CAPITOL HEALTH LIMITED

ABN 84 117 391 812

2012 ANNUAL REPORT

CONTENTS

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

Level 3, 81 Lorimer St,
Docklands, VIC 3008

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

Stock Exchange

ASX Limited
Exchange Plaza
2 The Esplanade
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

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
Perth, Western Australia, 6000

Telephone: (61-8) 9323 2000
Facsimile: (61-8) 9323 2033

Dear Shareholder,

As Managing Director of Capitol Health Limited, it is my pleasure to report on what has been a watershed year for the Company. We have a history of producing year-on-year profit growth and I am pleased to say that the 2012 Financial Year has been no exception.

- Operating Revenue up 15% on FY2011, to $52.3 million
- Net Profit after Tax up 122% on FY2011, $2.1 million

With a track record of consistently strong financial performance, solid funding position and confidence in the Company's operating outlook, the Board decided to commence Dividend payments to shareholders in FY2012 – a maiden Interim Dividend of 0.2 cents per share and subsequent to balance date, a Final Dividend of a further 0.2 cents per share.

Overview of operations

Our strategic, low-cost and highly scalable business model is the key driver behind Capitol's consistently strong financial and operating performance. Implemented in 2008, the Company's business model has been driven by our commercially experienced Management team and has been underpinned by execution of the following activities:

- Total IT overhaul covering RIS & PACS and VOIP to all clinics;
- Creation of a dedicated Sales and Marketing team;
- Investment in new high-tech medical equipment, in particular MRIs and Low Radiation Dose CT scanners;
- Implementation of employee recognition, empowerment, training, policies and protocols;
- Expansion of geographic footprint via acquisition and organic growth; and
- Aggregation of Capitol's many brands into one holistic brand.

These activities have delivered material results for the Company, with significant positive clinical and financial outcomes for both Capitol and its partners. It has also placed the Board in the enviable position of being able to reward shareholders through the declaration and payment of dividends.

The nature of business, politics, information technology and healthcare is that it is dynamic and always changing, and for this reason, we strive to execute a business model that is flexible, robust and resilient. As Managing Director, it is my job to ensure that the business continues to develop activities and strategies that will deliver positive outcomes for all Capitol Health stakeholders – its shareholders, employees, referrers and patients.

Insight into the Diagnostic Imaging industry

As mentioned in my previous communications, the Diagnostic Imaging (DI) industry, like many other industries, is experiencing price deflation. DI providers are losing the ability to charge private fees (the Gap) because ultimately, the service levels that customers are receiving from bulk billers is the same, if not better than, private billers. As a result, an increasing number of patients are seeking the more affordable bulk billing option.

As a consequence, there has been an increasing shift among DI providers towards a bulk billing offering, as competitive forces takeover and DI providers seek to grow their market share. With more providers offering bulk billed services, customer service becomes more of a differentiator in a market where the cost to patients is similar across the board. Capitol Health is perfectly positioned to capitalise on this situation with our activities and strategies geared to delivering positive clinical outcomes for patients. Our aim is to provide a superior customer offering – professional and quality service, combined with an affordable pricing scheme.

Federal Government MRI license allocation

The 2013 Financial Year will see Capitol Health become a beneficiary of recent Federal Government legislation to improve affordability and nationwide access to Medicare-funded MRI scans. As part of the $104.4 million Diagnostic Imaging Review Reform Package, Capitol received five Medicare-eligible MRI licenses (these come into play 1 November 2012). With the ability to offer Medicare-subsidised MRI services, Capitol is set to hold a stronger position in the market and also expand its patient/customer base.

Thank you

I would like to take this opportunity to thank our hard-working and loyal team of staff, who have continually dedicated their time and effort towards the growth of the Company. To our medical referrers and patients, thank you for your ongoing support and loyalty. And last but not least, I would like to acknowledge the Executive and Management team and express my personal gratitude for all the ongoing support they provide me with.

John Conidi
Managing Director
Melbourne, Victoria
28 September 2012

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 2012, 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 Corporation Ltd (ASX code SIU) 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 2012 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 Draig Resources 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 the Managing Director and Chief Executive Officer of Centro Retail Australia (ASX code CRF). Mr Sewell has over fourteen 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	Draig Resources Limited	2005	Present
Mr S Sewell	Centro Retail Australia	2012	Present

DIRECTORS' MEETINGS

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

	Board Meetings		Nomination and Remuneration Committee Meetings		Audit and Risk Committee Meetings	
Director	Held	Attended	Held	Attended	Held	Attended
Mr J Conidi	7	7	-	-	2	2
Mr D Kucera	7	7	n/a	n/a	2	2
Mr A Harrison	7	7	-	-	2	2
Mr S Sewell	7	7	-	-	n/a	n/a

Committee membership

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

Nomination 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.

RESULTS

The Group made a net profit after tax for the financial year ended 30 June 2012 of $2,134,225 (2011: profit $962,009).

OPERATING AND FINANCIAL REVIEW

The results for the financial year ending 30 June 2012 incorporate the following key developments:

- Major acquisition completed and continued organic growth
- No general changes to the level of Medicare rebates
- Adjustments to components of MBS impacting specifically on Teleradiology operations
- Granting of 5 MRI licences

Operating review

The operating environment has, overall, continued a steady path of expansion and growth based on investments made in prior years.

Major acquisitions and organic growth

The acquisition of the radiology operations of IM Medical Limited was finally completed in March of 2012. The operating units of the acquisition have been fully integrated into the Company's network of facilities and processes. Overall these acquired units have displayed revenue growth over the pre-acquisition levels, some significantly.

Organic expansion has continued with several clinics added to the network, bringing the total number of facilities to 37, the second largest network in Victoria.

Impact of Federal Budget 2012/13

The Budget again contained no increases to the general value of the individual items in the Medicare Benefits Schedule (MBS) or any increases to the percentage of the MBS items rebated to bulk-billers. This does place additional pressure on other diagnostic imaging providers who have moved back to bulk-billing in order to compete with Capitol.

Teleradiology Services

As advised in the previous Annual Report for the financial year ending 30 June 2011, from 1 July 2011 Medicare introduced a single MBS item as a replacement for multiple items formerly charged for the major type of teleradiology service. The financial impact of the replacement was to reduce the revenue for the individual service by 75% - this same reduction level flowed through to the total revenue earned for teleradiology services in 2011/12 compared to the previous financial period. However, also as advised in the Annual Report for the financial year ending 30 June 2011, this loss was more than offset by gains in other areas.

Total Trading Environment

There was no apparent change to the pattern of previous performances whereby revenues for Capitol increased at a rate in excess of its major competitors.

The approximate increase in revenues over the prior reporting period was 15%, attributed to organic growth – 12%, growth through acquired operations – 11%, less a reduction in teleradiology revenue – (8)%.

MRI Licences

As foreshadowed in last year's Annual Report, the Department of Health and Ageing has issued "licences" to the 5 current MRI's in the Capitol network to charge Medicare for MRI items on the MBS. The licences are either full (all MBS MRI-related items) or partial (selected range of MBS MRI-related items). These licences become into effect from 1 November 2012.

