	175
Share Buyback	*9*	(2,499)	-	-	(2,499)
Dividends Paid	*11*	-	-	-	-
Share Buyback Costs	*9,10*	(7)			(7)
Value of Options issued		-	65		65
Capital Reduction		(6,827)	-	6,827	-
		-	-	-	-
Total Transactions with Equity Holders		(9,158)	65	6,827	(2,266)
At 31 December 2017		**116,695**	**(1,078)**	**3,928**	**119,546**
At 1 July 2018		114,879	762	(13,778)	101,863
Comprehensive Income / (Loss)					
Profit / (Loss) for the Period		-	-	11,930	11,930
Total Comprehensive Income		-	-	11,930	11,930
Transactions with Equity Holders in their Capacity as Equity Holders					
Dividend Reinvestment Plan	9	516	-	(516)	-
Exercise of Options	9	1,785	-	-	1,785
Option Valuation Transferred On Exercise	9	119	(119)	-	-
Share Buyback	9	(5,784)	-	-	(5,784)
Share Buyback Costs	9	(18)	-	-	(18)
Dividends Paid	11	-	-	(2,691)	(2,691)
Valuation of Options Issued Current year	9,10	-	420	-	420
Total Transactions with Equity Holders		(3,382)	301	(3,207)	(6,288)
At 31 December 2018		**111,497**	**1,063**	**(5,055)**	**107,505**

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

1. Reporting Entity

Capitol Health Limited (the "Company") is a company incorporated and domiciled in Australia. Capitol Health Limited is a company limited by shares which are publicly traded on the Australian Securities Exchange. The condensed consolidated interim financial report of the Company for the half year ended 31 December 2018 comprises the Company and its subsidiaries (together referred to as the "Group").

The condensed consolidated annual financial report of the Group as at 30 June 2018 is available upon request from the Company's registered office or may be viewed on the Company's website: www.capitolhealth.com.au

2. Basis of Preparation

This consolidated interim financial report is a general purpose financial report prepared in accordance with the Australian Accounting Standard AASB 134 *Interim Financial Reports* and the *Corporations Act 2001*.

The consolidated interim financial report does not include all of the information required for a full financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2018. It is also recommended that the consolidated interim report be considered together with any public announcements made by the Group in accordance with continuous disclosure obligations under the *Corporations Act 2001* and ASX listing rules.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the annual financial report for the year ended 30 June 2018, except as disclosed below and in note 14.

The condensed consolidated interim financial report was approved by the Directors on 27 February 2019.

(i) Going Concern

The financial statements have been prepared on a going concern basis. For the half year ended 31 December 2018, the consolidated entity made a profit of $11,930,000 (2018: $2,890,000) and had net current liabilities of $,17,175,000 (2018: $6,246,000).

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

i) in the previous financial year ended 30 June 2018, the consolidated entity secured a new $144,000,000 debt facility from the National Bank of Australia. As a result, the consolidated entity will have sufficient working capital to enable it to meet its objectives and financial obligations.

ii) the consolidated entity generated net operating cash inflow for the half year ended 31 December 2018 of $7,710,000 (2018: $3,869,000). Management expect that the operating costs will be further reduced in the succeeding financial year as a result of integration of newly acquired businesses and ongoing restructuring of the group's operations, which will further increase operating cash flows.

The directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements as at 31 December 2018. Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

*(ii) **New accounting standards and interpretations applied for the current period***

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

- AASB 9 Financial Instruments
- AASB 15 Revenue from Contracts with Customers
- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions
- AASB 2017-1 Amendments to Australian Accounting Standards – Annual Improvements 2014-2016
- AASB 2017-5 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections

Refer Note 14 for the impacts of adopting AASB 9 and AASB 15 on the Group.
The adoption of all other amending standards above did not have any impact on the disclosures or amounts recognised in the condensed consolidated financial statements for the half year ended 31 December 2018.

