CAPITOL HEALTH LIMITED

ABN 84 117 391 812

2011 ANNUAL REPORT

CONTENTS

CAPITOLHEALTH LIMITED

CORPORATE DIRECTORY

Directors

Mr John Conidi	–	Managing Director
Mr Dominik Kucera	–	Executive Director
Mr Andrew Harrison	–	Non-Executive Director
Mr Steven Sewell	–	Non-Executive Director

Company Secretary

Mr Kim Hogg

Principal Place of Business and Registered Office

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Essendon, Victoria, 3040

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Facsimile: (61-3) 9370 0336

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Perth, Western Australia, 6000

ASX Code: CAJ

Auditor

RSM Bird Cameron Partners
Level 8 South Tower
The Rialto, 525 Collins Street
Melbourne, Victoria, 3000

Solicitors

Steinepreis Paganin
Level 4
16 Milligan Street
Perth, Western Australia, 6000

Share Registry

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Level 2, Reserve Bank Building
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Perth, Western Australia, 6000

Telephone: (61-8) 9323 2000
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MANAGING DIRECTORS REVIEW

Dear Shareholder,

Please find following the Annual Report for 2010/11 for Capitol Health Limited and its subsidiaries (the Group).

As per previous financial years the Group continued its consolidation activities within the healthcare field of diagnostic imaging in 2010/2011. This was achieved through the organic expansion of its clinics and services in addition to two completed acquisitions and a third underway.

The Directors are pleased to report that the Group comfortably achieved its stated headline revenue figures. However net profit before tax did not meet initial forecasts, mainly due to factors emanating from the 2011/12 Federal Budget in addition to acquisition and initial operating expenses associated with the purchase of the radiology operations of IM Medical Ltd (IMI) occurring in the 4th quarter of the financial year.

Although the IMI acquisition has produced an initial loss through, amongst others, changes to the accounting standards as to what costs can be capitalised to the asset base, the board is confident the operations will meet their target of being profit accretive in 2011/12.

The Directors maintain that there is no change from their view that in the long term growth in the overall market will be largely driven by an ageing population and new developments in technology.

Demand for our service is important, but so is adequate remuneration, consequently my main concern relates to the value placed on our service by patients, referrers and government and how this is reflected in the fee we receive for services. In last year's Directors' Report I mentioned that we faced the risk of competitors changing their billing model from gap to bulk billing. This has occurred with one of the main providers in Melbourne transitioning from an established private billing model to bulk billing, their intention being simply to gain market share at the expense of competitors. Fixation on quarter by quarter earnings was thrown out the window as they sought an opportunity to strategically alter the marketplace by placing undue pricing pressure on competitors. This pressure will probably continue to occur in the light of Government Policy announced in this year's Federal Budget, in that any new Medicare Benefits Schedule will not take effect until 1 November 2013. On the flip side for those brave enough the disappointing earnings by most, if not all, providers creates an opportunistic environment ripe for aggregation/consolidation. Like always, Capitol is continually on the lookout for acquisitions.

Shareholders should note that although the Group has indicated a potential move to a co-payment regime for its services - with the lack of any upward movement in Bulk Billing Rebates from the Federal Government and major competitors moving more to Bulk Billing this is now considered unlikely in the short term.

One positive note from the Federal Budget is that Capitol Health is pleased to advise that it has 5 MRI facilities in place or on order that it believes meet the Federal Government's eligibility criteria to be partially licensed for Medicare benefits from November 2012.

Emphasis within the Group has shifted to cost control, procedures, policies and efficiency, without impinging on the standard of service provided.

On behalf of the Directors I would like to thank our shareholders for their continued support and staff for their efforts during this completed year and the year ahead.

The Board is confident in the future of the enterprise and commends this report to the shareholders.

John Conidi
Managing Director

Melbourne, Victoria

30 September 2011

The Directors present their report together with the financial report of Capitol Health Limited (the "Company") and its controlled entities (the "Group"), for the financial year ended 30 June 2011, 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 John Conidi, BBus, CPA
Managing Director – Appointed 30 August 2007

Mr Conidi graduated in 1995 with a Bachelor of Business degree from Royal Melbourne Institute of Technology. He is a CPA and currently manages the Radiology Consolidated entity's operations. Mr Conidi has over 7 years of experience in developing, acquiring and managing businesses in the healthcare industry with a focus on diagnostic imaging. Mr Conidi's role in strategy, management and business development has driven the rapid expansion of the Group.

Mr Dominik Kucera, BBus (Acc), CPA
Executive Director and Chief Financial Officer – Appointed 31 July 2008

Mr Kucera has held senior finance roles in a number of private, joint venture and public companies, under Australian and Multi-National ownership, as both permanent employee and consultant. He has worked in Primary, Secondary and Tertiary (service) industries for extensive periods of time. His last role in a public company was as Chief Financial Officer for Sirius Telecommunications Ltd (ASX code SIU - now named as Sirius Corporation Ltd) for a period of 5 years between its initial listing in 2000 to 2005. Previous employers include ICI Australia Ltd (now Orica), Brambles, Ticketmaster and the Porta Consolidated group of companies. Mr Kucera has held ultimate responsibility in his various roles for the Finance, Human Resources, Marketing and IT functions for the companies or business units under his control.

Mr Kucera will be retiring by rotation and seeking re-election by shareholders at the 2011 Annual General Meeting.

Mr Andrew Harrison, BCom (Hons), MAICD
Non-Executive Director - Appointed 1 December 2005

Mr Harrison has significant experience in both senior management and board positions in publicly listed companies. He has held senior positions in a number of major organisations. Prior to forming Capitol Health Limited, Mr Harrison was Managing Director of Neptune Marine Services Limited, and played an integral role in the initial public offering of that company in April 2004. He was a non-executive director of ASX listed Neptune Marine Services Limited until February 2006, and is currently a Non Executive Director of C @ Limited, an ASX listed company.

Previously he has worked as a management consultant for such clients as Chubb Australasia and has been CEO of a Melbourne based marketing consultancy. Mr Harrison also holds a Bachelor of Commerce (Honours) in Marketing and Commercial Law from Curtin University in Western Australia, and is a member of the Australian Institute of Company Directors.

Mr Steven Sewell
Non-Executive Director – Appointed 6 February 2008

Mr Sewell is an Executive Director of Charter Hall Retail Management Limited (ASX code CQR), Chief Executive officer of the Trust and also holds the position of Chairman of Charter Hall's Real Estate Management Services Group (CREMS) which provides all property level services to CQR, including property management, retail leasing, financial management and regulatory and OH&S compliance. Mr Sewell has over twelve years experience in the property investment and management industry. He is an active member of the Retail Lease Law and Planning sub-committee of the Shopping Centre Council of Australia. He is a graduate in Science from the University of Melbourne and The Geelong College.

COMPANY SECRETARY

Mr Kim Hogg, BCom
Company Secretary – Appointed 1 December 2005

Mr Hogg is a principal of a public practice providing specialist services to clients seeking to raise capital and list on the ASX. He has predominantly been involved in the preparation of prospectuses and in compliance work as company secretary for both listed and unlisted entities. Mr Hogg completed a Bachelor of Commerce degree in 1984 at the University of Western Australia. He is currently the company secretary of a number of companies listed on the ASX.

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 J Conidi	Nil	-	-
Mr D Kucera	Nil	-	-
Mr A Harrison	C @ Limited	2005	Present
Mr S Sewell	Nil	-	-

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:

	Board Meetings		Nomination and Remuneration Committee Meetings		Audit and Risk Committee Meetings	
Director	Held	Attended	Held	Attended	Held	Attended
Mr J Conidi	11	11	1	1	3	3
Mr D Kucera	11	11	-	-	3	3
Mr A Harrison	11	11	1	1	3	3
Mr S Sewell	11	11	1	1	-	-

Committee membership

As at the date of this 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 and Remuneration Committee	Audit and Risk Committee
Mr S Sewell (Chairman)	Mr D Kucera (Chairman)
Mr J Conidi	Mr J Conidi
Mr A Harrison	Mr A Harrison

PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were the provision of services and facilities to healthcare businesses.

OPERATING AND FINANCIAL REVIEW

The results for the 2010/11 financial year incorporate the following key developments:

- Major acquisitions and continued organic growth
- Continued expansion of Tele-radiology services
- Ordering of an additional 2 MRI's
- Federal Budget measures impacting on the Group

Operating review

Major acquisitions and organic growth

Over the course of the year 9 clinical facilities were added through acquisition and 5 clinical facilities (net) through organic growth. The total Group network at the close of the reporting period stood at 33. In this sense the Group is just short of becoming the No. 2 diagnostic imaging provider in Victoria on a facility count, however as the majority of Group services performed are Bulk-Billed a revenue comparison is probably not appropriate.

The acquisition of the radiology operations of IM Medical Limited (IMI) in the 4th quarter of the financial year has created better linkages between Capitol Health sites operating in the East and South-East areas of Melbourne. As this acquisition comprises the major operations of a publically listed company, the formal approval of IMI shareholders at a specially convened meeting for the transaction is required, which is not expected to be held until November 2011. Currently the

OPERATING AND FINANCIAL REVIEW (cont'd)

IMI sites are being run by Group under a Management Agreement with IMI. The delay in completing the sale is contributing to a containment on expected profits however the operation is still expected to produce a net accretion to profit to the Group over the course of the 2011/12 financial year. Outcomes for this acquisition for the 4th quarter produced a substantial but temporary loss which was included in the Group's reported results for the 2010/11 financial year.

Revenues and Trading environment

Tele-radiology services continued its expansion over the course of the financial year.

The combination of a contiguous period of School holidays running into an extended Easter break (incorporating Anzac Day) produced a negative trading distortion in April and positive one in May. However the combination of variable demand patterns outside of expectations in both months resulted in operating inefficiencies which had a minor impact on profit.