Upgrade to CT fleet

The Company is upgrading its fleet of CT's to a "low-dose" standard to attract and meet demand for that segment of the consumer market that would benefit from a reduced level of radiation exposure whilst maintaining the imaging definition and capabilities in providing a superior reporting service for patient care.

Financial Review

Outlook

With no revision of the Schedule Fee in the MBS our competitors are still under considerably more financial pressure than Capitol. The Company anticipates another year of growth in revenues and a continuation of efforts to optimise the efficiency of its cost base. The favourable impact of the granting of the MRI licences is expected to be more pronounced in the financial year ending 30 June 2014 as the range of MBS items allowed to be bulk-billed expands on 1 November 2013.

The Company will continue to actively seek out favourable investment opportunities, acquisition targets and operating combinations that meet the criteria of a net benefit to the shareholders of Capitol. With no changes to MBS likely in the near-term it is expected that the disruption in this market sector will continue, providing Capitol with further expansion potential.

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 ending 30June 2012 by $4,253,218 to $24,464,973 (2011: $20,211,755). The increase comprised the net profit after tax for the reporting period of $2,134,225 (2011: profit $962,009 less a minor movement in the staff share option reserve) plus net shares issued of $2,828,688 less dividends paid of $709,695.

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

DIVIDENDS

The Company declared an interim dividend for the six months to 31 December 2011 during the reporting period of $0.002 (2011: $Nil) per issued share, gross interim dividend payable of $709,695 (2011: $Nil).

EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date the Company;

a. Completed a Share Purchase Plan whereby 12,405,200 ordinary shares were issued, with a gross capital raising of $719,500, and;

b. Declared a final dividend for the financial year ending 30 June 2012 of $0.002 per share (2011: $Nil), eligible shareholdings to participate in the dividend includes those shares issued under the Share Purchase Plan, with a maximum dividend payable subject to elections under the Company's Dividend Reinvestment Plan of $744,155 and;

c. As a result of the dividend declared in August 2012, the company will, under its banking facility arrangements, be required to repay an equivalent amount as the dividend paid from outstanding bank loans. This will result in all bank loan liabilities (excluding equipment finance arrangements) be classified as Current in the accounts of the Company for the financial year ending 30 June 2013 and;

d. Change in the Principal Place of Business and Registered Office (refer page 1. Corporate Directory).

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
Mr J Conidi	32,626,264
Mr D Kucera	1,406,432
Mr A Harrison	13,400,001
Mr S Sewell	104,082

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 or payable 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 2012 $	Consolidated 2011 $
Audit services:		
Auditors of the Company		
- audit and review of financial reports (RSM Bird Cameron Partners)	**97,900**	**85,500**

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 and the National Employment Standards 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 2012 or 2011 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 2012 or 2011 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:

	2012	2011	2010	2009
Net profit/(loss) for the year	$2,134,225	$962,009	$705,232	($1,018,218)
Dividends paid	$709,695	nil	nil	nil
Change in share price	0.6 cents	1.6 cents	(3.6 cents)	(0.9 cents)
Share price at beginning of the period	4.1 cents	2.5 cents	6.1 cents	7.0 cents
Share price at end of the period	4.7 cents	4.1 cents	2.5 cents	6.1 cents
Earnings/(loss) per share (basic)	0.67 cents	0.32 cents	0.24 cents	(0.37 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 (2011: 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	2012	30,000	-	-	-	-	-	30,000	-	-
	2011	30,000	-	-	-	-	-	30,000	-	-
Mr S Sewell	2012	31,154	-	-	2,803	-	-	33,957	-	-
	2011	30,000	-	-	2,700	-	-	32,700	-	-
Executive										
Mr J Conidi	2012	259,616	-	-	23,365	51,754	-	334,735	-	-
	2011	162,462	-	-	14,917	47,526	-	224,905	-	-
Mr D Kucera	2012	244,823	-	9,010	23,365	3,745	-	280,943	-	-
	2011	193,602	-	7,923	18,706	1,410	-	221,641	-	-
Total, all key management personnel	**2012**	**565,593**	**-**	**9,010**	**49,533**	**55,499**	**-**	**679,635**	**-**	**-**
	2011	**416,064**	**-**	**7,923**	**36,323**	**48,936**	**-**	**509,246**	**-**	**-**

This is the end of the audited Remuneration Report.

Dated at Melbourne, Victoria this 28th day of September 2012.

Signed in accordance with a resolution of the directors:

John Conidi
Managing Director

RSM Bird Cameron Partners
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PO Box 248 Collins Street West VIC 8007
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www.rsmi.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Capitol Health Limited for the year ended 30 June 2012, 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

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R B MIANO
Partner

Dated: 28 September 2012
Melbourne, Victoria

CAPITOLHEALTH LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2012

	Note	2012 $	2011 $
Continuing Operations			
Revenue	3	51,541,024	45,151,144
Other Income	4	745,878	453,216
Employee & Contractor benefits expense	6	(30,338,777)	(24,806,114)
Equipment-related expense		(5,258,450)	(4,408,678)
Management fees		(809,931)	(3,671,486)
Occupancy expense		(3,478,392)	(3,202,827)
Consumables expense		(2,385,436)	(1,788,692)
Telecommunications expense		(1,129,278)	(1,053,607)
Computer IT & support expense		(650,263)	(529,723)
Insurance expense		(304,718)	(322,648)
Impairment of assets	12	(60,220)	(169,102)
Other expenses	5	(2,224,780)	(1,751,007)
Interest expense		(565,039)	(708,236)
Depreciation & amortisation expense	12	(2,128,854)	(1,864,275)
Profit before income tax		**2,952,764**	**1,327,965**
Income tax on continuing operations	8	(818,539)	(365,956)
Profit from continuing operations		**2,134,225**	**962,009**
Total comprehensive income for the financial year		**2,134,225**	**962,009**
Profit for the financial year attributable to owners of the parent		**2,134,225**	**962,009**
Total comprehensive income for the financial year attributable to owners of the parent		**2,134,225**	**962,009**
Earnings per share (cents)			
Total basic earnings for the financial year	23	0.67	0.32
Total diluted earnings for the financial year	23	0.63	0.29

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

CAPITOLHEALTH LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2012

	Note	2012 $	2011 $
CURRENT ASSETS			
Cash and cash equivalents	9	1,702,104	1,201,354
Trade and other receivables	10	1,300,823	1,233,179
Financial asset - held to maturity		476,876	143,311
Other assets	11	362,272	216,015
Total Current Assets		**3,842,075**	**2,793,919**
NON-CURRENT ASSETS			
Deferred tax assets	8	990,821	649,416
Plant & equipment	12	8,749,302	9,392,068
Intangible assets	13	23,431,630	20,880,864
Total Non-Current Assets		**33,171,753**	**30,922,348**
TOTAL ASSETS		**37,013,828**	**33,716,267**
CURRENT LIABILITIES			
Trade and other payables	14	4,596,953	5,059,683
Employee benefits	15	926,534	678,810
Income tax liability	8	844,722	138,604
Loans and borrowings	17	2,127,356	1,857,868
Total Current Liabilities		**8,495,565**	**7,734,965**
NON-CURRENT LIABILITIES			
Employee benefits	15	291,760	256,743
Loans and borrowings	17	3,512,606	5,509,769
Deferred tax liabilities	8	248,924	3,035
Total Non-Current Liabilities		**4,053,290**	**5,769,547**
TOTAL LIABILITIES		**12,548,855**	**13,504,512**
NET ASSETS		**24,464,973**	**20,211,755**
EQUITY			
Issued capital	18	23,369,779	20,541,091
Retained earnings/(Accumulated losses)	20	1,095,194	(329,336)
Equity attributable to owners of the parent		**24,464,973**	**20,211,755**
TOTAL EQUITY		**24,464,973**	**20,211,755**