Rendering of services:
The Group generates revenue from rendering of medical diagnostic imaging services. The adoption of AASB 15 has not impacted the timing of revenue recognition in rendering of services. The revenue is recognised on a 'point in time' basis which occurs upon completion of the services given the short time period over which the services are provided.

As the Group revenue is principally generated on 'point in time' basis, the amount of revenue recognised by the Group over time basis is not material in the context of Group's revenue.

(iii) Standards and interpretations issued but not yet adopted:

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

Title	**Nature of change and summary of impact**	**Date of application for Group**
AASB 16 Leases	Leases AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 Leases and the related interpretations when it becomes effective. AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The standard removed distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated	1 July 2019

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

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

Assessment of impact:

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

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

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

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

It is not practicable to provide an estimate of the financial effect on implementation, as it is dependent on a number of unresolved areas, including determination of appropriate discount rates and the choice of transition method. It is also dependent on the facts and circumstances at the time of transition. Notwithstanding this, it is expected that the right-of-use asset and the lease liability will be material with respect to total assets and total liabilities.

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

3. Significant Accounting Estimates, Assumptions and Judgements

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

In preparing the consolidated interim financial report, the significant judgements made by management in applying the Groups' accounting policies and the key source of estimation uncertainty were consistent with those made for the consolidated financial report as at and for the year ended 30 June 2018.

4. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal segment reports provided to the Chief Operating Decision Makers (CODM) of the Group. The CODM for the Group consist of Managing Director, Chief Financial Officer and General Manager Operations who reviews Group's performance based on monthly reports for the group.

For the half year ended 31 Dec 2018, based on the structure and the reports provided and other information available to the CODM, it has been determined by the management that there is only one single segment exist within the group.

Geographic segment
The Group Operates predominantly within Australia.

5. Other Financial Assets

		31 December 2018	30 June 2018
Non-Current	Note	$'000	$'000
At Amortised Cost			
Term Deposits		595	595
Rental Bonds - Held to Maturity		254	252
Amortised Cost At End of Period		849	847
At Fair Value			
Investment in Unlisted Entities - At Cost			
At Start Of Period		-	14,604
Change in Foreign Currency Valuation		-	582
Impairment Write Back/(Charge) for the Period		-	(15,186)
At End Of Period		-	-
Total		849	847

6. Investment in Associates

	31 December 2018 $'000
Investment	
Carrying amount at start of period	-
Additions	493
Impairment reversal	8,891
Carrying amount of investment at end of period	9,384

Investment in Enlitic Inc, USA, was previously accounted as an Unlisted investment and it is classified as an Investment in Associates during the current half year. At 31 December 2018, the Group holds over 20% of voting rights and a Board seat. The Group accounts for investment using the equity method by recognising the share of profit/(loss) in the profit and loss and increasing/ (decreasing) the investment.

In the current half year, Enlitic raised additional equity capital which demonstrated an increase in the fair value of investment held. The increase in value of investment was recognised in the Profit and Loss statement by reversing the impairment write off that was reported in previous financial year.

7. Intangibles

	Note	Goodwill $'000	Brands and Trademarks $'000	Customer relationships $'000	Total $'000
At 1 July 2017		53,190	-	-	53,190
Additions					
Acquisition through business combinations		21,370	739	1,929	24,038
Amortisation Charge for the Year		-	-	(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
At 1 July 2018		74,560	739	1,829	77,128
Additions					
Acquisition through business combinations	8	21,930	-	-	21,930
Reclassification		(143)	23	120	-
Amortisation Charge		-	-	(121)	(121)
At 31 December 2018		96,347	762	1,828	98,937
Represented By:					
Cost		96,347	762	2,049	99,158
Accumulated Amortisation and Impairment		-	-	(221)	(221)
Net Carrying Amount		96,347	762	1,828	98,937

The Directors considered, that for accounting purposes, the Group's operations represent a single Cash Generating Unit (CGU) (operating segment) for testing of any potential impairment applicable to the Goodwill valuation carried in the accounts of the Group. At 31 December 2018, the Directors have determined that there are no impairment indicators in the Goodwill carrying values.