Overall revenues for the financial year period exceeded expectations whereas major competitors have reported stagnant or declining revenues

Overall there has been an increase in Operating Revenue compared to the previous period of 28% (61% over a two-year period), of which the increase over the previous period can be attributed to Tele-radiology activities (11%), acquisitions (11%) and organic growth from existing facilities (6%).

Competitors and Capitol's Competitive Position

The comments from last year's Annual Report in terms of the difficulties facing our competitors in revenue, margin and share of market terms still hold. The Directors note that the destabilising factors impacting the sector are contributing to further closures or consolidation above and outside of those acquisitions made by this Company.

Ordering of new MRI's

The Company ordered two new MRI's for the Vermont and Mildura clinics during the reporting period. Running parallel to these major assets is a constant refresh of existing equipment, including low-dose CT functionality, to maintain the high level of technical capability within the organisation.

Staff

The Company has continued strong staff retention within a competitive market and continues to attract potential staff from our major competitors.

Impact of Federal Budget 2011/12

The Federal Budget contained measures both positive and negative for the Company.

Negative aspects included the introduction of "capital sensitivity" measures from September 2011 (which link the level of Medicare Rebates payable to either provider or the general public) to the age of the equipment used, new and reduced Rebates available for Teleradiology (from July 1, 2011) and statements to the effect that no increase in Medicare Rebates for diagnostic imaging are likely to occur before November 2013 at the earliest.

The positive aspects are the long-term benefits from the gradual introduction of eligibility for Medicare Rebates for existing "unlicensed" MRI facilities

The "capital sensitivity" tests resulted in an impairment charge made in the results for the reporting period for equipment that did not meet these new tests.

Financial review

Outlook

Although it is disappointing that no Medicare Rebate increase is envisaged for the short-term, the impact of which is discussed above and in previous material issued by the Company, Capitol Health's operating model is centred around the current Bulk Billing rates - however this issue presents a far greater problem for our competitors.

On a positive note, the gradual introduction of eligibility of "unlicensed" MRI's from a limited range in November 2012 to an expanded range in November 2013 should apply to the existing and ordered MRI's currently in the Company's fleet – this will begin to impact in the 2012/13 financial year.

OPERATING AND FINANCIAL REVIEW (cont'd)

The introduction of a new and single Medicare Rebate item (previously multiple items) for a majority of Teleradiology services should see a drop in this revenue stream for the 2011/12 financial year. The drop-off should be more than offset by increases in revenue from the new acquisitions made in 2010/11 and the expansion of services in all other clinics. Overall the Directors expect an increase in revenue in the 2011/12 financial year as compared to this reporting period.

ENVIRONMENTAL REGULATION

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The consolidated net assets increased during the financial year 2010/11 by $955,900 to $20,211,755 (2010: $19,225,855). The increase comprised the net profit after tax for the period of $962,009 (2010: profit $705,232 plus a capital raising exercise) less a minor movement in the staff share option reserve.

There have been no significant changes in the state of affairs of the Company during the course of the financial year.

RESULTS

The Group made a net profit after tax for the financial year ended 30 June 2011 of $962,009 (2010: profit $705,232).

DIVIDENDS

No dividend has been declared or paid by the Company to the date of this Report.

EVENTS SUBSEQUENT TO BALANCE DATE

There are no events of a material nature subsequent to balance date.

LIKELY DEVELOPMENTS

The Group will continue to operate in the diagnostic imaging market and pursue its strategy of expansion through acquisition and organic growth. The Operating and Financial Review above and the Managing Director's Review set out more details about likely developments in the operations of the Group in future financial years.

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	Listed Options
Mr J Conidi	29,809,215	3,232,883
Mr D Kucera	953,216	453,216
Mr A Harrison	13,400,001	-
Mr S Sewell	100,000	-

OPTIONS

Options granted to Directors and key management personnel

No options have been granted during or since the end of the financial year.

Unissued shares under option

At the date of this report, there are no unissued ordinary shares of the Company under option.

No shares were issued during or since the end of the financial year as a result of the exercise of an option over unissued shares.

INDEMNIFICATION AND INSURANCE OF OFFICERS

Indemnification

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

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

Insurance Premiums

The Company paid a premium during the year in respect of a director and officer liability insurance policy, insuring the Directors of the Company, the Company Secretary, and all executive officers of the Company 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.

NON-AUDIT SERVICES

The Company's auditor, RSM Bird Cameron Partners, was appointed in 2009 and did not provide any non-audit services during the year.

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

	Consolidated 2011 $	Consolidated 2010 $
Audit services:		
Auditors of the Company		
- audit and review of financial reports (RSM Bird Cameron Partners)	**85,500**	**54,000**

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 12 of the financial report.

AUDITED REMUNERATION REPORT

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and the *Corporations Regulations 2001*.

For the purposes of this report, key management personnel of the Group 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 Group does not presently employ any executives, other than the executive directors.

KEY MANAGEMENT PERSONNEL

The following were key management personnel of the Group at any time during the year and unless otherwise indicated were key management personnel for the entire year:

Name	Position held
Mr J Conidi	Managing Director
Mr D Kucera	Executive Director
Mr A Harrison	Non-Executive Director
Mr S Sewell	Non-Executive Director

REMUNERATION COMMITTEE

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration policies for the directors and executives. 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.

PRINCIPLES OF REMUNERATION

Compensation levels for key management personnel of the Company and the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segments performance
- the Group's performance including:
  - the Group's earnings, and
  - the growth in share price and delivering constant returns on shareholder wealth.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive directors' remuneration is clearly distinguished from that of executives.

Non-executive director remuneration

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. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2005 General Meeting, is not to exceed $150,000 per annum. Directors' fees cover all main board activities and membership of committees.

Non-executive directors do not receive any retirement benefits, nor do they receive any performance related compensation.

Executive remuneration

Executive Directors are employed under the general terms of the Award that govern the industry sector, as appropriate to their position.

Executive directors may receive performance related compensation but do not receive any retirement benefits, other than statutory superannuation.

AUDITED REMUNERATION REPORT (cont'd)

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

Key management personnel may receive benefits such as car allowances, and the Company pays fringe benefits tax on these benefits.

Short-term incentives

Key management personnel did not receive short-term incentives during the 2011 or 2010 reporting periods.

Long-term incentives

Long-term incentives ("LTI") may be provided to key management personnel via the Capitol Health Limited Incentive Option Scheme ("Scheme") (refer to Note 16 to the financial statements). The LTI are provided as options over ordinary shares of the Company to key management personnel based on their position within the Group. Vesting conditions may be imposed on any LTI grants if considered appropriate, in accordance with the Scheme's terms and conditions.

LTI are considered to promote continuity of employment and provide additional incentive to recipients to increase shareholder wealth. Options may only be issued to Directors subject to approval by shareholders in general meeting.

There were no options granted as compensation to key management personnel during the 2011 or 2010 reporting periods.

The Company has introduced a policy that prohibits employees and directors of the Group from entering into transactions that operate or are intended to operate to limit the economic risk or are designed or intended to hedge exposure to unvested Company securities. This includes entering into arrangements to hedge their exposure to LTI granted as part of their remuneration package. This policy may be enforced by requesting employees and directors to confirm compliance.

Consequences 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:

	2011	2010	2009	2008
Net profit/(loss) for the year	$962,009	$705,232	($1,018,218)	$214,521
Dividends paid	nil	nil	nil	nil
Change in share price	1.6 cents	(3.6 cents)	(0.9 cents)	(2.5 cents)
Share price at beginning of the period	2.5 cents	6.1 cents	7.0 cents	9.5 cents
Share price at end of the period	4.1 cents	2.5 cents	6.1 cents	7.0 cents
Earnings/(loss) per share	0.32 cents	0.24 cents	(0.37 cents)	0.09 cents

The overall level of key management personnel's compensation takes into account the performance of the Group. As a result, the level of compensation has remained unchanged, other than the increase or decrease in compensation levels due to the appointment or resignation of key management personnel or variations in applicable workload. Furthermore, total remuneration for all non-executive directors has remained unchanged since December 2005.

There were no performance related remuneration transactions during the financial year (2010: nil).

EMPLOYMENT AGREEMENTS

The Group has not entered into employment agreements with any of its key management personnel.

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:

		SHORT-TERM			POST-EMPLOYMENT	LONG-TERM	SHARE-BASED PAYMENTS			
		Salary & fees $	STI cash bonus $	Other benefits $	Superannuation benefits $	Long service leave $	Options $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors										
Non-executive										
Mr A Harrison	2011	30,000	-	-	-	-	-	30,000	-	-
	2010	30,000	-	-	-	-	-	30,000	-	-
Mr S Sewell	2011	30,000	-	-	2,700	-	-	32,700	-	-
	2010	29,358	-	-	2,642	-	-	32,000	-	-
Executive										
Mr J Conidi	2011	162,462	-	-	14,917	47,526	-	224,905	-	-
	2010	142,923	-	-	13,676	25,615	-	182,214	-	-
Mr D Kucera	2011	193,602	-	7,923	18,706	1,410	-	221,641	-	-
	2010	180,699	-	4,501	16,668	407	-	202,275	-	-
Total, all key management personnel	**2011**	**416,064**	**-**	**7,923**	**36,323**	**48,936**	**-**	**509,246**	**-**	**-**
	2010	**382,980**	**-**	**4,501**	**32,986**	**26,022**	**-**	**446,489**	**-**	**-**

This is the end of the audited Remuneration Report.

Dated at Melbourne, Victoria this 30th day of September 2011.