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

CAPITOL HEALTH LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 30 June 2012

	Note	2012 $	2011 $
Cash flows from operating activities			
Cash receipts in the course of operations		51,934,530	45,158,893
Cash payments in the course of operations		(46,997,671)	(39,470,697)
Interest received		30,608	25,815
Interest paid		(565,040)	(708,236)
Net income tax paid		(88,219)	-
Net cash provided by operating activities	28	**4,314,208**	**5,005,775**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		360,000	-
Payment for term deposit		(336,000)	-
Payments for plant and equipment		(1,499,699)	(1,796,730)
Proceeds from business acquisitions		100,000	-
Payments for business acquisitions		(38,843)	(525,000)
Net cash used in investing activities		**(1,414,542)**	**(3,048,844)**
Cash flows from financing activities			
Proceeds from the issue of share capital	18	387,827	-
Payment of share issue costs	18	(11,519)	-
Payment of dividend	19	(580,825)	-
Payment for leasing arrangements		(1,547,407)	(1,493,462)
Repayment of secured loans to external entities		(624,992)	(450,969)
Repayment of unsecured loans to external entities		(22,000)	(218,000)
Net cash used in financing activities		**(2,398,916)**	**(2,162,431)**
Net increase in cash and cash equivalents		**500,750**	**521,614**
Cash and cash equivalents at 1 July		1,201,354	679,740
Cash and cash equivalents at financial year end	9	**1,702,104**	**1,201,354**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2012

	Note	Issued capital	Reserves	Retained earnings/ (losses)	Total equity
		$	$	$	$
Balance as at 30 June 2011		**20,541,091**	**-**	**(329,336)**	**20,211,755**
Total recognised gains for the period					
Profit for the period		-	-	2,134,225	**2,134,225**
Total comprehensive income		**-**	**-**	**2,134,225**	**2,134,225**
Transactions with equity holders in their capacity as equity holders					
Shares issued	18	2,840,207	-	-	**2,840,207**
Share issue costs (net of GST)	18	(11,519)	-	-	**(11,519)**
Dividends	19	-	-	(709,695)	**(709,695)**
Total transactions with equity holders		**2,828,688**	**-**	**(709,695)**	**211,893**
Balance as at 30 June 2012		**23,369,779**	**-**	**1,095,194**	**24,464,973**
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**
Total comprehensive income		**-**	**-**	**962,009**	**962,009**
Transactions with equity holders in their capacity as equity holders					
Expiry of share options	18	-	(6,109)	-	**(6,109)**
Total transactions with equity holders		**-**	**(6,109)**	**-**	**(6,109)**
Balance as at 30 June 2011		**20,541,091**	**-**	**(329,336)**	**20,211,755**

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.

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

(b) Basis of preparation

(i) 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 (IASB).

(ii) 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.

(iii) 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.

(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 effect on the amount recognised.

Estimation of useful lives of assets

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

An adjustment to the useful lives of certain imaging assets has been made in 2012 based on the introduction of "Capital Sensitivity" criteria by the Department of Health and Ageing to apply from 1 July 2011. The effect of this criteria has been to impose an artificial life not related to actual expected operational life of these assets. The impact is an increase in the depreciation expense of approximately 20% less any asset retirements or other reductions had these rules not been introduced.

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

Recognition of internal costs relating to plant and equipment as an asset

The Group recognises plant and equipment as assets when an item enables the Group to derive future economic benefits from related assets in excess of what could be derived had it not been acquired. Management exercises significant judgements in applying the above recognition criteria to specific circumstances and determining what constitutes and item of plant and equipment as well as to determine the element of cost that is directly attributable to bringing the asset to a location and condition necessary for it to be capable of operating in the manner intended by management.

During the current financial year the Group has recognised $112,769 (2011: $222,675) of costs of employee benefits arising directly from the expansion of the current fixed network of management and digital imaging systems and related infrastructure of the new operational sites and head office.

(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) Financial instruments

Financial instruments comprise cash and cash equivalents, financial assets held to maturity, trade and other receivables, 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.

(iii) Cash and cash equivalents

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

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

(iv) Financial assets – held to maturity

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

(v) 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.

(vi) 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.

(vii) 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 30 days. Trade and other payables are recognised initially at fair value, and subsequently at amortised cost.

(viii) 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.

(ix) 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.

Depreciation (cont'd)

The estimated useful lives are as follows:

Plant and equipment	3 to15 years
Office furniture and equipment	3 to 5 years
Leasehold improvements	3 to10 years
Motor vehicles	3 to 5 years
Low value pool assets	7 years

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

(x) 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.

(xi) 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.

(xii) 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.

(xiii) 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 expected, that is not expected to be settled within 12 months, is measured as at the present value of the amounts expected to be paid when the liabilities are settled.

Unconditional long service leave is disclosed in the notes to the financial statements as a current liability even where the Group does not expect to settle the liability within 12 months because it will not have the unconditional right to defer settlement of the entitlement should the employee take leave within 12 months.

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.

(xiv) 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.

(xv) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

Tax consolidation

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

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

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

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

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

Tax funding arrangements

The head entity, in conjunction with other members of the tax-consolidated entity, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated entity in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

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

(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.

Commitments are disclosed at their nominal value inclusive of GST.

(xvii) Non-current assets held for sale and discontinued operations

Non-current assets held for sale

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

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period and the current year results presented separately on the face of the income statement.

(xviii) 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.

(xix) 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.

(xx) New accounting standards and interpretations applicable to the Company

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
2011-9	*Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*	Amends AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049 as a consequence of the issuance of AASB 101 *Presentation of Items of Other Comprehensive Income.*	1 July 2012	Disclosure impact only
AASB 9	*Financial Instruments*	Replaces the requirements of AASB 139 for the classification and measurement of financial assets. This is the result of the first part of Phase 1 of the IASB's project to replace IAS 39.	1 January 2013	Impact currently under evaluation
AASB 10	*Consolidated Financial Statements*	Replaces the requirements of AASB 127 and Interpretation 112 pertaining to the principles to be applied in the preparation and presentation of consolidated financial statements.	1 January 2013	Impact currently under evaluation
AASB 13	*Fair Value Measurement*	Provides a clear definition of fair value, a framework for measuring fair value and requires enhanced disclosures about fair value measurement.	1 January 2013	Impact currently under evaluation
AASB 119	*Employee Benefits*	Prescribes the accounting and disclosure for employee benefits. This Standard prescribes the recognition criteria when in exchange for employee benefits.	1 January 2013	Impact currently under evaluation

(xx) New accounting standards and interpretations applicable to the Company (cont'd)