8 Business combination - Summary of acquisitions

The company acquired the following businesses during the half year.

Date of acquisition	Business Name	State	Purchase consideration $000	Net Assets Acquired [1] $000	Goodwill [1] $000	Note Reference
12 July 2018	Specialist Vein Care	VIC	2,350	(6)	2,356	(a)
16 July 2018	Spectrum Imaging	WA & VIC	11,524	2,926	8,598	(b)
20 July 2018	Integrated Radiology	WA	3,182	1,586	1,596	(c)
3 Aug 2018	Imaging Central	WA	4,974	534	4,440	(d)
12 Sep 2018	Quinns Medical Imaging	WA	800	344	456	(e)
3 Nov 2018	West Coast Radiology	WA	5,277	793	4,484	(f)
			28,107	6,177	21,930	

[1] Provisional valuation

(a) The group acquired the assets and liabilities of one Diagnostic Imaging services (DIS) clinic. The net assets relate to the provisional valuation of employee entitlements. Purchase consideration include $550,000 contingent consideration payable over 5 years based on agreed earn-out targets.

(b) The acquisition comprises the assets and liabilities of six DIS clinics. The value of net assets relates to imaging equipment, deferred tax asset and employee entitlements has been provisionally determined. Contingent consideration of $2,000,000 is payable within 12 months based on certain earn-out targets.

(c) The group acquired Joremo Pty Limited which owns a DIS clinic in WA. Net assets stated at provisional value include plant and equipment, deferred tax asset, employee entitlements and make good provisions. Contingent consideration of $277,000 is payable within 5 years based on earn-out targets set out in the contract.

(d) The acquisition includes assets and liabilities of four DIS clinics. Nets assets relate to provisional valuation of plant and equipment, deferred tax assets and employee entitlements. The purchase consideration includes contingent payment of $1,000,000, payable within 12 months subject to meeting earn-out targets.

(e) The acquisition comprises the assets and liabilities of one DIS clinic. The provisional value of net assets includes imaging equipment, deferred tax assets, employee entitlements and makegood provision. Purchase consideration includes $50,000 contingent consideration payable within 12 months based on agreed earn-out targets.

(f) The group acquired the assets and liabilities which comprises two DIS clinics. The provisional value of net assets includes imaging equipment, deferred tax assets, employee entitlements and makegood provisions. Contingent consideration payable $300,000 within 12 months is subject to meeting earn-out targets.

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

Acquisition cost amounting to $2,110,000 included in transaction cost for the half year.

The acquisitions were funded by way of bank loans.

Revenue and profit contribution from the date of acquisition to 31 December 2018:

The revenue generated by the acquired businesses for the half year to 30 December 2018 has been broadly in line with expectations at $6,786,000. As acquired businesses have been integrated into existing business, it is not practically possible to calculate the profit contribution by the acquired businesses.

	31 December 2018	30 June 2018
	$'000	$'000
9. Issued Capital		
Issued Capital		
786,360,613 (30 June 2018: 795,964,199) Fully Paid Ordinary Shares	111,497	114,879

The following movements in issued capital occurred during the period:

	Note	31 December 2018		30 June 2018	
		Number of Shares	$'000	Number of Shares	$'000
Balance at the Beginning of the Period		795,964,199	114,879	810,098,465	125,854
Exercise of Options		10,000,000	1,785	2,000,000	373
Option Valuation Transferred from Reserves		-	119	-	57
Option Valuation Costs		-	-	-	(9)
Capital Reduction	i	-	-	-	(6,827)
Share Buyback		(21,441,028)	(5,784)	(8,641,858)	(2,499)
Share Buyback Costs		-	(18)	-	(7)
Treasury Shares Purchased	ii	-	-	(10,000,000)	(2,741)
Dividend Reinvestment Plan		1,837,442	516	2,507,592	679
Balance at the End of the Period		786,360,613	111,497	795,964,199	114,879
Treasury Shares at the End of the Year	ii	-	-	10,000,000	2,741

