



ABN 84 117 391 812

2013 ANNUAL REPORT

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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

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

Stock Exchange

ASX Limited
Exchange Plaza
2 The Esplanade
Perth, Western Australia, 6000

ASX Code: CAJ

MANAGING DIRECTOR'S REVIEW

Dear Shareholder,

It has been an exciting year for Capitol Health, with the Company transitioning into the largest community-based (non-hospital) Diagnostic Imaging services provider in Victoria.

The business has continued to expand and grow in FY2013, with both organic and strategic measures translating into significant gains in market share across Victoria. The acquisition of MDI Group, completed in May this year, has boosted our customer base and already made a significant and material contribution to the record full year financial results:

- Operating Revenue is up 19.5% (on FY2012), to \$62.5 million
- Net Profit after Tax is up 70% (on FY2012), to \$3.6 million
- Final Dividend is up 50% (on FY2012 Final Dividend), to 0.3 cents per share

Due to our strong financial and operating performance, the Board of Directors has declared a fully franked Final Dividend of 0.3 cents (point 3 of one cent) per share, which equates to a 50% increase on the Final Dividend for FY2012 and a 20% increase on the Interim Dividend for the first half of FY2013. The uplift in Dividends reflects the Board's continued confidence in Capitol's financial strength and operating outlook.

Federal Government allocation of MRI licenses

The 2013 Financial Year has seen Capitol become a beneficiary of recent Federal Government legislation aimed at improving the affordability and nationwide access to Medicare-funded MRI scans. The Capitol network currently has seven Medicare-funded MRI licenses, placing us in a strong position to provide these more affordable and more accessible services. Only 10 more new MRI licenses will be issued by the Government across Australia up to the end of 2016/17 and these will be allocated to areas outside Capitol's footprint and are expected to be housed in public hospitals.

Other favourable legislation is the MRI initiative that came into effect on 1 November 2012, whereby it became permissible for General Practitioners to refer children under age 16 for Medicare-funded MRI scans. Further new and favourable legislation is set to take effect on 1 November 2013, whereby GPs will be able to request specific MRI services for patients over 16 years of age. These new rulings should see an increased number of patients seeking Medicare-funded MRI services – a significant benefit for Capitol Health.

MDI acquisition delivering value and meeting targets

On 30 April 2013 Capitol successfully completed the acquisition of MDI Group. I am pleased to report that the transition and integration of the 11 MDI clinics into the Capitol Health network has progressed smoothly and the acquired business has already delivered synergies and tangible value to the overall Group.

We expect to realise the further benefits from this acquisition in the 2014 Financial Year, as this-higher-margin business continues to meet its financial targets and deliver significant value to the Capitol Health Group.

Thank you

Finally, I would like to take this opportunity to thank all our employees for their hard work and dedication, and also to our referrers and patients for their ongoing support and loyalty.

Welcome and thank you also to all the MDI employees for their time and efforts, particularly in ensuring a smooth and seamless integration of the MDI business into the Capitol network.

I would also like to acknowledge and thank all of the CAJ shareholders for their support and loyalty to the business over the past year. I look forward to providing you with further updates on our success in the new financial year.



John Conidi
Managing Director
Melbourne, Victoria
22 August 2013

DIRECTORS' REPORT

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 2013, 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 13 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 Conidi also became a Non-Executive Director of Lithex Resources Limited, an ASX listed company, in 2012.

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 in Primary, Secondary and Tertiary (service) industries for extensive periods of time. 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 Andrew Harrison, BCom (Hons)

Non-Executive Director - Appointed 1 December 2005

Mr Harrison has significant experience in both senior management and board positions in publicly listed companies, including strategic and day-to-day management in addition to IPO activities. He was a Non-Executive Director of ASX listed companies Neptune Marine Services Limited until February 2006 and a Non-Executive & Executive Director of Draig Resources Limited until November 2012.

Mr Steven Sewell

Non-Executive Director – Appointed 6 February 2008

Mr Sewell is the Managing Director and Chief Executive Officer of Federation Centres, an ASX listed company. Mr Sewell has over 15 years of experience in the property investment and management industry. He is the Chair of the Shopping Centre Council of Australia as well as an active member of its Retail Lease Law and Planning sub-committee. He is a graduate in Science from the University of Melbourne.

Mr Sewell will be retiring by rotation and seeking re-election by shareholders at the 2013 Annual General Meeting.

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	Lithex Resources Limited	2012	Present
Mr D Kucera	Nil	-	-
Mr A Harrison	Draig Resources Limited	2005	2012
Mr S Sewell	Federation Centres	2012	Present

DIRECTORS' REPORT

DIRECTORS' MEETINGS

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

Director	Board Meetings		Nomination and Remuneration Committee Meetings		Audit and Risk Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Mr J Conidi	7	7	1	1	n/a	n/a
Mr D Kucera	7	7	n/a	n/a	2	2
Mr A Harrison	7	7	1	1	2	2
Mr S Sewell	7	7	1	1	2	2

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 A Harrison (Chairman)	Mr S Sewell (Chairman)
Mr S Sewell	Mr A Harrison
Mr J Conidi	Mr D Kucera (to Dec 2012)

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 2013 of \$3,627,361 (2012: profit \$2,134,225).