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
2009-11	*Amendments to Australian Accounting Standards arising from AASB 9*	Amends AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12 as a result of the issuance of AASB 9.	1 January 2013	Impact currently under evaluation
2010-7	*Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*	Amends AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127 for amendments to AASB 9 in December 2010	1 January 2013	Impact currently under evaluation
2011-7	*Amendments to Australian Accounting Standards arising from AASB 10,11,12,127,128*	Amends AASB 1,2,3,5,7,9,2009-11,101,107,112,118,121,124,132,133,136,138,139,1023 & 1038 and Interpretations 5,9,16 & 17 as a result of the issuance of AASB 10, 11, 12, 127 and 128	1 January 2013	Impact currently under evaluation
2011-8	*Amendments to Australian Accounting Standards arising from AASB 13*	Amends AASB 1, 2, 3, 4, 5, 7, 9, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132 as a result of issuance of AASB 13 *Fair Value Measurement*.	1 January 2013	Impact currently under evaluation
2011-10	*Amendments to Australian Accounting Standards arising from AASB 119*	Amends AASB 1, 8, 101, 124, 134, 1049, 2011-8 & Interpretation 14 as a result of the issuance of AASB 119 *Employee Benefits*.	1 January 2013	Impact currently under evaluation

(xx) New accounting standards and interpretations applicable to the Company (cont'd)

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
2012-2	*Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Liabilities*	This Standard amends the required disclosures in AASB 7 to include information that will enable users of an entity's financial statements to evaluate the (potential) effect of netting arrangements. It also amends AASB 132 to refer to the additional disclosures added to AASB 7 by this Standard .	1 January 2013	Disclosure impact only
2012-3	*Amendments to Australian Accounting Standards - Offsetting Financial Asets and Liabilities*	This Standard adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132.	1 January 2014	Disclosure impact only
2012-5	*Amendments to Australian Accounting Standards arising from Annual Improvements 2009-11 Cycle*	This Standard makes amendments to AASB 1, 101, 116, 134 & Interpretation 2 as a result from 2009-2011 Annual Improvements Cycle.	1 January 2013	Disclosure impact only
2012-6	*Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures*	This Standard amends the mandatory effective date of AASB 9 *Financial Instruments* so that AASB 9 is required to be applied for annual reporting periods beginning on or after January 2015 instead of January 2013.	1 January 2013	Disclosure impact only
2011-4	*Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*	This Standard makes amendments to Australian Accounting Standard AASB 124 *Related Party Disclosures*.	1 July 2013	Disclosure impact only

(xxi) 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 2012, the Group had a net working capital deficiency of $4,653,490 (2011: deficiency $4,941,046). This measure 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.

For the year ended 30 June 2012 an operating profit of $2,134,225 (2011: $962,009) was achieved. The Group had positive operating cash inflows of $4,314,208 (2011: $5,005,775) within the period of this report. The Group had positive net tangible assets of $1,033,343 (2011: deficiency $669,109) as at 30 June 2012.

The Directors believe there are reasonable grounds to believe that the Company and the Group 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 2013 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 recoverability or classification of recorded assets or liabilities that might be necessary if the Company and Group do 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 21.

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.

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.

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.

	2012 $	2011 $
3. REVENUE		
Services rendered	**51,541,024**	**45,151,144**
4. OTHER INCOME		
Interest income	30,608	25,815
Profit on sale of fixed assets	254,119	-
Grant income	-	48,406
Miscellaneous income	461,151	378,995
	745,878	**453,216**
5. OTHER EXPENSES		
Corporate and administrative expenses	2,224,780	1,668,007
Restatement of Vendor Liabilities	-	83,000
	2,224,780	**1,751,007**
6. EMPLOYEE BENEFITS EXPENSES		
Wages and salaries expenses	24,104,709	22,035,127
Other associated personnel expenses	3,181,529	1,046,264
Defined contribution superannuation expenses	1,513,105	1,364,081
Increase in liability for annual and long service leave	1,478,280	300,642
Non-executive Directors fees	61,154	60,000
	30,338,777	**24,806,114**
7. AUDITORS REMUNERATION		
Audit Services		
Auditors of the company; RSM Bird Cameron Partners		
- audit and review of financial reports	**97,900**	**85,500**

8. INCOME TAX

(a) Income tax expense

	2012 $	2011 $
The major components of income tax expense are:		
Current income tax		
Current income tax charge	844,722	138,604
Adjustments in respect of current income tax of prior year	(50,385)	-
Deferred income tax		
Adjustments relating to the origination and reversal of timing differences	24,202	(36,561)
Utilisation of carried forward tax losses	-	263,913
Income tax expense reported in the statement of comprehensive income	**818,539**	**365,956**

(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:

	2012 $	2011 $
Total accounting profit before income tax	**2,952,764**	**1,327,965**
At the Group's statutory income tax rate of 30% (2011: 30%)	885,829	398,390
Tax effect on amounts which are not tax deductible:		
Utilisation of previous years capital losses from which deferred tax was no recognised	(58,522)	-
Overprovision of tax in previous year	(50,385)	-
Sundry amounts	41,617	(32,434)
Aggregate income tax expense	**818,539**	**365,956**
Aggregate income tax expense is attributable to:		
Continuing operations	**818,539**	**365,956**

	2012 $	2011 $
8. INCOME TAX (cont'd)		
(c) Recognised deferred tax assets and liabilities		
Deferred tax assets		
- Employee benefits provision	2,883,791	2,415,446
- Accrued expenses	306,962	84,499
- Provision for doubtful receivables	11,485	14,290
- Finance Leases	-	(433,227)
- Other	100,503	83,714
	3,302,741	**2,164,722**
Deferred tax asset at 30%	**990,821**	**649,416**
Recognised deferred tax assets on temporary differences	**990,821**	**649,416**
Deferred tax liability		
- Prepayments	41,043	-
- Unearned income	5,049	-
- Finance Leases	783,655	10,118
	829,747	**10,118**
Deferred tax liability at 30%	**248,924**	**3,035**
Recognised deferred tax liabilities on temporary differences	**248,924**	**3,035**

(d) Unrecognised temporary differences

The Group has no carried forward operating losses at 30 June 2012 (2011: $Nil).

(e) Tax losses

At the commencement of the financial year the Group had carried forward capital losses of $271,630 (2011: $271,630 which were incurred in 2009. A deferred tax asset was not recognised for the loss. Capital losses of $195,074 were utilised in 2012, having satisfied the tests for loss utilisation during 2012.

The balance of capital losses of $76,566 are expected to be available to offset against future capital gains subject to the Group continuing to meet statutory tests.

(f) Tax consolidation

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

	2012 $	2011 $

9. CASH AND CASH EQUIVALENTS

	2012 $	2011 $
Cash at bank	**1,702,104**	**1,201,354**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 21.

10. TRADE AND OTHER RECEIVABLES

	2012 $	2011 $
Current		
Trade receivables	866,464	897,013
Other receivables	434,359	336,166
	1,300,823	**1,233,179**

The Group's exposure to credit risks and impairment losses related to trade and other receivables are disclosed in Note 21.

Loans to subsidiaries are neither past due nor impaired.