Signed in accordance with a resolution of the directors:

John Conidi
Managing Director

RSM! Bird Cameron Partners
Chartered Accountants

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Capitol Health Limited for the year ended 30 June 2011, 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 Bird Cameron Partners

RSM BIRD CAMERON PARTNERS
Chartered Accountants

Miano

R B MIANO
Partner

Dated: 30 September 2011
Melbourne, Victoria

The Board and management of Capitol Health Limited ("Capitol Health" or the "Company") recognise their duties and obligations to shareholders and other stakeholders to implement and maintain a robust system of corporate governance. The Company believes that the adoption of good corporate governance adds value to stakeholders and enhances investor confidence.

The Company acknowledges the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (2nd Edition) (the "Recommendations"). This Corporate Governance Statement provides details of the Company's compliance with those Recommendations, or where appropriate, indicates a departure from the Recommendations with an explanation. A checklist summarising the Company's compliance with the Recommendations is also set out at the end of this statement.

The Company's corporate governance policies are available on the Company's website: www.capitolhealth.com.au. This statement reflects Capitol Health's corporate governance system in place during the 2011 financial year and as at the date of this report.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board Charter

The Board is accountable to shareholders for the performance of the Company. The Board operates under the Board Charter that details its functions, responsibilities and powers and those delegated to management.

On appointment, non-executive directors receive formal letters of appointment setting out the terms and conditions of appointment. The formal letter of appointment covers the matters referred to in the guidance and commentary for Recommendation 1.1.

Evaluation of the performance of senior executives

The performance of senior executives is evaluated in accordance with the Performance Evaluation Process. The Company does not currently have any senior executives and consequently, a performance evaluation for senior executives has not taken place during the reporting period.

The Board Charter and Performance Evaluation Process are available on the Capitol Health website.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Composition of the Board

The Board consists of the Managing Director, an executive director and two non-executive directors. Details of their skills, experience and expertise and the period of office held by each director have been included in the Directors' Report. The number of Board meetings and the attendance of the directors are set out in the Directors' Report.

The Company is at variance with Recommendation 2.2 in that the Board does not have an independent Chairman. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the expense of the appointment of an additional director to perform the function of an independent chairman.

Independence of non-executive directors and the Chairman of the Board

The Board has assessed the independence of the non-executive directors and the Chairman using defined criteria of independence and materiality consistent with the guidance and commentary for Recommendation 2.1.

Mr Harrison does not satisfy the tests of independence as detailed in the Recommendations. Although Mr Sewell holds 100,000 fully paid ordinary shares in the Company, the Board considers this immaterial. He is regarded as independent as Mr Sewell is not a substantial shareholder as defined by the *Corporations Act*.

The Company is at variance with Recommendation 2.1 in that the majority of directors are not independent. The Board has determined that the composition of the current Board represents the best mix of directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management. Furthermore, each individual member of the Board is satisfied that whilst the Company may not comply with Recommendation 2.1, all directors bring an independent judgement to bear on Board decisions.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee consists of three members and is chaired by an independent non-executive director, Mr Sewell.

The Nomination and Remuneration Committee Charter sets out its role, responsibilities and membership requirements. The Charter reflects the matters set out in the commentary and guidance for Recommendation 2.4.

For information on the skills, experience and expertise of the Nomination and Remuneration Committee members, refer to the Directors' Report.

Details of the members and their attendance at meetings of the Nomination and Remuneration Committee are included in the Directors' Report.

The Company is at variance with Recommendation 2.4 in that the Nomination and Remuneration Committee does not consist of a majority of independent directors. The Board considers that this composition is appropriate given the current size of the Company.

Board renewal and succession planning

The appointment of directors is governed by the Company's Constitution and the Appointment and Selection of New Directors policy. In accordance with the Constitution of the Company, no director except a Managing Director shall hold office for a continuous period in excess of three years or past the third annual general meeting following the director's appointment, whichever is the longer, without submitting for re-election.

The Company has not adopted a policy in relation to the retirement or tenure of directors.

The appointment of the Company Secretary is a matter for the Board. Information on the skills, experience and qualifications of the Company Secretary can be found in the Directors' Report.

Evaluation of the performance of the Board, its committees and individual directors

The performance of the Board, its committees and individual directors are evaluated in accordance with the Performance Evaluation Process. Performance evaluations of the Board, the Nomination and Remuneration Committee, the Audit and Risk Committee and individual directors have taken place in the reporting period and were carried out in accordance with the process disclosed.

Induction and education

When appointed to the Board, a new director will receive an induction appropriate to their experience. Directors may participate in continuing education to update and enhance their skills and knowledge from time to time, as considered appropriate.

Access to information and advice

Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making. The Board also has a policy under which individual directors and Board committees may obtain independent professional advice at the Company's expense in relation to the execution of their duties, after consultation with the Chairman.

The Company's Constitution, Nomination and Remuneration Committee Charter and the policy for Appointment and Selection of New Directors are available on the Capitol Health website.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The Board has adopted a Code of Conduct which applies to all directors and officers of the Company. It sets out Capitol Health's commitment to successfully conducting the business in accordance with all applicable laws and regulations while demonstrating and promoting the highest ethical standards. The Code of Conduct reflects the matters set out in the commentary and guidance for Recommendation 3.1.

Securities Trading Policy

In accordance with ASX Listing Rules, the Company lodged its Securities Trading Policy with ASX in December 2010.

The Policy sets out the rules relating to dealings by employees and directors in securities issued by the Company. Directors and employees may only trade in Capitol Health securities during prescribed trading windows and only then if they are not in possession of inside information. All directors and employees are required to seek approval before trading in Capitol Health securities during the trading windows.

Capitol Health has instituted prohibitions on employees and directors from using derivatives or hedging arrangements that operate or are intended to operate to limit the economic risk of security holdings over unvested Company securities.

The Company will publicly disclose all derivatives or hedging arrangements over vested Capitol Health securities taken out by a director of the Company.

The Code of Conduct and Securities Trading Policy are available on the Capitol Health website.

Diversity Policy

ASX introduced revisions to the Corporate Governance Principles and Recommendations in late 2010 which apply to an entity's first financial year commencing on or after 1 January 2011. One of the revisions was a recommendation that companies establish a policy concerning gender diversity, such policy to include requirements for the board to establish measurable objectives for achieving gender diversity, with the objectives and progress in achieving them to be assessed annually. It is also recommended that companies disclose the proportion of women employees in the Company, women in senior executive positions and women on the board.

The Company has not yet established a Diversity Policy. The Board will give consideration to the recommendation during 2011/12.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

The Audit and Risk Committee consists of three members and is chaired by Mr Kucera.

The Audit and Risk Committee Charter sets out its role, responsibilities and membership requirements. The Charter reflects the matters set out in the commentary and guidance for Recommendation 4.3.

For information on the skills, experience and expertise of the Audit and Risk Committee members, refer to the Directors' Report.

Details of the members and their attendance at meetings of the Audit and Risk Committee are included in the Directors' Report.

The Company is at variance with Recommendation 4.2 in that the Audit and Risk Committee does not consist of a majority of independent directors and is not chaired by an independent chairman. The Board considers that this composition is appropriate given the current size of the Company. Furthermore, the Board considers that the Audit and Risk Committee is of a sufficient size and possesses sufficient technical expertise to discharge its mandate effectively.

External auditor

Consistent with its Charter, the Audit and Risk Committee reviews the external auditor's terms of engagement and audit plan, and assesses the independence of the external auditor. The current practice, subject to amendment in the event of legislative change, is for the rotation of the engagement partner to occur every five years.

The Company's independent external auditor is RSM Bird Cameron Partners ("RSM"). The appointment of RSM was approved by members at the Annual General Meeting held on 26 November 2009.

The Audit and Risk Committee Charter is available on the Capitol Health website.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Continuous Disclosure Policy sets out the key obligations of the directors and employees in relation to continuous disclosure as well as the Company's obligations under the Listing Rules and the Corporations Act. The Policy also provides procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements for monitoring compliance.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 5.1.

The Continuous Disclosure Policy is available on the Capitol Health website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Shareholder Communications Policy sets out the Company's aims and practices in respect of communicating with both current and prospective shareholders. The Policy reinforces the Company's commitment to promoting investor confidence by requiring:

- compliance with the continuous disclosure obligations;
- compliance with insider trading laws;
- compliance with financial reporting obligations;
- compliance with shareholder meeting requirements, including the provision of an opportunity for shareholders and other stakeholders to hear from and put questions to the Board, management and auditor of the Company;
- communication with shareholders in a clear, regular, timely and transparent manner; and
- response to shareholder queries in a prompt and courteous manner.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 6.1.

The Shareholder Communications Policy is available on the Capitol Health website.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management Policy

Capitol Health recognises that risk is inherent to any business activity and that managing risk effectively is critical to the immediate and future success of the Company. As a result, the Board has adopted a Risk Management Policy which sets out the Company's system of risk oversight, management of material business risks and internal control. The Policy has regard to the Joint Australian/New Zealand Standard, AS/NZS 4360:2004, *Risk management*.

Risk oversight

Capitol Health's risk management framework is supported by the Board of Directors, management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. The Audit and Risk Committee also has delegated responsibilities in relation to risk management and the financial reporting process as set out in the Audit and Risk Committee Charter. Further detail regarding the Audit and Risk Committee can be found above at Principle 4: Safeguarding integrity in financial reporting.

Reporting and assurance

When considering the Audit and Risk Committee's review of financial reports, the Board receives a written statement declaration in accordance with section 295A of the *Corporations Act*, signed by the Managing Director and Chief Financial Officer (or equivalents), that the Company's financial reports give a true and fair view, in all material respects, of the Company's financial position and comply in all material respects with relevant accounting standards. This statement also confirms that the Company's financial reports are founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

Similarly, in a separate written statement the Managing Director (or equivalent) and the Chairman of the Audit and Risk Committee also confirm to the Board that the Company's risk management and internal control systems are operating effectively in relation to material business risks for the period, and that nothing has occurred since period-end that would materially change the position.