OPERATING AND FINANCIAL REVIEW

The results for the financial year ending 30 June 2013 incorporate the following key developments:

- Introduction of the first tranche of MRI items directly referable by GP's under Medicare
- Major acquisition completed, which delivered a further 2 Medicare licenced MRI's into the Company
- No general changes to the level of Medicare rebates
- Clinic revenue increasing at a normalised rate ahead of the general growth in Medicare rebates paid

Operating review

The operating environment has not altered significantly year-on-year, being a continued steady path of expansion through acquisition and organic growth based on investments made in prior years.

Major acquisitions and organic growth

The acquisition of MDI Group Pty Ltd and its subsidiaries was completed on 30 April 2013. The performance of the operating units within the acquisition has met expectations. The expansion has resulted in an overall network of 48 facilities, the second largest network in Victoria.

Impact of Federal Budget 2013/13

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 continues to place additional pressure on other diagnostic imaging providers who have moved back to bulk-billing in order to compete with Capitol.

Operating review (continued)***Freehold acquisition***

The Company has acquired its first freehold ownership over a clinical site.

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 the overall market, based on Medicare rebates paid over the course of the financial year.

The approximate increase in revenues over the prior reporting period was 19.5%, attributed to;

- organic growth – 11.8%, and
- growth through acquired operations – 7.7%.

MRI Licences

The Company commenced its operations under the fully Specialist Medicare rebated and GP referred and Medicare rebated MRI items from 1 November 2012. The issue of the 5 MRI "licences" to the Capitol network to charge Medicare for MRI items on the MBS has contributed to the current financial year results. The addition of the 2 MRI licences from the MDI Group acquisition and the further expansion of MRI rebated items on 1 November 2013 will add further benefit to the Company.

Taxation

The acquisition of the MDI operation has resulted in some timing differences that have impacted on the 2013 result, leading to an actual corporate tax rate for 2013 above the standard 30%. We expect that these timing differences will reverse over future financial periods.

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 in conjunction with the additional revenue generated from the MDI acquisition over the course of a full financial year. 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 30 June 2013 by \$9,640,313 to \$34,105,286 (2012: \$24,464,973). The increase comprised the net profit after tax for the reporting period of \$3,627,361 (2012: profit \$2,134,225) plus net shares issued of \$7,830,960 less dividends paid of \$1,818,008.

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

DIRECTORS' REPORT

DIVIDENDS

Dividends paid during the financial year

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

	2013 \$ per share	2013 \$	2012 \$ per share	2012 \$
Final dividend for the preceding financial year	\$0.0020	744,162	-	-
Interim dividend for the year ending 30 June	\$0.0025	<u>1,073,846</u>	\$0.0020	<u>709,695</u>
		<u>1,818,008</u>		<u>709,695</u>

All dividends paid were fully franked.

Dividend Reinvestment Plan ("DRP")

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

Dividend converted into ordinary shares under the DRP for the final dividend paid during 2013 was \$83,174 for 1,434,038 shares at an issue price of \$0.058 (2012: Nil).

Dividend converted into ordinary shares under the DRP for the interim dividend paid during 2013 was \$151,012 for 893,709 shares at an issue price of \$0.169 (2012: \$128,870, 2,630,065 shares, \$0.049).

EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date the Company declared a final dividend for the financial year ending 30 June 2013 of \$0.003 per share (2012: \$0.002), with a maximum dividend payable of \$1,291,296 (2012: \$744,162).

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	1,427,238
Mr A Harrison	3,508,772
Mr S Sewell	109,264

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.

DIRECTORS' REPORT

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 (2012: Nil).

AUDITOR'S INDEPENDENCE DECLARATION

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

DIRECTORS' 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.

DIRECTORS' REPORT

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 received short-term incentives during the 2013 reporting period. There were no short-term incentives paid to key management personnel in 2012.

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 17 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 2013 or 2012 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:

	2013	2012	2011	2010
Net profit for the year	\$3,627,361	\$2,134,225	\$962,009	\$705,232
Gross Dividends	\$1,818,008	\$709,695	nil	nil
Change in share price	18.8 cents	0.6 cents	1.6 cents	(3.6 cents)
Share price at beginning of the period	4.7 cents	4.1 cents	2.5 cents	6.1 cents
Share price at end of the period	23.5 cents	4.7 cents	4.1 cents	2.5 cents
Earnings per share (basic)	0.94 cents	0.67 cents	0.32 cents	0.24 cents

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

Performance related remuneration transactions for the executive directors during 2013 amounted to \$65,000 (2012: \$Nil).

EMPLOYMENT AGREEMENTS

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

DIRECTORS' REPORT

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										
<i>Non-executive</i>										
Mr A Harrison	2013	43,333	-	-	-	-	-	43,333	-	-
	2012	30,000	-	-	-	-	-	30,000	-	-
Mr S Sewell	2013	43,077	-	-	3,877	-	-	46,954	-	-
	2012	31,154	-	-	2,803	-	-	33,957	-	-
<i>Executive</i>										
Mr J Conidi	2013	321,539	27,500	-	28,938	79,142	-	457,119	6.00%	-
	2012	259,616	-	-	23,365	51,754	-	334,735	-	-
Mr D Kucera	2013	250,000	37,500	6,890	22,500	5,875	-	322,765	11.60%	-
	2012	259,616	-	9,010	23,365	3,745	-	295,736	-	-
Total, all key management personnel	2013	657,949	65,000	6,890	55,315	85,017	-	870,171	7.50%	-
	2012	580,386	-	9,010	49,533	55,499	-	694,428	-	-

This is the end of the audited Remuneration Report.