11. OTHER ASSETS

	2012 $	2011 $
Current		
Prepayments	354,272	216,015
Other	8,000	-
	362,272	**216,015**

12. PROPERTY, PLANT & EQUIPMENT

	Plant & equipment $	Office furniture & equipment $	Leasehold improve-ments $	Motor vehicles $	Assets under construction $	Total $
At 1 July 2011	**5,225,497**	**2,434,385**	**1,613,723**	**29,604**	**88,859**	**9,392,068**
Additions;						
purchases	-	-	-	-	2,431,067	2,431,067
transfers from AUC	1,545,222	67,101	258,151	8,027	(1,899,501)	(21,000)
Fully depreciated assets;						
write-off of cost	(1,062,448)	-	-	(48,423)	-	(1,110,871)
write-back of depreciation	1,062,449	-	-	48,422	-	1,110,871
Impaired assets;						
write-off of cost	(156,123)	(71,003)	(47,405)	-	-	(274,531)
write-back of depreciation	128,061	69,185	17,065	-	-	214,311
Sale of assets;						
write-off of cost	(1,297,940)	(9,440)	(66,429)	-	-	(1,373,809)
write-back of depreciation	483,001	5,386	21,663	-	-	510,050
Transfers between categories;						
cost	2,545,279	(3,079,128)	64,701	-	-	(469,148)
depreciation	(468,639)	893,198	44,589	-	-	469,148
Depreciation/Amortisation;	(1,896,766)	(47,960)	(169,076)	(15,052)	-	(2,128,854)
At 30 June 2012	**6,107,593**	**261,724**	**1,736,982**	**22,578**	**620,425**	**8,749,302**
At 30 June 2012						
Cost	12,360,369	352,481	2,570,532	61,788	620,425	15,965,595
Accumulated depreciation	(6,252,776)	(90,757)	(833,550)	(39,210)	-	(7,216,293)
Net carrying amount	**6,107,593**	**261,724**	**1,736,982**	**22,578**	**620,425**	**8,749,302**
At 1 July 2010	**4,971,797**	**2,690,795**	**1,261,533**	**47,687**	**-**	**8,971,812**
Additions;						
purchases	-	-	-	-	2,453,633	2,453,633
transfers from AUC	1,457,016	345,922	561,836	-	(2,364,774)	-
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 between categories;						
cost	(3,440)	(50,867)	57,311	(3,004)	-	-
Depreciation/Amortisation;	(1,039,348)	(551,465)	(258,383)	(15,079)	-	(1,864,275)
At 30 June 2011	**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)

Low value pool assets

The Company adopted a "Low Value Asset Pool" methodology whereby all assets with a written down value of less than $1,000 as at 1/7/11 were combined into one asset as per ATO guidelines on a per facility/site basis.

Low value pool assets are included in the Office furniture & equipment category.

Sale of assets

The net proceeds of sale of assets after allowing for income received are reported in Note 4.

Transfers between categories

During 2012 the Company adopted a single, integrated asset management module. As a consequence all asset classifications and definitions were standardised and applied across the legacy reporting systems of all acquisitions. There was no material change to the associated expense for depreciation as a result of the transfers.

13. INTANGIBLES

Goodwill arising through business combinations

	2012 $	2011 $
Balance at the beginning of the financial year	20,880,864	20,161,294
Additions	2,550,766	719,570
Balance at the end of the financial year	**23,431,630**	**20,880,864**

Business combinations

(i) Acquisition of corporate entities

No acquisition of a corporate entity was made during the reporting period.

(ii) Acquisition of business assets

During the reporting period the following acquisitions of business assets were made;

(a) Diagnostic imaging operations of IM Medical Limited

Date: 28 March 2012

The acquisition extended the facility network of the Company in key strategic geographical sub-areas within the geographical segment (Note 27).

Control of the business assets was obtained through the issue of shares in the company and the recognition of existing employment entitlements of transferring (transmitted) employees.

The inherit goodwill in the acquisition comprises the historical revenue streams of the assets, the referrer network associated with those revenue streams and the transfer of skilled employees in a tight labour market. No value was attributed to plant & equipment associated with the acquisition as most major items are utilised through operating leases.

The fair value of the consideration transferred at acquisition date was made up of the following components;

Issue of 45,559,021 shares in the company (Note 18)	2,323,510
Recognition of employee entitlements	370,847
Adjustment for Deferred Tax Asset	(119,718)
Recompense for delay in completion date by the vendor	(100,000)
	2,474,639

	2012 $	2011 $

13. INTANGIBLES (cont'd)

(ii) Acquisition of business assets (cont'd)

(b) Diagnostic imaging operations of Community Care X-Ray

Date: 1 July 2011

The acquisition extended the facility network of the Company in key strategic geographical sub-areas within the geographical segment (Note 27).

Control of the business assets was obtained through the recognition of existing employment entitlements of transferring (transmitted) employees.

The inherit goodwill in the acquisition comprises the historical revenue streams of the assets, the referrer network associated with those revenue streams and the transfer of skilled employees in a tight labour market. No value was attributed to plant & equipment associated with the acquisition as most major items are utilised through operating leases.

The fair value of the consideration transferred at acquisition date was made up of the following components;

	2012 $
Recognition of employee entitlements	89,117
Adjustment for Deferred Tax Asset	(12,990)
	76,127

Impairment testing for cash-generating units containing goodwill

The Directors consider that, for accounting purposes under AASB 136, a single CGU exists for the purposes of 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 (post tax) to determine recoverable amount as at 30 June 2012 for the total operating entity is 11.2%. Discounted cash flows for the total operating entity has been estimated, based on past performance and increased by the 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 diagnostic 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

	2012 $	2011 $
Trade creditors	1,121,399	1,833,109
Other creditors and accruals	1,810,057	2,041,676
Liability for annual leave	1,665,497	1,184,898
	4,596,953	**5,059,683**

15. EMPLOYEE BENEFITS

Provision for long service leave

	2012 $	2011 $
Current	**926,534**	**678,810**
Non Current	**291,760**	**256,743**

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 2012 there were no options exercised (2011: 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:

	2012 Number	2012 WAEP	2011 Number	2011 WAEP
Outstanding at the beginning of the year	-	-	250,000	$0.25
Forfeited during the year	-	-	(250,000)	-
Outstanding at the end of the year	**-**	**-**	**-**	**-**

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 21.

	2012 $	2011 $
Current		
Secured bank loan	850,281	498,996
Secured equipment finance facilities	1,277,075	1,336,872
Unsecured loans	-	22,000
	2,127,356	**1,857,868**
Non Current		
Secured bank loan	894,872	1,871,149
Secured equipment finance facilities	2,617,734	3,638,620
	3,512,606	**5,509,769**

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 $509,373 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.

17. LOANS AND BORROWINGS (cont'd)

Utilisation of secured facilities

	Facility $	Utilised $	Available $
At 30 June 2012			
Secured bank loan	1,745,153	1,745,153	-
Overdraft	100,000	-	100,000
Rental guarantee	509,373	417,538	91,834
	2,354,526	**2,162,692**	**191,834**
At 30 June 2011			
Secured bank loan	2,370,145	2,370,145	-
Overdraft	100,000	-	100,000
Rental guarantee	173,373	173,373	-
	2,643,518	**2,543,518**	**100,000**

Secured equipment finance facilities

Capital Radiology Pty Ltd 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 21.