The Risk Management Policy is available on the Capitol Health website.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Nomination and Remuneration Committee

The Nomination and Remuneration Committee has delegated responsibilities in relation to the Company's remuneration policies as set out in the Nomination and Remuneration Committee Charter. The Charter reflects the matters set out in the commentary and guidance for Recommendation 8.1. Further detail regarding the Nomination and Remuneration Committee can be found above at Principle 2: Structure the Board to add value.

Non-executive directors' remuneration policy

The structure of non-executive directors' remuneration is clearly distinguished from that of executives. Remuneration for non-executive directors is fixed. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2005 General Meeting, is not to exceed $150,000 per annum. Non-executive directors do not receive performance-related compensation. Neither the non-executive directors nor the executives of the Company receive any retirement benefits, other than superannuation.

Executive directors' remuneration policy

Executive Directors are employed under the general terms of the Award that govern the industry sector, as appropriate to their position. This sector is one of the major targets of the Federal Governments industrial reforms in terms of Award modernisation and concentration. The intention is to issue formal contracts to Executive Directors concurrently with the updating of the majority of all other staff contracts of employment that will result from the introduction of a single industrial Award on 1 January 2010. This will be a significant undertaking and it is considered appropriate for the Executive Directors to exemplify the commitment of the Company to a universal Award.

The checklist below summarises the Company's compliance with the Recommendations.

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 1	**Lay solid foundations for management and oversight**		
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose the functions.	Yes	Website & Page 14
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Website & Page 14
Rec 1.3	Companies should provide the information indicated in the Guide to reporting to Principle 1.	Yes	Website & Page 14
Pr 2	**Structure the board to add value**		
Rec 2.1	A majority of the board should be independent directors.	No	Website & Page 14
Rec 2.2	The chairman should be an independent director.	No	Website & Page 14
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	No	Website & Page 14
Rec 2.4	The board should establish a nomination committee.	Yes	Website & Page 15
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Website & Page 15
Rec 2.6	Companies should provide the information indicated in the Guide to reporting to Principle 2.	Yes	Website & Page 14 & 15
Pr 3	**Promote ethical and responsible decision making**		
Rec 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: ▪ the practices necessary to maintain confidence in the company's integrity; ▪ the practices necessary to take account of their legal obligations and reasonable expectations of their stakeholders; and ▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Website & Page 15
Rec 3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	No	Page 15
Recs 3.3 and 3.4	Recommendations relating to gender diversity	No	Page 15
Rec 3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes	Website & Page 15

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 4	**Safeguard integrity in financial reporting**		
Rec 4.1	The board should establish an audit committee.	Yes	Website & Page 16
Rec 4.2	The audit committee should be structured so that it: ▪ consists only of non-executive directors; ▪ consists of a majority of independent directors; ▪ is chaired by an independent chair, who is not the chair of the board; and ▪ has at least three members.	Yes	Website & Page 16
Rec 4.3	The audit committee should have a formal charter.	Yes	Website & Page 16
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Website & Page 16
Pr 5	**Make timely and balanced disclosure**		
Rec 5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior level for that compliance and disclose those policies or a summary of those policies.	Yes	Website & Page 16
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes	Website & Page 16
Pr 6	**Respect the rights of shareholders**		
Rec 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Website & Page 17
Rec 6.2	Company should provide the information indicated in the Guide to reporting on Principle 6.	Yes	Website & Page 17
Pr 7	**Recognise and manage risk**		
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website & Page 17
Rec 7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	Website & Page 17
Rec 7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Website & Page 17
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	Website & Page 17
Pr 8	**Remunerate fairly and responsibly**		
Rec 8.1	The board should establish a remuneration committee.	Yes	Website & Page 17 & 18
Rec 8.2	The remuneration committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members.	No	Pages 14 & 16
Rec 8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Website & Page 17 & 18
Rec 8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Website & Page 17 & 18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2011

	Note	2011 $	2010 $
Continuing operations			
Revenue	3	45,151,144	35,105,068
Other income	4	453,216	302,802
Employee benefits expense	6	(24,806,114)	(20,650,177)
Equipment-related expense		(4,408,678)	(3,416,185)
Management fees		(3,671,486)	(1,039,143)
Occupancy expenses		(3,202,827)	(2,492,086)
Consumables / Cost of sales expense		(1,788,692)	(2,740,591)
Telecommunications expense		(1,053,607)	(832,750)
Computer, IT and Support expense		(529,723)	(296,920)
Insurance expense		(322,648)	(233,635)
Impairment of goodwill		(169,102)	-
Other expenses	5	(1,751,007)	(1,105,323)
Interest expense		(708,236)	(458,576)
Depreciation expense		(1,864,275)	(1,514,603)
Profit/(loss) before income tax		1,327,965	627,881
Income tax benefit on continuing operations	8	(365,956)	77,351
Profit/(loss) from continuing operations		962,009	705,232
Discontinued operations			
Profit/ (loss) from discontinued operations, net of income tax	24	-	-
Profit/(loss) for the period		962,009	705,232
Other comprehensive income for the period			-
Total comprehensive income for the period net of tax		**962,009**	**705,232**
Profit/(loss) for the period attributable to owners of the parent		**962,009**	**705,232**
Total comprehensive income for the period attributable to owners of the parent		**962,009**	**705,232**
Earnings per share (cents)			
Basic – on profit for the period	22	0.32	0.24
Diluted – on profit for the period	22	0.29	0.23

The statement of comprehensive income is to be read in conjunction with the accompanying notes.

CAPITOLHEALTH LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

	Note	2011 $	2010 $
CURRENT ASSETS			
Cash and cash equivalents	9	1,201,354	679,740
Trade and other receivables	10	1,233,179	1,240,928
Other assets	11	359,386	336,288
Total Current Assets		2,793,919	2,256,956
NON CURRENT ASSETS			
Deferred tax assets	8	646,381	794,632
Property, plant & equipment	12	9,392,068	8,971,812
Intangible assets	13	20,880,864	20,161,294
Total Non Current Assets		30,919,313	29,927,738
TOTAL ASSETS		33,713,232	32,184,694
CURRENT LIABILITIES			
Trade and other payables	14	5,059,683	3,746,738
Employee benefits	15	678,810	394,977
Income tax liability	8	138,604	-
Loans and borrowings	17	1,857,868	2,178,786
Total Current Liabilities		7,734,965	6,320,501
NON CURRENT LIABILITIES			
Employee benefits	15	256,743	214,825
Loans and borrowings	17	5,509,769	6,393,513
Total Non Current Liabilities		5,766,512	6,608,338
TOTAL LIABILITIES		13,501,477	12,928,839
NET ASSETS		**20,211,755**	**19,255,855**
EQUITY			
Issued capital	18	20,541,091	20,541,091
Reserves	18	-	6,109
Accumulated losses	19	(329,336)	(1,291,345)
Equity attributable to owners of the parent		**20,211,755**	**19,255,855**
Non-controlling interests		-	-
TOTAL EQUITY		**20,211,755**	**19,255,855**

The statement of financial position is to be read in conjunction with the accompanying notes.

CAPITOLHEALTH LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2011

	Note	2011 $	2010 $
Cash flows from operating activities			
Cash receipts in the course of operations		45,158,893	35,086,922
Cash payments in the course of operations		(39,470,697)	(31,786,436)
Interest received		25,815	2,758
Interest paid		(708,236)	(458,568)
Net cash provided by operating activities	27	**5,005,775**	**2,844,676**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	46,500
Payments for property, plant and equipment		(1,796,730)	(3,091,110)
Payments for business and acquisitions		(525,000)	-
Payments for acquisition of subsidiaries		-	(4,234)
Net cash used in investing activities		**(2,321,730)**	**(3,048,844)**
Cash flows from financing activities			
Proceeds from the issue of share capital	18	-	1,012,423
Payment of share issue costs		-	(132,948)
Proceeds from sale and leasebacks		-	1,061,094
Payment for leasing arrangements		(1,493,462)	(1,135,476)
Proceeds from secured loans from external entities		-	250,000
Repayment of secured loans to external entities		(450,969)	(368,489)
Repayment of unsecured loans to external entities		(218,000)	-
Net cash provided by/(used in) financing activities		**(2,162,431)**	**686,604**
Net increase in cash and cash equivalents		521,614	482,436
Cash and cash equivalents at 1 July		679,740	197,304
Cash and cash equivalents at period end	9	**1,201,354**	**679,740**

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

CAPITOLHEALTH LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2011

	Issued Capital $	Reserves $	Retained Earnings/ (Losses) $	Total Equity $
Balance as at 30 June 2010	20,541,091	6,109	(1,291,345)	19,255,855
Total recognised gains for the period:				
Profit for the period	-	-	962,009	962,009
Transactions with equity holders in their capacity as equity holders:				
Expiry of share options	-	(6,109)	-	(6,109)
Balance as at 30 June 2011	**20,541,091**	**-**	**(329,336)**	**20,211,755**
Balance as at 30 June 2009	19,654,326	170,609	(2,161,077)	17,663,858
Total recognised gains for the period:				
Profit for the period	-	-	705,232	705,232
Transactions with equity holders in their capacity as equity holders:				
Shares issued	1,012,423	-	-	1,012,423
Share issue costs	(125,658)	-	-	(125,658)
Expiry of share options	-	(164,500)	164,500	-
At 30 June 2010	**20,541,091**	**6,109**	**(1,291,345)**	**19,255,855**

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 2011 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.

(b) Basis of preparation

Statement of compliance

The financial report is a general-purpose financial report, which has been prepared in accordance with the Australian Accounting Standards ("AASBs") (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*. The consolidated financial report of the Group and the financial report of the Company comply with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 30 September 2011.

Basis of measurement

The financial report is prepared on the accruals basis and the historical cost basis. The functional and presentation currency of the Company and the Group is the Australian Dollar.