DIRECTORS' REPORT

Dated at Melbourne, Victoria this 22nd day of August 2013.

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
T +61 3 9286 1800 F +61 3 9286 1999
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 2013, 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



R B MIANO
Partner

Dated: 22 August 2013
Melbourne, Victoria

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 for the year ended 30 June 2013

	Note	2013 \$	2012 \$
Continuing Operations			
Revenue	3	61,618,316	51,541,024
Other Income	4	865,707	745,878
Employee & Contractor benefits expense	6	(36,383,413)	(30,338,777)
Equipment-related expense		(5,357,077)	(5,258,450)
Management fees		(733,408)	(809,931)
Occupancy expense		(4,156,466)	(3,478,392)
Consumables expense		(2,742,128)	(2,385,436)
Telecommunications expense		(1,241,830)	(1,129,278)
Computer IT & support expense		(794,245)	(650,263)
Insurance expense		(441,820)	(304,718)
Impairment of assets	13	(207,958)	(60,220)
Other expenses	5	(2,473,817)	(2,224,780)
Borrowing costs		(455,514)	(565,039)
Depreciation & amortisation expense	13	<u>(2,183,271)</u>	<u>(2,128,854)</u>
Profit before income tax		<u>5,313,076</u>	<u>2,952,764</u>
Income tax	8	(1,685,715)	(818,539)
Net profit for the financial year		<u>3,627,361</u>	<u>2,134,225</u>
Total comprehensive income for the financial year		<u>3,627,361</u>	<u>2,134,225</u>
Profit for the financial year attributable to owners of the parent		<u>3,627,361</u>	<u>2,134,225</u>
Total comprehensive income for the financial year attributable to owners of the parent		<u>3,627,361</u>	<u>2,134,225</u>
Earnings per share (cents)			
Total basic earnings for the financial year	25	0.94	0.67
Total diluted earnings for the financial year	25	0.94	0.63

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 as at 30 June 2013

	Note	2013 \$	2012 \$
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	9	6,126,610	1,702,104
Trade and other receivables	10	2,196,480	1,300,823
Financial asset - held to maturity	11	487,860	476,876
Other assets	12	493,270	362,272
Total Current Assets		9,304,220	3,842,075
<u>NON-CURRENT ASSETS</u>			
Plant & equipment	13	15,385,769	8,749,302
Intangible assets	14	30,828,529	23,431,630
Deferred tax assets	8	1,701,149	990,821
Total Non-Current Assets		47,915,447	33,171,753
TOTAL ASSETS		57,219,667	37,013,828
<u>CURRENT LIABILITIES</u>			
Loans and borrowings	18	2,722,369	2,127,356
Trade and other payables	15	6,654,807	4,596,953
Employee benefits	16	1,769,498	926,534
Income tax liability		1,112,325	844,722
Total Current Liabilities		12,258,999	8,495,565
<u>NON-CURRENT LIABILITIES</u>			
Loans and borrowings	18	9,523,618	3,512,606
Employee benefits	16	644,509	291,760
Deferred tax liabilities	8	687,255	248,924
Total Non-Current Liabilities		10,855,382	4,053,290
TOTAL LIABILITIES		23,114,381	12,548,855
NET ASSETS		34,105,286	24,464,973
<u>EQUITY</u>			
Issued capital	19, 30	31,200,739	23,369,779
Retained earnings	21	2,904,547	1,095,194
Equity attributable to owners of the parent		34,105,286	24,464,973
TOTAL EQUITY		34,105,286	24,464,973

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

CONSOLIDATED STATEMENT OF CASH FLOWS
 for the year ended 30 June 2013

	Note	2013 \$	2012 \$
<i>Cash flows from operating activities</i>			
Cash receipts in the course of operations		61,664,385	51,934,530
Cash payments in the course of operations		(53,400,966)	(46,997,671)
Interest received		88,540	30,608
Interest paid		(455,514)	(565,040)
Net income tax paid		<u>(1,503,916)</u>	<u>(88,219)</u>
Net cash provided by operating activities	30	<u>6,392,529</u>	<u>4,314,208</u>
<i>Cash flows from investing activities</i>			
Proceeds from sale of non-current assets		104,000	360,000
Payments for non-current assets		(1,792,628)	(1,499,699)
Payment for financial asset held to maturity		(14,272)	(336,000)
Proceeds from business acquisitions		123,291	100,000
Payments for business acquisitions		-	(38,843)
Payments for acquisition of subsidiaries	14	<u>(8,163,000)</u>	<u>-</u>
Net cash used in investing activities		<u>(9,742,609)</u>	<u>(1,414,542)</u>
<i>Cash flows from financing activities</i>			
Proceeds from the issue of share capital	19	8,002,978	387,827
Payment of share issue costs	19	(446,824)	(11,519)
Payment of dividend	20	(1,583,822)	(580,825)
Payment for leasing arrangements		(1,723,144)	(1,547,407)
Proceeds from secured loans from external entities		7,500,000	-
Repayment of secured loans to external entities		(3,974,602)	(624,992)
Repayment of unsecured loans to external entities		<u>-</u>	<u>(22,000)</u>
Net cash used in financing activities		<u>7,774,586</u>	<u>(2,398,916)</u>
Net increase in cash and cash equivalents		<u>4,424,506</u>	<u>500,750</u>
Cash and cash equivalents at 1 July		<u>1,702,104</u>	<u>1,201,354</u>
Cash and cash equivalents at financial year end	9	<u><u>6,126,610</u></u>	<u><u>1,702,104</u></u>