	2012 $	2011 $
18. ISSUED CAPITAL AND RESERVES		
Issued capital		
359,672,425 (2011: 303,726,809) fully paid ordinary shares	**23,369,779**	**20,541,091**

	2012 Number of Shares	2012 $	2011 Number of Shares	2011 $
Balance at the beginning of the year	303,726,809	20,541,091	303,726,809	20,541,091
Issue of shares for radiology acquisition	45,559,021	2,323,510	-	-
Exercise of options	7,756,530	387,827	-	-
Dividend reinvestment plan	2,630,065	128,870	-	-
Share issue costs (Net of GST)		(11,519)	-	-
Balance at the end of the year	**359,672,425**	**23,369,779**	**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.

18. ISSUED CAPITAL AND RESERVES (cont'd)

Options

Options granted during the year
No options were granted during 2012.

Unissued shares under option
At balance date, there were no unissued ordinary shares of the Company under option.

	2012 $	2011 $
Reserves		
Share- based payments reserve		
Balance at the beginning of the year	-	6,109
Expiry of Unlisted Options as at 28 September 2010	-	(6,109)
Balance at the end of the year	-	-

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.

	2012 $	2011 $

19. DIVIDENDS

Dividend Reinvestment Plan ("DRP")

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

Total dividends paid on ordinary shares during the year

Interim dividend for the year ended 30 June 2012 of $0.002 (2011: $Nil) per share paid on 20 April 2012, fully franked.

Interim dividend	**709,695**	**-**

The interim dividend was based on 354,847,663 ordinary shares on issue at record date.

Dividend converted into ordinary shares under the DRP was $128,871 for 2,630,065 shares at an issue price of $0.049.

Dividends not recognised at year end

In addition to the above dividend, since the end of the year the Directors have declared a final dividend of $0.002 per share (2011: $Nil) fully franked. The aggregate maximum amount of final dividend based on the ordinary shares on issue at the date of this report and to be paid out of retained profits at the end of the year, subject to any DRP election, but not recognised as a liability is;

Final dividend	**744,155**	**-**

20. RETAINED EARNINGS/(ACCUMULATED LOSSES)

Accumulated losses at the beginning of the year	(329,336)	(1,291,345)
Profit for the year	2,134,225	962,009
Dividends issued during the year	(709,695)	-
Retained earnings/(Accumulated losses) at the end of the year	**1,095,194**	**(329,336)**

	2012 $	2011 $

21. 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 reporting date was;

Carrying amount

	2012 $	2011 $
Cash and cash equivalents	1,702,104	1,201,354
Trade and other receivables	1,300,823	1,233,179
Other financial assets	484,876	143,311
	3,487,803	**2,577,844**

Impairment losses

The ageing of the Group's trade receivables at reporting date was;

	Gross 2012 $	Impairment 2012 $	Gross 2011 $	Impairment 2011 $
Due 0-30 days	722,722	-	763,157	-
Due 31-120 days	100,899	(5,058)	81,902	-
Due 121 days to one year	54,174	(6,427)	66,244	(14,290)
More than one year	154	-	-	-
	877,949	**(11,485)**	**911,303**	**(14,290)**

There was an allowance made for impairment in respect of trade receivables during the year of $1,485 (2011: $14,290).

The allowance account in respect of trade receivables is used to record impairment losses unless 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 1012 the Group has a collective impairment allowance on its trade receivables of $11,485 (2011: $14,290).

Liquidity risk

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

	Carrying amount $	Contractual cash flows $	Less than 1 year $	1- 5 years $	More than 5 years $
30 June 2012					
Trade and other payables	4,596,953	(4,596,953)	(4,596,953)	-	-
Secured bank loans *	1,745,153	(1,745,153)	(850,281)	(894,872)	-
Secured equipment finance	3,894,809	(4,772,347)	(1,649,328)	(3,123,019)	-
	10,236,915	**(11,114,453)**	**(7,096,562)**	**(4,017,891)**	**-**
30 June 2011					
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 loan	22,000	(22,000)	(22,000)	-	-
	12,427,320	**(13,940,729)**	**(7,454,901)**	**(5,910,687)**	**(575,141)**

21. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Liquidity risk (cont'd)

On 7 August 2012 the Directors declared a Final Dividend for the year ending 30 June 2012. A result of this declaration will be changes in the maturity profile of the secured bank loan through an accelerated and matching repayment of the loan leading to the facility being reclassified in the 2013 accounts as a current liability, maturing within 12 months.

Interest rate risk

Profile

At the reporting date the interest rate profile of the Company's and the Group's interest bearing financial instruments was;

	2012 $	2011 $
Carrying Amount;		
Fixed rate instruments		
Financial assets	476,876	143,311
Financial liabilities	(3,894,809)	(4,975,492)
	(3,417,933)	**(4,832,181)**
Variable rate instruments		
Financial assets	1,702,104	1,201,354
Financial liabilities	(1,745,153)	(2,370,145)
	(43,049)	**(1,168,791)**

Variable rate instruments

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 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**
As at 30 June 2012	**(430)**	**430**	**(430)**	**430**
As at 30 June 2011	**(11,688)**	**11,688**	**(11,688)**	**11,688**

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

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 amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

	2012 $	2011 $

22. COMMITMENTS

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

Property and facility operating lease commitments

	2012 $	2011 $
Within one year	2,576,133	2,547,139
One year or later and no later than five years	5,316,642	3,054,140
	7,892,775	**5,601,279**

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.

Plant and equipment operating lease commitments

	2012 $	2011 $
Within one year	2,019,954	2,312,919
One year or later and no later than five years	3,981,714	2,779,680
	6,001,668	**5,092,599**

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 2012 $5,754,674 was recognised as an expense in the statement of comprehensive income in respect of operating property, plant and equipment leases (2011: $5,293,335)

23. EARNINGS PER SHARE

Profit attributable to ordinary shareholders

	2012 $	2011 $
Net profit for the year	**2,134,225**	**962,009**

Basic earnings per share

The calculation of basic earnings per share at 30 June 2012 was based on the profit attributable to ordinary shareholders of $2,134,225 (2011: $962,009) and a weighted number of ordinary share outstanding during the financial year ended 30 June 2012 of 317,475,498 (2011: 303,726,809) calculated as follows:

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2012 was based on the profit attributable to ordinary shareholders of $2,134,225 (2011: $962,009) and a weighted number of ordinary share outstanding after adjustments for the effects of all dilutive potential ordinary shares during the financial year ended 30 June 2012 of 338,198,381 (2011: 329,037,377) calculated as follows:

	Basic earnings		Diluted earnings	
	2012 Number	2011 Number	2012 Number	2011 Number
Weighted average number of ordinary shares				
Issued ordinary shares at 1 July	303,726,809	303,726,809	303,726,809	303,726,809
Shares issued - acquisition	11,576,473	-	11,576,473	-
Shares issued - Dividend Reinvestment Plan	510,204	-	510,204	-
Shares issued - exercise of options	1,662,012	-	1,662,012	-
Effect of share options on issue	-	-	20,722,883	25,310,568
	317,475,498	**303,726,809**	**338,198,381**	**329,037,377**

24. CONTROLLED ENTITIES

	Country of Incorporation	2012 Entity interest	2011 Entity interest
Parent entity			
Capitol Health Limited	Australia	-	-
Controlled entity			
CHL Operations Pty Ltd	Australia	100%	100%
Capital Radiology Pty Ltd	Australia	100%	100%
Controlled by a subsidiary of the parent			
Radiology One 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 in 2001 relating to diagnostic imaging in Melbourne are subsidiaries of Capital Radiology Pty Ltd, but none are significant individually to the Group. Any subsidiary not disclosed is in the process of being de-registered as a dormant company.