Significant accounting policies

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

With the introduction of a single and standardised accounting package across the Group, the components of the Consolidated Statement of Comprehensive Income as reported have been modified to represent more relevant and more detailed information. The comparative figures for 2010 have been restated to these categories, without any change to the level of reported gross income and gross expenditure. Changes to the 2010results as previously reported are as follows:

Continuing Operations	**As reported – prior report $**	**Re-classification $**	**As reported – this report $**
Revenue	35,358,068	(253,000)	35,105,068
Other income	49,802	253,000	302,802
Employee benefits expense	(20,650,177)	-	(20,650,177)
Equipment-related expense	(3,416,185)	-	(3,416,185)
Occupancy expense	(2,492,086)	-	(2,492,086)
Consumables expense	(2,740,591)	-	(2,740,591)
Interest expense	(458,576)	-	(458,576)
Depreciation & amortisation expense	(1,514,603)	-	(1,514,603)
Other expenses	(3,175,585)	2,070,262	(1,105,323)
Management fees	-	(1,039,143)	(1,039,143)
Telecommunications expense	-	(832,750)	(832,750)
Computer, IT and support expense	-	(296,920)	(296,920)
Marketing expense	(244,666)	244,666	-
Insurance expense	-	(233,635)	(233,635)
Bad debt expense	(87,520)	87,520	-
Profit before income tax	**627,881**	**-**	**627,881**

(c) Significant accounting judgements, estimates and assumptions

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

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

(i) Significant accounting estimates and assumptions

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in Note 13. If any of these estimates were to significantly change, it may have a material impact on the reported amount of goodwill.

Provision for long service leave

The calculation of long service leave has been based on estimates and judgements made by the Directors. Should any of these estimates or judgements significantly change this could have a material affect on the amount recognised.

Estimation of useful lives of assets

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

Recovery of deferred tax assets

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

(ii) Significant accounting judgements

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.

(d) Change in Accounting Policy

There are no changes to the Company's accounting policies within the current financial year.

(e) Summary of Significant Accounting Policies

(i) Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

Transactions eliminated on consolidation

Inter-entity balances, and any unrealised income and expenses arising from inter-entity transactions, are eliminated in preparing the consolidated financial statements.

(ii) 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.

(iii) Financial instruments

Financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, 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.

Cash and cash equivalents comprise cash balances and call deposits.

(iv) 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

(v) 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 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.

(vi) Trade and other payables

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 60 days. Trade and other payables are recognised initially at fair value, and subsequently at amortised cost.

(vii) 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.

(viii) 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 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	2.5 to 3 years

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

For the year ended 30 June 2010 depreciation was also recognised in profit or loss on a straight line basis over the estimated useful lives of items of plant and equipment. During the financial year ended 30 June 2011, Management reassessed the appropriate method for depreciating plant and equipment, resulting in the Group moving to the diminishing value method for determining the depreciation expense from 1 July 2010. There is no change on the estimated useful life and no material difference in the depreciation expenses has occurred.

(ix) Intangible assets

Goodwill

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

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

(x) 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.

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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(xi) Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, 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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated 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.

(xii) 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 is capable of being measured reliably.

Provisions made in respect of wages and salaries and annual leave expected to be settled within 12 months are measured at their nominal values based on expected rates of pay. The provision for long service leave is measured as at present value of the estimated future cash flows.

Share-based payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares.

The Company operates an incentive scheme to provide these benefits, known as the Capitol Health Limited Incentive Option Scheme ("Scheme") approved at the general meeting on 30 December 2005.

The cost of these share-based payment transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial or Black-Sholes model.

In valuing share-based payment transactions, no account is taken of any non-market performance conditions.

The cost of share-based payment transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(xiii) 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. 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 diagnostic imaging or dental service is rendered.

Interest income

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

(xiv) 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.

(xv) Income tax (cont'd)

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.

(xvi) 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 with the amount of GST included.

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 on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(xvii) Earnings per share

The Group presents basic 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 period.

Diluted earnings per share used 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.

(xviii) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

Trade and other receivables

The fair value of trade and other receivables recognised as a result of a business combination is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Trade and other payables

The fair value of trade and other payables recognised as a result of a business combination is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Borrowings

The fair value of borrowings recognised as a result of a business combination is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions

The fair value of incentive options is measured using the Black-Sholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(xix) New accounting standards and interpretations

The following new standards and amendments to standards are mandatory for the financial year beginning 1 July 2010:

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual improvements Project (AASB 5, 8, 101, 107, 117, 118, 136, and 139)
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 3, 7, 121, 128, 131, 132 and 139)
- AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19.

The adoption of these standards did not have any impact in the current period or any prior period and is unlikely to affect future periods.

New Accounting Standards and Interpretations that are not yet mandatory

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

(xix) New Accounting Standards and Interpretations (cont'd)

AASB 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard is not expected to impact on the Group's accounting for financial assets as it does not have any available for sale assets. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The Group has decided not to early adopt AASB 9.

(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Capitol Health Ltd is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

(xx) Going Concern

The financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

At 30 June 2011, the Company and the Group had net working capital deficiencies of $187,539 and $4,941,046 respectively. However an operating profit of $704,165 and $962,009 respectively was achieved by the Company and the Group.. The Group had positive operating cash inflows of $5,005,775 for the year ended 30 June 2011.

These factors may indicate a significant uncertainty as to whether the Company and the Group will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe there are reasonable grounds to believe that the Company and the consolidated entity will be able to continue as going concerns after consideration of the following factors:

- Increased cash reserves in place at the date of this report when compared against the prior reporting period;
- Cash flow forecasts for the year ended 30 June 2012 indicate continued strong cash generation from operating activities;
- The Directors remain committed to the long-term business plan that has the Group continuing to be profitable and cash flow positive;
- Ongoing sales, marketing and IT efficiency initiatives are being undertaken, the results of which are having a positive impact on the Group; and
- The continued support of the bank.

The Directors believe that the above indicators demonstrate that the Company and Group will be able to pay their debts as and when they fall due and to continue as going concerns. Accordingly, the Directors also believe that it is appropriate to adopt the going concern basis in the preparation of the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the Group does not continue as going concerns.

2. FINANCIAL RISK MANAGEMENT

Overview

The Company and the Group have exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk
- interest rate risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included in Note 20.

The Company's risk management framework is supported by the Board, management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the Company's and Group's risk management strategy and policy. Management are responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. The Audit and Risk Committee is responsible for identifying, monitoring and managing significant business risks faced by the Company and Group and considering the effectiveness of its internal control system. Management and the Audit and Risk Committee report to the Board.

The Board has established an overall Risk Management Policy which sets out the Company's and Group's system of risk oversight, management of material business risks and internal control.

Financial risk management objectives

The overall financial risk management strategy focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on financial performance and protect future financial security.

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. For the Company it arises from receivables due from controlled entities.

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.

Trade and other receivables

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Purchase limits are set for each individual customer in accordance with parameters set by the Board. These purchase limits are regularly monitored.

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 reviews trade and other receivables regularly to estimate incurred losses and establish an allowance for impairment, if required.

Liquidity risk

Liquidity risk is the risk that the Company and the Group are unable to meet their 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.

2. FINANCIAL RISK MANAGEMENT (cont'd)

Market risk

Market risk is the risk that changes in market prices, such as interest rates 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.

The Group has assessed the risk of foreign currency risk and equity price risk as insignificant.

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. The Group does not hedge against these risks.

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 entity.

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 Group had loans and borrowings of $7,367,637 at 30 June 2011 (2010: $8,572,299).

There were no changes in the Group's approach to capital management during the year, nor is the Group subject to any externally imposed capital requirements.

	2011 $	2010 $
3. REVENUE		
Services rendered	**45,151,144**	**35,105,068**
4. OTHER INCOME		
Interest income	25,815	2,766
Grant income	48,406	-
Miscellaneous income	378,995	300,036
	453,216	**302,802**
5. OTHER EXPENSES		
Corporate and administrative expenses	1,751,007	1,022,323
Restatement of Vendor Liabilities (Note 25)	-	83,000
	1,751,007	**1,105,323**
6. EMPLOYEE BENEFITS EXPENSE		
Wages and salaries expenses	22,035,127	18,531,834
Other associated personnel expenses	1,046,264	864,123
Defined contribution superannuation expenses	1,364,081	1,032,071
Increase in liability for annual and long service leave	300,642	161,524
Non-executive directors' fees	60,000	60,625
	24,806,114	**20,650,177**

7. AUDITORS' REMUNERATION

	2011 $	2010 $
Audit services:		
Auditors' of the Company		
RSM Bird Cameron Partners Pty Ltd		
- audit and review of financial reports	85,500	54,000
BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd		
- audit and review of financial reports	-	105,707
	85,500	**159,707**

8. INCOME TAX

(a) Income tax expense/(benefit)

The major components of income tax expense/(benefit) are:

	2011 $	2010 $
Current income tax		
Current income tax charge	138,604	-
Deferred income tax		
Adjustments relating to the origination and reversal of timing differences	(36,561)	(82,615)
Utilisation of carried forward tax losses	263,913	5,264
Income tax expense/(benefit) reported in the statement of comprehensive income	**365,956**	**(77,351)**

(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income 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:

	2011 $	2010 $
Total accounting profit before income tax	**1,327,965**	**627,881**
At the Group's statutory income tax rate of 30% (2010: 30%)	398,390	188,364
Tax effect on amounts which are not tax deductible:		
- Sundry amounts	(32,434)	(265,715)
Aggregate income tax expense/(benefit)	**365,956**	**(77,351)**
Aggregate income tax expense/(benefit) is attributable to:		
Continuing operations	**365,956**	**(77,351)**

	2011 $	2010 $
8. INCOME TAX (cont'd)		
(c) Recognised deferred tax assets and liabilities		
Deferred tax assets		
- Employee benefits provision	2,415,446	1,812,860
- Accrued expenses	84,499	79,790
- Provision for doubtful receivables	14,290	-
- Finance leases (net of deferred tax liabilities)	(443,345)	(123,586)
- Other	83,714	-
	2,154,604	**1,769,064**
Deferred tax asset at 30%	**646,381**	**530,719**
Recognised deferred tax asset		
Deferred tax assets on temporary differences	646,381	530,719
Deferred tax asset recognised for unused tax losses	-	263,913
	646,381	**794,632**

(d) Unrecognised temporary differences

At 30 June 2011 there are no unrecognised temporary differences (2010: $Nil).