As applicable, all amounts reported in the statement of cash flows are inclusive of GST

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 2013

	Note	Issued Capital \$	Retained Earnings \$	Total Equity \$
Balance as at 30 June 2012	19, 21	23,369,779	1,095,194	24,464,973
<i>Total recognised gains for the financial year</i>				
Profit for the financial year	21	-	3,627,361	3,627,361
Total comprehensive income		-	3,627,361	3,627,361
<i>Total transactions with equity holders in their capacity as equity holders</i>				
Shares issued externally	19	8,002,978	-	8,002,978
Shares issued through DRP	19	234,186	-	234,186
Share issue costs (net of GST)	19	(406,204)	-	(406,204)
Dividends paid	19, 20	-	(1,583,822)	(1,583,822)
Dividends taken as DRP	19, 20	-	(234,186)	(234,186)
Total transactions with equity holders		7,830,960	(1,818,008)	6,012,952
Balance as at 30 June 2013	19, 21	31,200,739	2,904,547	34,105,286
Balance as at 30 June 2011	19, 21	20,541,091	(329,336)	20,211,755
<i>Total recognised gains for the financial year</i>				
Profit for the financial year	21	-	2,134,225	2,134,225
Total comprehensive income		-	2,134,225	2,134,225
<i>Total transactions with equity holders in their capacity as equity holders</i>				
Shares issued externally	19	2,711,337	-	2,711,337
Shares issued through DRP	19	128,870	-	128,870
Share issue costs (net of GST)	19	(11,519)	-	(11,519)
Dividends paid	19, 20	-	(580,825)	(580,825)
Dividends taken as DRP	19, 20	-	(128,870)	(128,870)
Total transactions with equity holders		2,828,688	(709,695)	2,118,993
Balance as at 30 June 2012	19, 21	23,369,779	1,095,194	24,464,973

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

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 2013 comprises the Company and its subsidiaries (together referred to as the "Group").

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

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

(b) Basis of preparation

(i) Statement of compliance

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

The financial statements were approved by the Board of Directors on 22 August 2013.

(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 estimates, assumptions and judgements,

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

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

(i) Significant accounting estimates and assumptions

Impairment of 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 is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in Note 14. If any of these estimates were to significantly change, it may have a material impact on the reported amount of goodwill.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

(i) Significant accounting estimates and assumptions (cont'd)

Estimation of useful lives of assets

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

Recovery of deferred tax assets

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

(ii) Significant accounting judgements

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 an 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 \$108,198 (2012: \$112,769) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year ended 30 June 2013

(ix) Property, plant and equipment (cont'd)

Depreciation (cont'd)

The estimated useful lives are as follows:

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

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

(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, with amortisation rates equivalent to stated Note 1(ix) for depreciation for similar classes of assets.

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.

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

(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 service is rendered.

Interest income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

(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 and diluted earnings per share ("EPS") data for its ordinary shares.

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

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

(xix) Determination of fair values (cont'd)

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 in future periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below.

The following are applicable for annual reporting periods commencing on or after 1 January 2013 but are not considered to materially impact on the Group;

AASB 10: Consolidated Financial Statements,
AASB 11: Joint Arrangements,
AASB 12: Disclosure of Interests in Other Entities,
AASB 127: Separate Financial Statements (August 2011),
AASB 128: Investment's in Associates and Joint Ventures (August 2011),
AASB 128: Investment's in Associates and Joint Ventures (August 2011) (as amended by AASB 2012-10: Amendments to Australian Accounting Standards- Transition Guidance and Other Amendments),
AASB 2011-7: Amendments to Australian Accounting Standards arising from AASB 10, 11, 12, 127 & 128,
AASB 13: Fair Value Measurement,
AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13
AASB 119: Employee Benefits (September 2011),
AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011),
AASB 2012-1: Amendments to Australian Accounting Standards- Fair Value Measurement – Reduced Disclosure Requirements,
AASB 2012-2: Amendments to Australian Accounting Standards- Disclosures- Offsetting Financial Assets and Financial Liabilities, and
AASB 2012-5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle.
AASB 2012-10: Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments.

The following are applicable for annual reporting periods commencing on or after 1 July 2013 but are not considered to materially impact on the Group;

AASB 2011-2: Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements, and
AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements.

The following are applicable for annual reporting periods commencing on or after 1 January 2014 but are not considered to materially impact on the Group;

AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities.

The following are applicable for annual reporting periods commencing on or after 1 January 2015 with the impact on the Group still under consideration;

AASB 9: Financial Instruments (December 2010)
AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), and
AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

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 22.