25. DISCONTINUED OPERATIONS

There were no discontinued operations during the reporting period.

26. RELATED PARTIES

	2012 $	2011 $
Key management personnel remuneration		
Short-term employee benefits	574,603	423,987
Post-employment benefits	49,533	36,323
Long-term employee benefits	55,499	48,936
	679,635	**509,246**

Individual key management personnel compensation disclosures

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

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 may have 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.

26. RELATED PARTIES (cont'd)

Other key management personnel transactions with the Company or its controlled entities (cont'd)

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

		Transactions value year ended 30 June		Balance outstanding as at 30 June	
		2012	2011	2012	2011
Directors	**Transaction**	**$**	**$**	**$**	**$**
Mr J.Conidi	Restatement - vendor liabilities	-	113,000	-	-

Notes in relation to the table of related party transactions

An entity associated with Mr Conidi had vendor liabilities outstanding relating to a prior year business combination. During the prior reporting period the provision for vendor liabilities was fully paid out. There are no further liabilities.

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:

Directors	Held at year opening	Issued	Exercised	Other changes	Held at year end	Vested at year end	Vested and exercisable at year end
2012							
Mr J Conidi	3,232,883	-	(500,000)	(2,732,883)	-	-	-
Mr A Harrison	-	-	-	-	-	-	-
Mr D Kucera	453,216	-	(453,216)	-	-	-	-
Mr S Sewell	-	-	-	-	-	-	-
2011							
Mr J Conidi	3,232,883	-	-	-	3,232,883	3,232,883	3,232,883
Mr A Harrison	-	-	-	-	-	-	-
Mr D Kucera	453,216	-	-	-	453,216	453,216	453,216
Mr S Sewell	-	-	-	-	-	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2012 or 2011.

26. RELATED PARTIES (cont'd)

Movement in shares

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

Directors	Held at year opening	At date of appoint - ment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at year end
2012							
Mr J Conidi	29,809,215	-	1,259,855	500,000	1,057,194	-	32,626,264
Mr A Harrison	13,400,001	-	-	-	-	-	13,400,001
Mr D Kucera	953,216	-	-	453,216	-	-	1,406,432
Mr S Sewell	100,000	-	4,082	-	-	-	104,082
2011							
Mr J Conidi	29,809,215	-	-	-	-	-	29,809,215
Mr A Harrison	13,400,001	-	-	-	-	-	13,400,001
Mr D Kucera	953,216	-	-	-	-	-	953,216
Mr S Sewell	100,000	-	-	-	-	-	100,000

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

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 24.

	2012 $	2011 $
Aggregate amounts receivable from a controlled entity		
Company		
Non-current		
Unsecured loans to a controlled entity	**23,186,670**	**17,567,877**

A dividend was accrued from the controlled entity in the period of $4,165,818 (2011: $Nil).

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 or journal entries recording the movement of assets and liabilities between the 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.

No net loans were advanced from the Company to Capital Radiology Pty Ltd in 2012 (2011: $Nil). No interest charge was recorded from Capital Radiology Pty Ltd to the Company during the period (2011: $1,397,459). Net loan repayments received from Capital Radiology Pty Ltd during the period were $325,000 (2011: $378,880).

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

27. 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.

28. RECONCILIATION OF CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

	2012 $	2011 $
Cash flows from operating activities		
Profit for the year	2,134,225	962,009
Adjustments for:		
Depreciation and amortisation	2,128,854	1,864,275
Impairment of assets	60,220	169,102
Share-based payment expense	-	(6,109)
Income tax expense	818,539	365,956
Operating profit before changes in working capital and provisions	**5,141,838**	**3,355,233**
Change in trade and other receivables	(67,644)	7,749
Change in other assets	(479,762)	(23,098)
Change in trade and other payables	(1,043,564)	1,132,077
Change in provisions and employee benefits	763,340	533,814
Net cash provided by operating activities	**4,314,208**	**5,005,775**

29. PARENT ENTITY DISCLOSURES

	2012 $	2011 $
Financial information		
Profit for the year	3,224,066	704,165
Total comprehensive income for the year	3,224,066	704,165
Current Assets	183,108	6,864
Total Assets	23,369,779	18,221,123
Current Liabilities	-	194,403
Total Liabilities	-	194,403
Shareholders Equity		
Issued capital	23,369,779	20,541,091
Accumulated losses	-	(2,514,371)
Total Equity	**23,369,779**	**18,026,720**

29. PARENT ENTITY DISCLOSURES (cont'd)

There was no ($Nil) intercompany interest charge made in 2012 (2011: $1,397,459).

A dividend from a controlled entity was accrued in the period of $4,165,818 (2011: $Nil).

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 (2011: $7,764,732), secured by a first registered charge over the assets of the entity.

Other commitments

The Company has no commitments to acquire plant and equipment (2011: $Nil) and has no contingent liabilities.

30. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date the Company;

a. Completed a Share Purchase Plan whereby 12,405,200 ordinary shares were issued, with a gross capital raising of $719,500, and;

b. Declared a final dividend for the financial year ending 30 June 2012 of $0.002 per share (2011: $Nil), eligible shareholdings to participate in the dividend includes those shares issued under the Share Purchase Plan, with a maximum dividend payable subject to elections under the Company's Dividend Reinvestment Plan of $744,155 and;

c. As a result of the dividend declared in August 2012, the company will, under its banking facility arrangements, be required to repay an equivalent amount as the dividend paid from outstanding bank loans. This will result in all bank loan liabilities (excluding equipment finance arrangements) be classified as Current in the accounts of the Company for the financial year ending 30 June 2013 and;

d. Change in the Principal Place of Business and Registered Office (refer page 1. Corporate Directory).

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 as 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 2012 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 2012.

Signed in accordance with a resolution of the directors.

John Conidi
Managing Director

Dated at Melbourne, Victoria this 28th day of September 2012.

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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 2012, 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.

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 2012 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 (xxi) in the financial report, which indicates that the consolidated entity's current liabilities exceeded their current assets by $4,653,490 as at 30 June 2012. This condition, along with other matters as set forth in Note 1 (xxi), 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 2012. 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 2012 complies with section 300A of the *Corporations Act 2001.*

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS

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R B MIANO
Partner

Dated: 28 September 2012
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 proper system of corporate governance. The Company believes that 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.

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 financial year and as at the date of this report.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation	Requirement	Comply Yes/ No
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes
Rec 1.3	Companies should provide the information indicated in the Guide to reporting to Principle 1.	Yes

Commentary

The Board Charter sets out the functions and responsibilities of the Board of Capitol Health Limited, and is available on the Capitol Health website.