(e) Tax losses

The Group had brought forward tax losses which were incurred in 2010 of $879,709 for which a deferred tax asset was recognised as shown above of $263,913. Having satisfied the tests for loss utilisation, tax losses of $879,709 were applied against taxable income in 2011 leaving carried forward tax losses at 30 June 2011 being $Nil.

In addition the Group has carried forward capital losses of $271,630 which were incurred during 2009. A deferred tax asset was not recognised for the loss. Capital losses are expected to be available for 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 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 agreement 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.

	2011 $	2010 $
9. CASH AND CASH EQUIVALENTS		
Cash at bank	1,201,354	679,740

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 20.

10. TRADE AND OTHER RECEIVABLES

Current

	2011 $	2010 $
Trade receivables	897,013	800,939
Other receivables	336,166	439,989
	1,233,179	**1,240,928**

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note 20.

Loans to subsidiaries are neither past due nor impaired.

11. OTHER ASSETS

Current

	2011 $	2010 $
Prepayments	216,075	194,666
Bonds	143,311	141,622
	359,386	**336,288**

12. PROPERTY, PLANT & EQUIPMENT

	Plant & equipment $	Office furniture & equipment $	Leasehold improvements $	Motor vehicles $	Assets under construction $	Total $
At 1 July 2010	**4,971,797**	**2,690,795**	**1,261,533**	**47,687**	**-**	**8,971,812**
Additions	1,457,016	345,922	561,836	-	88,859	2,453,633
Fully depreciated assets:						
write-off of cost	(920,632)	-	(273,519)	(21,942)	-	(1,216,093)
write-back of depreciation	920,632	-	273,519	21,942	-	1,216,093
Impaired assets;						
write-off of cost	(3,132,437)	-	(25,589)	-	-	(3,158,026)
write-back of depreciation	2,971,909	-	17,015	-	-	2,988,924
Transfers to other asset categories						
cost	(3,440)	(50,867)	57,311	(3,004)	-	-
Depreciation charge for the year	(1,039,348)	(551,465)	(258,383)	(15,079)	-	(1,864,275)
At 30 June 2011, net of accumulated depreciation	**5,225,497**	**2,434,385**	**1,613,723**	**29,604**	**88,859**	**9,392,068**
At 30 June 2011						
Cost	10,786,379	3,444,951	2,361,514	102,184	88,859	16,783,887
Accumulated depreciation	(5,560,882)	(1,010,566)	(747,791)	(72,580)	-	(7,391,819)
Net carrying amount	**5,225,497**	**2,434,385**	**1,613,723**	**29,604**	**88,859**	**9,392,068**

12. PROPERTY, PLANT & EQUIPMENT (cont'd)

	Plant & equipment $	Office furniture & equipment $	Leasehold improvements $	Motor vehicles $	Assets under construction $	Total $
At 1 July 2009	**3,498,640**	**677,162**	**855,368**	**10,643**	**-**	**5,041,813**
Additions	2,710,093	2,263,353	579,866	53,761	-	5,607,073
Disposals	(158,840)	-	-	(3,631)	-	(162,471)
Depreciation charge for the year	(1,078,096)	(249,720)	(173,701)	(13,086)	-	(1,514,603)
At 30 June 2010, net of accumulated depreciation	**4,971,797**	**2,690,795**	**1,261,533**	**47,687**	**-**	**8,971,812**
At 30 June 2010						
Cost	13,385,872	3,149,896	2,041,475	127,130	-	18,704,373
Accumulated depreciation	(8,414,075)	(459,101)	(779,942)	(79,443)	-	(9,732,561)
Net carrying amount	**4,971,797**	**2,690,795**	**1,261,533**	**47,687**	**-**	**8,971,812**

13. INTANGIBLES

	2011 $	2010 $
Goodwill arising through business combinations:		
Balance at beginning of the financial year	20,161,294	20,161,294
Additions	719,570	-
Balance at the end of the financial year	**20,880,864**	**20,161,294**

Impairment testing for cash-generating units containing goodwill

The Directors consider that for accounting purposes under AASB 136, a single cash generating unit exists for the purposes of the testing, validation and any potential impairment charge applicable to the goodwill valuation carried in the accounts of the Group.

Impairment testing was based on value in use calculations for the total operating entity. The discount rate to determine recoverable amount at 30 June 2011 for the total operating entity is 11.2%. Discounted cash flows for the total operating entity have been estimated based on past performance, and increased by expected growth in revenue and expenditure rates for a period of 5 years. A terminal value has been calculated based on no growth and included in the recoverable amount as management believe that the imaging diagnostics services will still be delivered well beyond 5 years. Head office and parent entity administration costs have been included at estimated cost growth less efficiency gains for the period. If any of the assumptions above were to significantly alter in a negative manner then this may result in an impairment loss in the reported amount of goodwill for the Group.

14. TRADE AND OTHER PAYABLES

Trade creditors	1,833,109	1,780,721
Other creditors and accruals	2,041,676	989,182
Liability for annual leave	1,184,898	976,835
	5,059,683	**3,746,738**

15. EMPLOYEE BENEFITS

Provision for long service leave

Current	**678,810**	**394,977**
Non Current	**256,743**	**214,825**

16. SHARE BASED PAYMENTS

The Company operates an incentive scheme known as the Capitol Health Incentive Option Scheme ("Scheme") approved at the general meeting on 30 December 2005.

The maximum number of options that can be granted under the Scheme is determined by the Board in its discretion and in accordance with the Scheme and applicable law. There is no issue price for any options granted under the Scheme.

Each option 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 options expire on the earlier of their expiry date or 30 days after the termination of the individual's employment.

There are no voting or dividend rights attaching to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

During the year ended 30 June 2011 there were no options exercised (2010: nil) and all options current at the commencement of the reporting period expired within the reporting period.

The number and weighted average exercise prices ("WAEP") of options are as follows:

	2011 Number	2011 WAEP	2010 Number	2010 WAEP
Outstanding at the beginning and end of the year	250,000	$0.25	250,000	$0.25
Forfeited during the year (refer to Note 18)	(250,000)		-	
Outstanding at the end of the year	-	-	250,000	$0.25
Vested and exercisable at the end of the year	-	-	250,000	$0.25

17. LOANS AND BORROWINGS

This note provides information about the Company's and the Group's interest-bearing loans and borrowings. For more information about the Company's and the Group's exposure to interest rate and liquidity risk, see Note 20.

	2011 $	2010 $
Current		
Secured bank loan	498,996	437,500
Secured equipment finance facilities	1,336,872	1,523,286
Unsecured loans	22,000	218,000
	1,857,868	**2,178,786**
Non Current		
Secured bank loan	1,871,149	2,383,614
Secured equipment finance facilities	3,638,620	4,009,899
	5,509,769	**6,393,513**

17. LOANS AND BORROWINGS (cont'd)

Terms of loans and borrowings

Secured bank loan and associated facilities

In April 2011 all existing loan facilities were consolidated into one single loan facility for a term of 5 years, principal and interest reducing, with no redraw facility.

Capital Radiology has a $100,000 overdraft facility and a $173,373 rental guarantee facility.

Facilities are with the Commonwealth Bank of Australia ("CBA") and are secured by:

(a) A first registered company charge by Capitol Radiology over the whole of its assets and undertakings including uncalled capital; and

(b) A guarantee unlimited as to the amount by Capitol Health Limited supported by a first registered company charge by Capitol Health Limited over the whole of its assets and undertakings.

These facilities bear interest at the CBA bank bill rate plus a margin of 1.8% per annum.

Utilisation of secured facilities

	At 30 June 2011			At 30 June 2010		
	Facility	**Utilised**	**Available**	**Facility**	**Utilised**	**Available**
Secured bank loan	2,370,145	2,370,145	-	2,821,114	2,821,114	-
Overdraft	100,000	-,	100,000	100,000	-	100,000
Rental guarantee	173,373	173,373	-	196,000	173,374	22,626
	2,643,518	**2,543,518**	**100,000**	**3,117,114**	**2,994,488**	**122,626**

Secured equipment finance facilities

Capitol Radiology entered into agreements for the purchase of assets during the financial year. These facilities bear interest at between 7.72% and 10.00% per annum.

Unsecured loans

The unsecured loans do not bear interest.

Finance lease liabilities

The contractual cash flows of finance lease liabilities at maturity, including interest, are disclosed in Note 20.

18. ISSUED CAPITAL AND RESERVES

	2011 $	2010 $
Issued capital		
303,726,809 (2010: 303,726,809) fully paid ordinary shares	**20,541,091**	**20,541,091**

The following movements in issued capital occurred during the year:

	2011 Number of Shares	2011 $	2010 Number of Shares	2010 $
Balance at the beginning of the year	303,726,809	20,541,091	278,416,241	19,654,326
Rights Issue of shares at $0.04 each	-	-	25,310,568	1,012,423
Share issue costs (net of GST)	-	-	-	(125,658)
Balance at the end of the year	**303,726,809**	**20,541,091**	**303,726,809**	**20,541,091**

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

Options granted during the year

No options were granted during 2011.