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

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

Financial risk management objectives

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

Credit risk

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

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. The Group's trade receivables are mainly related to federal Government funded Medicare rebate claims and therefore management has assessed the related credit risk as insignificant.

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

Trade and other receivables

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

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. The Group reviews trade and other receivables regularly to estimate incurred losses and establish an allowance for impairment, if required.

Liquidity risk

Liquidity risk is the risk that the Company and the Group are unable to meet their as they fall due.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

2. FINANCIAL RISK MANAGEMENT (cont'd)

Market risk

Market risk is the risk that changes in market prices, such as interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

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

Interest rate risk

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

The Directors manage these risks by monitoring levels of exposure to interest rate risk and assessing market forecasts for interest rates. The Group does not hedge against these risks.

Capital management

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

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

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position although there is no formal policy regarding gearing levels. The Group had loans and borrowings of \$7,500,000 at 30 June 2013 (2012: \$1,745,153).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year ended 30 June 2013

	2013	2012
	\$	\$
3. REVENUE		
Services rendered	<u>61,618,316</u>	<u>51,541,024</u>
4. OTHER INCOME		
Interest income	90,477	30,608
Profit on sale of fixed assets	20,656	254,119
Miscellaneous income	<u>754,574</u>	<u>461,151</u>
	<u>865,707</u>	<u>745,878</u>
5. OTHER EXPENSES		
Corporate and administrative expenses	<u>2,473,817</u>	<u>2,224,780</u>
6. EMPLOYEE BENEFITS EXPENSE		
Wages and salaries expenses	30,039,580	24,103,555
Other associated personnel expenses	1,681,298	3,182,683
Defined contribution superannuation expenses	1,843,434	1,513,105
Increase in liability for annual and long service leave	2,732,691	1,478,280
Non-executive Directors fees	<u>86,410</u>	<u>61,154</u>
	<u>36,383,413</u>	<u>30,338,777</u>
7. AUDITORS REMUNERATION		
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:		
Audit Services:		
<i>Auditors of the company</i>		
<i>RSM Bird Cameron Partners</i>		
- audit and review of financial reports	<u>111,650</u>	<u>97,900</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

	2013 \$	2012 \$
8. INCOME TAX		
(a) Income tax expense		
The major components of income tax expense are:		
<i>Current income tax</i>		
Current income tax charge	1,771,519	844,722
Adjustments in respect of current income tax of prior year	-	(50,385)
<i>Deferred income tax</i>		
Adjustments relating to the origination and reversal of timing differences	<u>(85,804)</u>	<u>24,202</u>
Income tax expense reported in the statement of comprehensive income	<u>1,685,715</u>	<u>818,539</u>
(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:		
Total accounting profit before income tax	<u>5,313,076</u>	<u>2,952,764</u>
At the Group's statutory income tax rate of 30% (2012 30%)	1,593,923	885,829
Tax effect on amounts which are not tax deductible:		
- Sundry amounts	<u>91,792</u>	<u>(67,290)</u>
Aggregate income tax expense	<u>1,685,715</u>	<u>818,539</u>
Aggregate income tax expense is attributable to:		
Continuing operations	<u>1,685,715</u>	<u>818,539</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

	2013	2012
	\$	\$
8. INCOME TAX (cont'd)		
(c) Recognised deferred tax assets and liabilities		
<i>Deferred tax assets</i>		
- Employee benefits provision	5,017,097	2,883,791
- Accrued expenses	513,783	306,962
- Provision for doubtful receivables	57,812	11,485
- Other	81,808	100,503
	5,670,500	3,302,741
Deferred tax asset at 30%	1,701,149	990,821
<i>Recognised deferred tax assets</i>		
Recognised deferred tax assets on temporary differences	1,701,149	990,821
<i>Deferred tax liability</i>		
- Prepayments	54,642	41,043
- Unearned income	1,936	5,049
- Finance Leases	2,234,273	783,655
	2,290,851	829,747
Deferred tax liability at 30%	687,255	248,924
<i>Recognised deferred tax liabilities</i>		
Recognised deferred tax liabilities on temporary differences	687,255	248,924

(d) Unrecognised temporary differences

The Group has no unrecognised temporary differences at 30 June 2013 (2012: \$Nil).

(e) Tax losses

The Group has no carried forward operating losses at 30 June 2013 (2012: \$Nil) that are able to be utilised.

Within the corporate entities comprising the acquisition of MDI Group Pty Ltd (Note 14) there exists operating losses that may be able to be utilised subject to the Group meeting statutory tests. At the date of this report the Directors had not yet determined if those losses meet the statutory tests and thus would be available to offset tax on operating profits.