The performance of senior executives is evaluated in accordance with the Performance Evaluation Process (available on the Company's website). A performance evaluation for senior executives has taken place in the reporting period and was in accordance with the process disclosed.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation	Requirement	Comply Yes/ No
Rec 2.1	A majority of the board should be independent directors.	No
Rec 2.2	The chair should be an independent director.	No
Rec 2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	No
Rec 2.4	The board should establish a nomination committee.	Yes
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes
Rec 2.6	Companies should provide the information indicated in the Guide to reporting to Principle 2.	Yes

Commentary

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 have been included in the Directors' Report. The number of Board and Committee meetings and the attendance of the directors are set out in the Directors' Report.

The Company has yet to appoint a chair of the Board and is therefore at variance with Recommendation 2.2 in that the Board does not have an independent chair. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to warrant the appointment of an additional director to perform the function of an independent chair.

The Board has assessed the independence of the non-executive directors using defined criteria of independence and materiality consistent with the guidance and commentary for Recommendation 2.1. Although Mr Sewell holds 104,082 fully paid ordinary shares in the Company, the Board considers this immaterial. He is regarded as independent as he is not a substantial shareholder as defined by the *Corporations Act*. Mr Harrison does not satisfy the tests of independence as detailed in the Recommendations. Consequently, the Company is at variance with Recommendation 2.1 in that the majority of directors are not independent. The directors have determined that the current composition of the 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.

Although the Board has established a Nomination and Remuneration Committee, the Company is at variance with Recommendation 2.4 in that the Committee does not consist of a majority of independent directors. However, the Board considers that the composition of the Committee, which comprises three members and is chaired by an independent non-executive director, Mr Sewell, is appropriate given the current size of the Company.

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

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.

The 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

Recommendation	Requirement	Comply Yes/ No
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 the reasonable expectations of their stakeholders; and ▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes
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 and for the board to assess annually both the objectives and progress in achieving them.	No
Rec 3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	No
Rec 3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Yes
Rec 3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes

Commentary

The Company's Code of Conduct is available on the Capitol Health website.

The Board does not currently have an established policy regarding the gender, age, ethnic and cultural diversity of its directors and senior executives. Given the size of the Company, the nature of the employment structure and the limited number of Board and senior executive positions available in addition to the tight labour market for skilled employees for the sector, the Company does not expect to develop a policy in this regard for the near future. Nevertheless, as and when circumstances warrant, the Board will take into consideration diversity as one of the criteria in formulating decisions.

The proportion of women within the organisation is as follows:

- women on the Board 0%
- women in senior executive positions 0%
- women employees in the Group 65%

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation	Requirement	Comply Yes/ No
Rec 4.1	The board should establish an audit committee.	Yes
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.	No
Rec 4.3	The audit committee should have a formal charter.	Yes
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes

Commentary

The Audit and Risk Committee Charter is available on the Capitol Health website. The Charter reflects the matters set out in the commentary and guidance for Recommendation 4.3.

The Audit and Risk Committee consists of three members and is chaired by Mr Kucera. The Company is at variance with Recommendation 4.2 in that the Committee does not consist of a majority of independent directors and is not chaired by an independent chair. However, the Board considers that the present composition is appropriate and is of a sufficient size and possesses sufficient technical expertise to discharge its mandate effectively.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation	Requirement	Comply Yes/ No
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 executive level for that compliance and disclose those policies or a summary of those policies.	Yes
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes

Commentary

The Company's Continuous Disclosure Policy is available on the Capitol Health website. The Continuous Disclosure Policy sets out the key obligations of 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.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation	Requirement	Comply Yes/ No
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
Rec 6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Yes

Commentary

The Company's Shareholder Communications Policy is available on the Capitol Health website. The Policy reflects the matters set out in the commentary and guidance for Recommendation 6.1.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Recommendation	Requirement	Comply Yes/ No
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes
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
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
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes

Commentary

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 Risk Management Policy is available on the Capitol Health website.

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.

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.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation	Requirement	Comply Yes/ No
Rec 8.1	The board should establish a remuneration committee.	Yes
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
Rec 8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes
Rec 8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes

Commentary

The Nomination and Remuneration Committee Charter is available on the Capitol Health website. The Charter reflects the matters set out in the commentary and guidance for Recommendation 8.1. The Nomination and Remuneration Committee consists of three members and is chaired by an independent non-executive director, Mr Sewell. However, the Company is at variance with Recommendation 8.2 in that the Committee does not consist of a majority of independent directors. The Board considers the present composition is appropriate given the current size of the Company.

Details of shares and options as at 18 September 2012:

Top holders

The 20 largest holders of each class of equity security as at 18 September 2012 were:

Fully paid ordinary shares

Name	No. of Shares	%
Mr Peter Hunt + Mrs Janette Hunt <Hunt Super Fund A/C>	31,949,072	8.59
Idinoc Pty Ltd <J & R Conidi Family A/C>	28,912,886	7.77
Monaco Bond Pty Ltd <Mobilio Family A/C>	25,408,656	6.83
Nick Conidi Pty Ltd <Conidi Family A/C>	23,246,435	6.25
Bond Street Custodians Limited <Bkohn - I37810 A/C>	16,609,499	4.46
Gia Chau Pty Ltd	15,979,650	4.29
Relentless Corporation Pty Ltd <Sun Tzu A/C>	9,891,228	2.66
Ms Stella Janice Ha + Mr Andrew Juen-Fai Ha <Stelhaven Super Fund A/C>	9,677,419	2.60
Ms Stella Ha	8,057,333	2.17
Worldwide Pty Ltd	7,254,490	1.95
Teleah Pty Ltd <Jr Sauvey Super Fund A/C>	6,027,852	1.62
Mr Wayne David Mcgregor	5,769,231	1.55
Mr Ian Davies	5,000,000	1.34
Jasper Hill Resources Pty Ltd <Superannuation Account>	4,897,176	1.32
Julsan Pty Ltd <Ponte Super Fund A/C>	4,868,184	1.31
Mrs Joanne Miriam Upton <Coup Discretionary A/C>	4,500,000	1.21
Aviemore Capital Pty Ltd	4,399,843	1.18
Liew Serng Yee	4,031,409	1.08
Mr Asok Kumar + Mrs Renu Kumar <Asok Kumar Family S/F A/C>	4,000,000	1.08
Mr Andrew Harrison + Mrs Katrina Harrison <Harrison Super Fund A/C>	3,508,772	0.94
	223,989,135	**60.20**

Distribution schedules

A distribution of each class of equity security as at 18 September 2012:

Fully paid ordinary shares

Range			Holders	Units	%
1	-	1,000	15	1,181	0.00
1,001	-	5,000	13	47,534	0.01
5,001	-	10,000	131	989,943	0.27
10,001	-	100,000	330	14,510,007	3.90
100,001	-	Over	279	356,528,960	95.82
Total			768	372,077,625	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	30,866,409
Monaco Bond Pty Ltd	25,408,656
Nick Conidi Pty Ltd	23,246,435
Ms Stella Ha	17,734,752

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 7,575 as at 18 September2012):

Holders	Units
92	422,629

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.