Unissued shares under option

At balance date, unissued ordinary shares of the Company under option are:

Class	Expiry Date	Exercise Price	Number of Options
Listed Options	30 April 2012	$0.05	25,310,568

None of these options were exercised during the year. These options do not entitle the holder to participate in any share issue of the Company or any other entity.

Reserves	2011 $	2010 $
Share- based payments reserve		
Balance at the beginning of the year	6,109	6,109
Expiry of Unlisted Options as at 28 September 2010	(6,109)	-
Balance at the end of the year	-	6,109
Option premium reserve		
Balance at the beginning of the year	-	164,500
Expiry of Unlisted Options as at 31 March 2010	-	(164,500)
Balance at the end of the year	-	-
Reserves at the end of the year	**-**	**6,109**

18. ISSUED CAPITAL AND RESERVES (cont'd)

Share- based payments reserve

This reserve is used to record the value of equity-settled share-based payments provided to employees and directors as part of their remuneration. Refer to Note 16 for further details of share-based payments.

Option premium reserve

This reserve is used to record the value of options granted to other parties.

19. ACCUMULATED LOSSES

	2011 $	2010 $
Accumulated losses at the beginning of the year	(1,291,345)	(2,161,077)
Profit for the year	962,009	705,232
Expiry of share options – transfer from reserves	-	164,500
Accumulated losses at the end of the year	**(329,336)**	**(1,291,345)**

20. FINANCIAL INSTRUMENTS DISCLOSURE

Credit risk

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Carrying Amount 2011 $	 2010 $
Cash and cash equivalents	1,201,354	679,740
Trade and other receivables	1,233,179	1,240,928
Other financial assets	143,311	141,622
	2,577,844	**2,062,290**

Impairment losses

The aging of the Group's trade receivables at reporting date was:

	Gross 2011 $	Impairment 2011 $	Gross 2010 $	Impairment 2010 $
Past due 0-30 days	763,157	-	426,589	-
Past due 31-120 days	81,902	-	233,447	-
Past due 121 days to one year	66,244	(14,290)	140,903	-
	911,303	**(14,290)**	**800,939**	**-**

There was an allowance made for impairment in respect of trade receivables during the year of $14,290 (2010: nil).

The allowance account in respect of trade receivables is used to record impairment losses during the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

At 30 June 2011 the Group has a collective impairment allowance on its trade receivables of $14,290 (2010: nil).

20. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Liquidity risk

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

30 June 2011	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
Trade and other payables	5,059,683	(5,059,683)	(5,059,683)	-	-
Secured bank loans	2,370,145	(2,370,145)	(498,996)	(1,871,149)	-
Secured equipment finance	4,975,492	(6,488,901)	(1,874,222)	(4,039,538)	(575,141)
Unsecured loans	22,000	(22,000)	(22,000)	-	-
	12,427,320	(13,940,729)	(7,454,901)	(5,910,687)	(575,141)

30 June 2010	Carrying amount	Contractual cash flows	Less than 1 year	1-5 years	More than 5 years
Trade and other payables	3,746,738	(3,746,738)	(3,746,738)	-	-
Secured bank loans	2,821,114	(2,821,114)	(497,844)	(1,308,046)	(1,015,224)
Secured equipment finance	5,533,185	(5,666,510)	(1,606,113)	(3,530,880)	(529,517)
Unsecured loans	218,000	(218,000)	(218,000)	-	-
	12,319,037	(12,452,362)	(6,068,695)	(4,838,926)	(1,544,741)

Interest rate risk

Profile

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

	Carrying Amount	
	2011	2010
	$	$
Fixed rate instruments		
Financial assets	143,311	141,622
Financial liabilities	(4,975,492)	(5,533,185)
	(4,832,181)	**(5,391,563)**
Variable rate instruments		
Financial assets	1,201,354	679,740
Financial liabilities	(2,370,145)	(2,821,114)
	(1,168,791)	**(2,141,374)**

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable 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 and 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	
Cash flow sensitivity - variable rate instruments	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
30 June 2011	**(11,688)**	**11,688**	**(11,688)**	**11,688**
30 June 2010	**(21,414)**	**21,414**	**(21,414)**	**21,414**

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

20. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Fair value of financial instruments

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on estimated future cash flows. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

21. COMMITMENTS

Property and facility operating lease commitments

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

	2011 $	2010 $
Within one year	2,319,445	1,960,749
One year or later and no later than five years	2,780,676	3,176,702
	5,100,121	**5,137,451**

The Group leases properties and facilities under operating leases. The leases typically run for a period of 3 to 10 years, with an option to renew after that date.

Property and equipment operating lease commitments

	2011 $	2010 $
Within one year	2,102,648	2,324,649
One year or later and no later than five years	2,526,981	4,506,136
More than five years	-	10,687
	4,629,629	**6,841,472**

The Group leases plant and equipment 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 30 June 2011, $5,293,335 was recognised as an expense in the statement of comprehensive income in respect of operating property, plant and equipment leases (2010: $4,550,759).

22. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2011 was based on the profit attributable to ordinary shareholders of $ 962,009 (2010: profit of $705,232) and a weighted number of ordinary shares outstanding during the financial year ended 30 June 2011 of 303,726,809 (2010: 294,087,990) calculated as follows:

Profit attributable to ordinary shareholders	2011 $	2010 $
Net profit for the year	962,009	705,232

Weighted average number of ordinary shares	2011 Number	2010 Number
Issued ordinary shares at 1 July	303,726,809	278,416,241
Effect of shares issued on 17 November 2009	-	15,671,749
	303,726,809	**294,087,990**

22. EARNINGS PER SHARE (cont'd)

Diluted earnings per share

Diluted earnings per share is based on a profit for the year of $962,009 (2010: profit of $705,232) and a weighted average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares of 329,037,377 (2010: 310,009,739), calculated as follows:

Weighted average number of ordinary shares	**Number 2011**	**Number 2010**
Issued ordinary shares at 1 July	303,726,809	278,416,241
Effect of shares issued on 17 November 2009	-	15,671,749
Effect of share options on issue	25,310,568	15,921,749
	329,037,377	**310,009,739**

23. CONTROLLED ENTITIES

	Country of Incorporation	**2011 Entity interest**	**2010 Entity interest**
Parent entity			
Capitol Health Limited	Australia	-	-
Controlled entity			
CHL Operations Pty Ltd	Australia	100%	100%
Capital Radiology Pty Ltd	Australia	100%	100%

In the financial statements of the Company investments in subsidiaries are measured at cost. All entity interests held are fully paid ordinary shares. All acquired entities relating to diagnostic imaging in Melbourne are subsidiaries of Capitol Radiology Pty Ltd, but none are significant individually to the Group.

24. DISCONTINUED OPERATIONS

There were no discontinued operations during the reporting period.

25. RELATED PARTIES

Key management personnel remuneration

	2011 $	**2010 $**
Short-term employee benefits	423,987	387,481
Post-employment benefits	36,323	32,986
Long-term employee benefits	48,936	26,022
	509,246	**446,489**

Individual key management personnel compensation disclosures

Information regarding individual key management personnel compensation as required by Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report on pages 8 to 10.

Other key management personnel transactions with the Company or its controlled entities

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of those entities transacted with the Company or its subsidiaries during the year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

25. RELATED PARTIES (cont'd)

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Director	Transaction	Note	Transactions value year ended 30 June 2011 $	Transactions value year ended 30 June 2010 $	Balance outstanding as at 30 June 2011 $	Balance outstanding as at 30 June 2010 $
Mr J Conidi	Rent expenses	(i)	-	20,833	-	-
	Restatement of vendor liabilities	(ii)	113,000	83,000	-	113,000

Notes in relation to the table of related party transactions

(i) A company associated with Mr Conidi provided commercial premises to the Group. Terms for such accommodation were based on market rates, and amounts were payable on a monthly basis. The lease has concluded.

(ii) A company associated with Mr Conidi had vendor liabilities outstanding relating to a prior year business combination. During the reporting period the provision for vendor liabilities was fully paid out.

Options and rights over equity instruments

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

2011	Held at 1 July 2010	Issued	Exercised	Other changes	Held at 30 June 2011	Vested at 30 June 2011	Vested and exercisable at 30 June 2011
Director							
Mr J Conidi	3,232,883	-	-	-	3,232,883	3,232,883	3,232,883
Mr D Kucera	453,216	-	-	-	453,216	453,216	453,216
Mr A Harrison	-	-	-	-	-	-	-
Mr S Sewell	-	-	-	-	-	-	-

2010	Held at 1 July 2009	Issued	Exercised	Other changes	Held at 30 June 2010	Vested at 30 June 2010	Vested and exercisable at 30 June 2010
Director							
Mr J Conidi	-	3,232,883	-	-	3,232,883	3,232,883	3,232,883
Mr D Kucera	-	453,216	-	-	453,216	453,216	453,216
Mr A Harrison	5,000,000	-	-	(5,000,000)	-	-	-
Mr S Sewell	-	-	-	-	-	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2011 or 2010.

26. RELATED PARTIES (cont'd)

Movements 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 personally-related entities, is as follows:

2011	Held at 1 July 2010	Purchases	Received on exercise of options	Other changes	Held at 30 June 2011
Director					
Mr J Conidi	29,809,215	-	-	-	29,809,215
Mr D Kucera	953,216	-	-	-	953,216
Mr A Harrison	13,400,001	-	-	-	13,400,001
Mr S Sewell	100,000	-	-	-	100,000

2010	Held at 1 July 2009	Purchases	Received on exercise of options	Other changes	Held at 30 June 2010
Director					
Mr J Conidi	26,576,332	3,232,883	-	-	29,809,215
Mr D Kucera	500,000	453,216	-	-	953,216
Mr A Harrison	13,400,001	-	-	-	13,400,001
Mr S Sewell	100,000	-	-	-	100,000

No shares were granted to key management personnel during the reporting period as compensation in 2011 or 2010.