Note

i) During the financial year to 30 June 2018, the Directors resolved to reduce the Company's share capital by $6,827,000 in accordance 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 to 30 June 2018 the Treasury Shares were purchased on behalf of the Company in order for the Company to satisfy its obligations under the Capitol Health Limited Employees Incentive Plan. The shares were transferred 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 was $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 and Performance Rights

The Company operates an incentive scheme known as the Capitol Health Limited Incentive 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 period:

	Note	31 December 2018		30 June 2018	
		Number	Weighted Average Exercise Price (Cents)	Number	Weighted Average Exercise Price (Cents)
Balance at the Beginning of the Period		42,095,062	25.71	13,000,000	18.12
Granted	i	1,744,765	-	31,095,062	28.42
Exercised		(10,000,000)	19.79	(2,000,000)	18.66
Balance at the End of the Period		33,839,827	26.13	42,095,062	25.71
Represented by:					
Options		30,400,000	29.08	40,400,000	26.78
Performance Rights		3,439,827	-	1,695,062	-
		33,839,827	26.13	42,095,062	25.71

Note:

i – The performance rights have been granted to the Managing Director of the Company as approved at the Company Annual General Meeting on 19 November 2018. The performance rights are convertible into fully paid ordinary shares issued subject to the terms of the Company's Employee Incentive Plan and various service and performance conditions.

10. Reserves

	Note	Currency Translation $'000	Option $'000	Total $'000
		i	ii	
At 31 December 2017		(1,397)	319	(1,078)
Exchange Differences on Translation of Foreign Subsidiaries		1,397	-	1,397
Current Year	-	-	129	129
Current Year Costs		-	(136)	(136)
Future Years Pursuant to Acquisitions		-	507	507
Amount Transferred to Issued Capital on Conversion of Options		-	(57)	(57)
At 30 June 2018		-	762	762
Exchange Differences on Translation of Foreign Subsidiaries				
Valuation of options issued		-	420	420
Exercise of Options		-	(119)	(119)
At 31 December 2018		-	1,063	1,063

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 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

11. Dividends

Dividends paid on Ordinary Shares	31 December 2018 $'000	31 December 2017 $'000
For previous financial year:		
Interim dividend ($0.004 per share)	-	3,210
Final dividend ($0.004 per share)	3,207	-
For current financial year:		
Interim dividend - not recognised ($0.005 per share)	3,932	

The Dividend Reinvestment Plan (DRP) is currently suspended.

Final dividend for the year ended 30 June 2018 was declared and paid during the half year to 31 December 2018.

Since the end of the half year the Directors have declared an interim dividend of $0.005 per share (2018: $3,210,000 at $0.004 per share).

12. Earnings Per Share

	31 December 2018	31 December 2017
Earnings Per Share:		
Basic	1.50	0.34
Diluted	1.43	0.33
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	794,331,317	805,567,477
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	831,434,723	817,091,725

13. Borrowings

	31 December 2018 $000	30 June 2018 $000
Current		
Finance lease liability	4,880	979
	4,880	979
Non-current		
Bank borrowings	23,550	-
Finance lease liability	3,009	3,009
	26,559	3,009

Assets pledged as security
Finance leases are effectively secured against the rights to the leased assets, recognised in the Consolidated Financial Position.

Bank facilities
The group successfully secured loan facility with National Australia Bank in May 2018 and drew on these facilities during the half year. The bank facilities totaling $144 million made up of the following:

- Cash advance facility limit of up to $60 million for a period of 3 years.
- Cash advance facility limit of up to $70 million for a period of 5 years
- Overdraft and bank guarantee facilities with limit of $9 million and
- Equipment leasing facilities $5 million

In accordance with Australian Accounting Standards. Loan establishment fees have been capitalised and it is being amortised over the life of these facilities.