The Group had carried forward capital losses of \$76,566 (2012: \$76,566) which were incurred in 2009. A deferred tax asset was not recognised for the loss.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

	2013 \$	2012 \$
9. CASH AND CASH EQUIVALENTS		
Cash at bank	<u>6,126,610</u>	<u>1,702,104</u>
10. TRADE AND OTHER RECEIVABLES		
Trade receivables	1,663,283	866,464
Other receivables	<u>533,197</u>	<u>434,359</u>
	<u>2,196,480</u>	<u>1,300,823</u>
11. FINANCIAL ASSETS HELD TO MATURITY		
Rental Bonds	137,588	140,876
Term deposit	<u>350,272</u>	<u>336,000</u>
	<u>487,860</u>	<u>476,876</u>
12. OTHER ASSETS		
Current		
Prepayments	493,270	354,272
Other	<u>-</u>	<u>8,000</u>
	<u>493,270</u>	<u>362,272</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

13. PROPERTY, PLANT & EQUIPMENT

	Property	Plant & equipment	Leasehold improve- ments	Other operating assets	Assets under construction	Total
	\$	\$	\$	\$	\$	\$
At 1 July 2012	-	6,107,593	1,736,982	284,302	620,425	8,749,302
<i>Additions;</i>						
purchases	590,028	5,176,431	1,809,616	80,224	1,378,589	9,034,888
transfers AUC	-	1,415,493	359,265	77,071	(1,851,829)	-
<i>Impaired assets;</i>						
cost	-	(1,153,751)	(39,588)	(18,274)	-	(1,211,613)
depreciation	-	977,222	18,305	8,128	-	1,003,655
<i>Sale of assets;</i>						
cost	-	-	-	(29,488)	-	(29,488)
depreciation	-	-	-	22,296	-	22,296
<i>Transfers between categories;</i>						
cost	-	(94,065)	(18,674)	52,043	-	(60,696)
depreciation	-	49,771	5,660	5,265	-	60,696
<i>Depreciation & Amortisation;</i>						
charge for the year	-	(1,879,000)	(220,074)	(84,197)	-	(2,183,271)
At 30 June 2013 Net	590,028	10,599,694	3,651,492	397,370	147,185	15,385,769
At 30 June 2013						
Cost	590,028	17,704,477	4,681,151	575,845	147,185	23,698,686
Accumulated dep'n	-	(7,104,783)	(1,029,659)	(178,475)	-	(8,312,917)
Net carrying amount	590,028	10,599,694	3,651,492	397,370	147,185	15,385,769
At 1 July 2011	-	5,225,497	1,613,723	2,463,989	88,859	9,392,068
<i>Additions;</i>						
purchases	-	-	-	-	2,431,067	2,431,067
transfers AUC	-	1,545,222	258,151	75,128	(1,899,501)	(21,000)
<i>Fully depreciated assets;</i>						
cost	-	(1,062,448)	-	(48,423)	-	(1,110,871)
depreciation	-	1,062,449	-	48,422	-	1,110,871
<i>Impaired assets;</i>						
cost	-	(156,123)	(47,405)	(71,003)	-	(274,531)
depreciation	-	128,061	17,065	69,185	-	214,311
<i>Sale of assets;</i>						
cost	-	(1,297,940)	(66,429)	(9,440)	-	(1,373,809)
depreciation	-	483,001	21,663	5,386	-	510,050
<i>Transfers between categories;</i>						
cost	-	2,545,279	64,701	(3,079,128)	-	(469,148)
depreciation	-	(468,639)	44,589	893,198	-	469,148
<i>Depreciation & Amortisation;</i>						
charge for the year	-	(1,896,766)	(169,076)	(63,012)	-	(2,128,854)
At 30 June 2012 Net	-	6,107,593	1,736,982	284,302	620,425	8,749,302
At 30 June 2012						
Cost	-	12,360,369	2,570,532	414,269	620,425	15,965,595
Accumulated dep'n	-	(6,252,776)	(833,550)	(129,967)	-	(7,216,293)
Net carrying amount	-	6,107,593	1,736,982	284,302	620,425	8,749,302

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

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

Other operating assets

Other operating assets represent the consolidation of the categories of Office Furniture & Equipment, Motor Vehicles and Low Value Pool assets.

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.

	2013 \$	2012 \$
14. INTANGIBLES		
Balance at the beginning of the financial year	23,431,630	20,880,864
Additions	7,396,899	2,550,766
Balance at the end of the financial year	30,828,529	23,431,630

Business combinations

(i) Acquisition of corporate entities

During the reporting period the following acquisition of a corporate entity was made;

MDI Group Pty Ltd – ACN 106 181 560 Date: 30 April 2013

An acquisition to extend the facility network of the Company in key strategic geographical sub-areas within the geographical segment (Note 29).

Control of the corporate entity was obtained through the purchase of 100% of the issued share capital, payout of vendor shareholder loans and the recognition of selected assets and liabilities.

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.

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

<i>Payment for 100% of the issued shares in the company</i>	2,297,598
<i>Payment for vendor shareholder loans</i>	5,702,402
<i>Payment for net completion balance sheet items</i>	163,000
<i>Recognition of net balance sheet items on take-on</i>	(163,000)
<i>Employee entitlements assumed</i>	1,605,953
<i>Financial liabilities assumed</i>	5,043,409
<i>Deferred Tax Liability assumed</i>	295,593
<i>Recognition of Fixed Assets</i>	(7,066,270)
<i>Recognition of Deferred Tax Asset</i>	(481,786)
	7,396,899

(ii) Acquisition of business assets

No acquisition of a business asset was made during the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

14. INTANGIBLES (cont'd)

Impairment testing for cash-generating units (CGU) containing goodwill

The Directors considered that, for accounting purposes under AASB 136 (excluding the operations of MDI Group Pty Ltd) a single CGU existed for the purposes of testing validation and any potential impairment charge applicable to the Goodwill valuation carried in the accounts of the Group (2012: One single CGU).