Non-key management personnel disclosures

Loans are made by the Company to its wholly owned subsidiary for capital purchases and working capital purposes. The loans outstanding between the Company and its subsidiary have no fixed date of repayment and are non- interest bearing. Details of the Company's interest in its subsidiary are set out in Note 23.

Aggregate amounts receivable from a controlled entity

	Company 2011 $	Company 2010 $
Non-current		
Unsecured loans to controlled entity	**17,567,877**	**16,628,178**

No dividends were received from the subsidiary in the 2011 or 2010 financial year.

Transactions between the entities comprised payment of operating expenses by Capitol Radiology Pty Ltd incurred by the parent entity and were treated as repayment of the intercompany loan between the two entities.

Balances due as disclosed in this Note represent a creditor in the accounts of Capitol Radiology Pty Ltd and a debtor in the accounts of the parent entity.

Loan amounts advanced from the Company to Capital Radiology Pty Ltd in 2011 amounted to $nil (2010: $885,000).

An interest charge was recorded from Capital Radiology Pty Ltd to the Company during the period of $1,397,459 (2010: $1,010,397).

Loan repayments received from Capital Radiology Pty Ltd during the period were $378,880 (2010: $1,124,131).

There is no provision for impairment of the loan between the two entities as it is considered that the amount will be repaid.

26. SEGMENT INFORMATION

Business segments

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

Geographic segments

The diagnostic imaging segment operates from the single geographic segment of Victoria.

Segment results

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

27. RECONCILIATION OF CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

	2011 $	2010 $
Cash flows from operating activities		
Profit for the year	962,009	705,232
Adjustments for:		
Depreciation	1,864,275	1,514,603
Impairment of assets	169,102	-
Restatement of vendor liabilities	-	83,000
Share-based payment expense	(6,109)	-
Net gain /(loss) on sale of assets	-	(120,199)
Income tax expense	365,956	(77,351)
Operating profit before changes in working capital and provisions	3,355,233	2,105,285
Change in trade and other receivables	7,749	(271,146)
Change in other assets	(23,098)	(124,819)
Change in trade and other payables	1,132,077	1,085,496
Change in provisions and employee benefits	533,814	49,860
Net cash provided by operating activities	**5,005,775**	**2,844,676**

28. PARENT ENTITY DISCLOSURES

(a) Financial information

	2011 $	2010 $
Profit for the year	704,165	359,657
Total comprehensive income for the year	704,165	359,657
Current assets	6,864	6,606
Total assets	18,221,123	17,436,260
Current liabilities	194,403	107,596
Total liabilities	194,403	107,596
Shareholders Equity		
Issued capital	20,541,091	20,541,091
Reserves	-	6,109
Accumulated losses	(2,514,371)	(3,218,536)
Total Equity	**18,026,720**	**17,328,664**

The profit and comprehensive income figures above for 2011 include an intercompany interest charge received from a controlled entity to the value of $1,397,459 (2010: $1,010,397).

(b) Guarantees

Cross guarantees have been provided by the Company and its controlled entities as listed in note 23. The fair value of the cross guarantees has been assessed as $nil based on the underlying performance of the entities in the closed group.

The parent entity has provided financial guarantees in respect of bank overdrafts, finance leases and loans of the subsidiaries amounting to $7,345,637 (2010: $7,764,732), secured by a first registered charge over the assets of the entity.

28. PARENT ENTITY DISCLOSURES (cont'd)

(c) Other commitments

The Company has no commitments to acquire plant and equipment (2010: $28,104) and has no contingent liabilities.

29. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

DIRECTORS' DECLARATION

In the opinion of the Directors of Capitol Health Limited:

(a) the financial statements and notes thereto and the Remuneration Report contained in the Directors' Report, set out on pages 8 to 10, are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2011 and their 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 for the financial year ending 30 June 2011.

Signed in accordance with a resolution of the directors.

John Conidi
Managing Director

Dated at Melbourne, Victoria this 30th day of September 2011.

RSM Bird Cameron Partners
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CAPITOL HEALTH LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Capitol Health Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period then ended, 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 year's end or from time to time during the financial year.

Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

RSM! Bird Cameron Partners
Chartered Accountants

Independence

In conducting our audit, 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 report.

Opinion

In our opinion:

(a) the financial report of Capitol Health Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year then ended; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 (xx) in the financial report, which indicates that the company and consolidated entity's current liabilities exceeded their current assets by $187,539 and $4,941,046 respectively as at 30 June 2011. This condition, along with other matters as set forth in Note 1 (xx), indicate the existence of a material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as a going concerns and, therefore, the company and consolidated entity may be unable to realise their assets and discharge their liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 10 of the directors' report for the financial year ended 30 June 2011. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Capitol Health Limited for the financial year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001.*

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS
Chartered Accountants

Miano

R B MIANO
Partner

Dated: 30 September 2011
Melbourne, Victoria

Details of shares and options as at 29 September 2011:

Top holders

The 20 largest holders of each class of equity security as at 29 September 2011 were:

Fully paid ordinary shares

	Name	No. of Shares	%
1.	Peter Hunt & Jeanette Hunt <Hunt Super Fund A/C>	31,949,072	10.52
2.	Idinoc Pty Ltd <J & R Conidi Family A/C>	26,241,461	8.64
3.	Monaco Bond Pty Ltd <Mobilio Family A/C>	25,408,656	8.37
4.	Nick Conidi Pty Ltd <Conidi Family A/C>	23,246,435	7.65
5.	Ms Stella Ha	17,734,752	5.84
6.	Bond Street Custodians Limited <Bkohn I37810 A/C>	17,157,600	5.65
7.	Gia Chau Pty Ltd	15,734,752	5.18
8.	Relentless Corporation Pty Ltd <Sun Tzu A/C>	13,400,000	4.41
9.	Mr Martin Gerard Gallagher	7,109,280	2.34
10.	Worldwide Pty Ltd	6,970,000	2.29
11.	Mr Wayne David McGregor	5,769,231	1.90
12.	Teleah Pty Ltd <J R Sauvey Super Fund Account>	5,769,231	1.90
13.	Mr Michael Frank Manford < Atlo Superfund A/C>	5,491,781	1.81
14.	Liew Serng Yee	5,031,409	1.66
15.	Mrs Joanne Miriam Upton <Coup Discretionary A/C>	4,500,000	1.48
16.	Jasper Hill Resources Pty Ltd <Superannuation Account>	3,422,084	1.13
17.	Mr Domenic Sgro & Mrs Catherine Sgro <Sgro Super Fund A/C>	3,368,976	1.11
18.	Mr Asok Kumar & Mrs Renu Kumar <Asok Kumar Family S/F A/C>	3,250,000	1.07
19.	Julsan Pty Ltd <Ponte Super Fund A/C>	2,963,637	0.98
20.	Monteleone Melbourne Pty Ltd	2,750,902	0.91
		227,269,259	**74.83**

Options exercisable at $0.05 each on or before 30 April 2012

	Name	No. of Options	%
1.	Worldwide Pty Ltd	2,500,000	9.88
2.	Idinoc Pty Ltd <J & R Conidi Family A/C>	2,186,789	8.64
3.	Nick Conidi Pty Ltd <Conidi Family A/C>	1,937,203	7.65
4.	Julsan Pty Ltd <Ponte Super Fund A/C>	1,713,637	6.77
5.	Steven John McCarthy	1,500,000	5.93
6.	Michael Frank Manford <Atlo Superfund Account>	1,035,375	4.09
7.	Bimedent Pty Ltd <Discretionary A/C>	750,000	2.96
8.	Thomas Williams	650,000	2.57
9.	Matthew Kenneth Gibbs	625,000	2.47
10.	T.T Nicholls Pty Ltd <Superannuation Account>	582,769	2.30
11.	Jasper Hill Resources Pty Ltd <T Account>	537,314	2.12
12.	Novander Pty Ltd	500,000	1.98
13.	John Conidi <Conidi Super Fund A/C>	409,091	1.62
14.	John Conidi <Conidi Super Plan A/C>	407,761	1.61
15.	Dominik Henry Kucera	407,761	1.61
16.	Rhett Anthony John Morson <Bomimo Family A/C>	407,761	1.61
17.	Thang Pty Ltd	407,761	1.61
18.	Nicola & Giannina Conidi <Nick & Jan Conidi S/F A/C>	403,990	1.60
19.	Stephen James Meddis	399,105	1.58
20.	P Ewart Investments Pty Ltd	362,819	1.43
		17,724,136	**70.03**

Distribution schedules

A distribution of each class of equity security as at 29 September 2011:

Fully paid ordinary shares

Range			Holders	Units	%
1	-	1,000	6	1,214	0.00
1,001	-	5,000	12	40,040	0.01
5,001	-	10,000	44	419,990	0.14
10,001	-	100,000	174	8,161,548	2.69
100,001	-	Over	161	295,104,017	97.16
Total			7	303,726,809	100.00

Options exercisable at $0.05 each on or before 30 April 2012

Range			Holders	Units	%
1	-	1,000	7	5,402	0.02
1,001	-	5,000	16	47,741	0.19
5,001	-	10,000	11	84,367	0.33
10,001	-	100,000	33	1,610,289	6.36
100,001	-	Over	47	23,562,769	93.09
Total			114	25,310,568	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:

Substantial shareholder	Number of Shares
Peter Hunt & Jeanette Hunt	31,949,072
Idinoc Pty Ltd	26,241,461
Monaco Bond Pty Ltd	25,408,656
Nick Conidi Pty Ltd	23,246,435
Ms Stella Ha	17,734,752
Bond Street Custodians Limited	17,157,600
Gia Chau Pty Ltd	15,734,752

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 15,625 as at 29 September2011):

Holders	Units
91	842,451

Holdings less than a marketable parcel of options (being 50,000 as at 29 September2011):

Holders	Units
52	588,768

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.