14. Impact of new accounting standards

The Group has applied AASB 9 and AASB 15 from 1 July 2018. There were no material impacts in adoption of these standards.

(a) AASB 9 Financial instruments

This standard replaces AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculation of impairment on financial assets and new general hedge accounting requirements. It also carries forward guidance on recognition and derecognition of financial instruments from AASB 139.

<u>Trade receivables – expected credit losses</u>

The implementation of AASB 9 has not resulted in material change to the methodology by which the Group has assessed the provision for doubtful debtors from the incurred loss model to the expected credit loss model. The Group has adopted the simplified approach to measuring expected credit losses, which uses lifetime expected loss allowance for all trade receivables. The expected credit loss model requires the Group to determine the lifetime expected credit losses for groups of trade receivables with shared credit risk characteristics. An expected credit loss rate is then determined for each group, based on the historic credit loss rates for each group, adjusted for any other current observable data that may materially impact the group's future credit risk.

Other current observable data may include:

- Forecasts of economic conditions such as unemployment, interest rates, gross domestic product and inflation;
- Financial difficulties of a counterparty or probability that a counterparty will enter bankruptcy; and
- Conditions specific to the asset to which the receivable relates.

The initial impact of adopting this change is not material.

The provision for expected credit losses at 31 December 2018 has been determined in a manner consistent with the methodology adopted on 1 July 2018.

(b) AASB 15 Revenue from contracts with customers

AASB 15 establishes a single comprehensive model for entities. The Group adopted AASB 15 from 1 July 2018 using the modified retrospective approach where comparatives have not been restated. The core principle of the standard is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transfer price. Credit risk is presented separately as an expense rather than adjusted against revenue.

In previous reporting periods revenue from providing services was recognised on the transfer of risk and rewards of ownership. Under AASB 15, revenue for the services is recognized at a point-in-time basis when the performance obligation is satisfied, which occurs when service is provided to the customer. The timing of revenue recognition under AASB 15 is consistent with the previous standard AASB 118 'Revenue' and consequently the adoption of AASB 15 has not resulted in an impact during the current period nor on transition, 1 July 2018

15. Contingencies

Contingent Liabilities

a) Rental Guarantees

The Group has an obligation to provide rental property guarantees when requested by the owners of rented premises which may be classed as a contingent liability unless supported by value for value specific deposits. As at 31 December 2018 rental guarantees not supported by a dedicated deposit totalled $705,246 (30 June 2018: $1,230,000).

b) Joint Venture with CITIC Pharmaceutical (Shenzhen) Co.

The Group has an obligation to contribute equity of RMB 3m (AUD 0.6M) within three months from the date of issue of the Business License of the joint venture company. The parties continue to pursue agreement on business license and joint venture registration.

16. Fair Value Measurement of Financial Instruments

The carrying amount of financial assets and financial liabilities, which are not measured at fair value in the statement of financial position, approximate their fair values.

17. Events Occurring after the Reporting Period

On 14 January 2019 the Group acquired 4 clinics in metropolitan Melbourne from Uniradiology. The consideration for the acquisition amounted to $8.1 million plus assumed liabilities for employee entitlements. The consideration is all payable in cash. Settlement has not yet occurred at the date of this Report

Other than the above, there have been no other matters or circumstances occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect, the operations of the Group, the results or those operations, or the state of affairs of the Group in future financial years.

In the opinion of the Directors of Capitol Health Limited:

(a) the financial statements and notes set out on pages 7 to 22, are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

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

Signed in accordance with a resolution of the Directors made pursuant to s.303 (5) of the Corporations Act 2001.

On behalf of the Directors

Andrew Harrison
Managing Director
Dated at Melbourne, Victoria this 27th day of February 2019.

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

We have reviewed the accompanying half-year financial report of Capitol Health Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Director' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Capitol Health Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Capitol Health Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Capitol Health Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Anneke Du Toit
Partner
Chartered Accountants
Melbourne, 27 February 2019