The Directors have determined that the operations of MDI Pty Ltd represents a separate CGU for the purposes of testing validation and any potential impairment charge applicable to the Goodwill valuation carried in the financial statements of the Group as at 30 June 2013.

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 2013 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 5% 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.

	2013	2012
	\$	\$

15. TRADE AND OTHER PAYABLES

Trade creditors	1,535,683	1,121,399
Other creditors and accruals	2,516,034	1,810,057
Liability for annual leave	2,603,090	1,665,497
	6,654,807	4,596,953

16. EMPLOYEE BENEFITS

Provision for long service leave

Current	1,769,498	926,534
Non-Current	644,509	291,760

17. 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.

There are presently no options issued under the Scheme (2012: Nil) and no options were issued, exercised or expired under the Scheme during the year ended 30 June 2013 (2012: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year ended 30 June 2013

	2013	2012
	\$	\$
18. 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 22.		
Current		
Secured bank loan	1,000,000	850,281
Secured equipment finance facilities	<u>1,722,369</u>	<u>1,277,075</u>
	<u>2,722,369</u>	<u>2,127,356</u>
Non-Current		
Secured bank loan	6,500,000	894,872
Secured equipment finance facilities	<u>3,023,618</u>	<u>2,617,734</u>
	<u>9,523,618</u>	<u>3,512,606</u>

Terms of loans and borrowings

Secured bank loan and associated facilities

In April 2013 all existing loan and other facilities were consolidated into one single facility with contracted loan repayments over a maximum term of 7.5 years, principal and interest reducing, with redraw facility. The facility is based on a 2 year term and will be reviewed in April 2015.

The facility is with the Westpac Banking Corporation ("WBC") and is secured by:

1. A first registered company charge by Capitol Radiology over the whole of its assets and undertakings; and
2. 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.

Loan facilities bear interest at the WBC bank bill rate (as at 30 June 2013: 2.87%) less a margin of 0.3% per annum.

There are no financial covenants in place for the facility currently utilised.

Utilisation of secured facilities

	Facility	Utilised	Available
	\$	\$	\$
At 30 June 2013			
Secured bank loan	12,000,000	7,500,000	4,500,000
Secured equipment finance	5,000,000	-	5,000,000
Rental guarantee	1,850,272	350,272	1,500,000
Credit card	100,000	14,817	85,183
	<u>18,950,272</u>	<u>7,865,089</u>	<u>11,085,183</u>
At 30 June 2012			
Secured bank loan	1,745,153	1,745,153	-
Overdraft	100,000	-	100,000
Rental guarantee	509,373	501,687	7,686
	<u>2,354,526</u>	<u>2,246,840</u>	<u>107,686</u>

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 5.75% and 7.97% per annum.

Finance lease liabilities

The contractual cash flows of finance lease liabilities at maturity, including interest, are disclosed in Note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

	2013 \$	2012 \$
21. RETAINED EARNINGS / (ACCUMULATED LOSSES)		
Retained earnings / (accumulated losses) at the beginning of the year	1,095,194	(329,336)
Profit for the year	3,627,361	2,134,225
Dividends issued during the year	<u>(1,818,008)</u>	<u>(709,695)</u>
Retained earnings at the end of the year	<u>2,904,547</u>	<u>1,095,194</u>

22. FINANCIAL INSTRUMENTS DISCLOSURE

The Group's financial instruments consist mainly of deposits with banks, short term investments, accounts receivable, accounts payable, bank loans and finance leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies of these financial statements, are as follows;

Financial assets

Current

Cash and cash equivalents	6,126,610	1,702,104
Trade and other receivables	2,196,480	1,300,823
Financial assets held to maturity	<u>487,860</u>	<u>474,876</u>
	<u>8,810,950</u>	<u>3,479,803</u>

Financial liabilities

Current

Trade and other payables at amortised cost	4,051,717	2,931,456
Bank loans at amortised cost	1,000,000	850,281
Finance facilities at amortised cost	<u>1,722,369</u>	<u>1,277,075</u>
	<u>6,774,086</u>	<u>5,058,812</u>

Non-current

Bank loans at amortised cost	6,500,000	894,872
Finance facilities at amortised cost	<u>3,023,618</u>	<u>2,617,734</u>
	<u>9,523,618</u>	<u>3,512,606</u>
	<u>16,297,704</u>	<u>8,571,418</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year ended 30 June 2013

22. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Credit risk

Exposure to credit risk

The above carrying amount of the Group's financial assets represents the maximum credit exposure.

The financial assets held to maturity include a term deposit amounting to \$350,272, which has been pledged as collateral for rental security Deposit Guarantees (refer to Note 24 b).

Impairment losses

The ageing of the Group's financial assets at reporting date was;

	Gross 2013	Impairment 2013	Gross 2012	Impairment 2012
	\$	\$	\$	\$
Due 0-30 days	7,936,843	-	2,838,580	-
Due 31-120 days	317,602	-	102,939	(5,058)
Due 121 days to one year	115,063	(48,123)	67,374	(6,427)
More than one year	499,254	(9,689)	482,395	-
	8,868,762	(57,812)	3,491,288	(11,485)

There was a net write-back for impairment in respect of trade receivables during the year of \$23,220 (2012: Allowance \$1,485) after reviewing the allowance taken on for the MDI acquisition (Note 14) that was not processed through the Statement of Profit or Loss and Other Comprehensive Income, in addition to the opening allowance in the accounts as at 1 July 2012.

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 2013 the Group has a collective impairment allowance on its trade receivables of \$57,812 (2012: \$11,485).

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
	\$	\$	\$	\$
30 June 2013				
Trade and other payables	6,654,807	(6,654,807)	(6,654,807)	-
Secured bank loans	7,500,000	(7,500,000)	(1,000,000)	(6,500,000)
Secured equipment finance	4,745,987	(5,599,059)	(2,122,150)	(3,476,909)
	18,900,794	(19,753,866)	(9,776,957)	(9,976,909)
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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

22. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)
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;

	2013	2012
	\$	\$
Carrying Amount;		
Fixed rate instruments		
Financial assets	487,860	476,876
Financial liabilities	<u>(4,745,987)</u>	<u>(3,894,809)</u>
	<u>(4,258,127)</u>	<u>(3,417,933)</u>
Variable rate instruments		
Financial assets	6,126,610	1,702,104
Financial liabilities	<u>(7,500,000)</u>	<u>(1,745,153)</u>
	<u>(1,373,390)</u>	<u>(43,049)</u>

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	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Cash flow sensitivity - variable rate instruments				
As at 30 June 2013	<u>(13,734)</u>	<u>13,734</u>	<u>(13,734)</u>	<u>13,734</u>
As at 30 June 2012	<u>(430)</u>	<u>430</u>	<u>(430)</u>	<u>430</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 for the year ended 30 June 2013

	2013	2012
	\$	\$
23. COMMITMENTS		
Future operating lease rentals not provided for in the financial statements and payable;		
Property and facility operating lease commitments		
Within one year	3,916,102	2,576,133
One year or later and no later than five years	<u>7,228,110</u>	<u>5,316,642</u>
	<u>11,144,212</u>	<u>7,892,775</u>

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

Within one year	2,743,679	2,019,954
One year or later and no later than five years	<u>4,265,225</u>	<u>3,981,714</u>
	<u>7,008,904</u>	<u>6,001,668</u>

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 2013 \$6,395,682 was recognised as an expense in the statement of comprehensive income in respect of operating property, plant and equipment leases (2012: \$5,754,674).

24. CONTINGENCIES

Contingent assets

The Group has contingent tax assets in relation to the accumulated operating losses of MDI Group Pty Ltd and its subsidiaries. These assets will only be realised subject to the losses meeting statutory tests for their utilisation. The value of the losses and their capacity for utilisation has not been determined as at the date of this report.

Contingent liabilities

a. Rental Guarantees

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

As at 30 June 2013 there was no rental guarantee that was not supported by a dedicated deposit (2012: \$165,687).

b. Credit Cards

The Group has a contingent liability for expenses incurred on Corporate Credit cards that may not be recorded on banking statements at year end. The maximum extent of liability is indicated in Note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

	2013	2012
	\$	\$
25. EARNINGS PER SHARE		
Profit / (loss) attributable to ordinary shareholders		
Net profit for the year	<u>3,627,361</u>	<u>2,134,225</u>
Basic earnings per share		

The calculation of basic earnings per share at 30 June 2013 was based on the profit attributable to ordinary shareholders of \$3,627,361 (2012: \$2,134,225) and a weighted number of ordinary share outstanding during the financial year ended 30 June 2013 of 387,320,778 (2012: 317,475,498) calculated in the table below:

	2013	2012
	Number	Number
Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	359,672,425	303,726,809
Shares issued for acquisition	16,884,774	11,576,473
Shares issued under Dividend Reinvestment Plan	1,145,301	510,204
Shares issued for purchase plan	9,618,278	-
Shares issued through exercise of options	-	1,662,012
	<u>387,320,778</u>	<u>317,475,498</u>

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2013 was based on the profit attributable to ordinary shareholders of \$3,627,361 (2012: \$2,134,225) 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 2013 of 387,320,778 (2012: 338,198,381) calculated in the table below:

	2013	2012
Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	359,672,425	303,726,809
Shares issued for acquisition	16,884,774	11,576,473
Shares issued under Dividend Reinvestment Plan	1,145,301	510,204
Shares issued for purchase plan	9,618,278	-
Shares issued through exercise of options	-	1,662,012
Effect of share options on issue	-	20,722,883
	<u>387,320,778</u>	<u>338,198,381</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

26. CONTROLLED ENTITIES

	Country of Incorporation	2013 Entity interest	2012 Entity interest
<i>Parent entity</i>			
Capitol Health Limited	Australia		
<i>Controlled entity (subsidiary)</i>			
CHL Operations Pty Ltd	Australia	100%	100%
Capital Radiology Pty Ltd	Australia	100%	100%
<i>Controlled by a subsidiary of the parent</i>			
Radiology One Pty Ltd	Australia	100%	100%
MDI Group Pty Ltd	Australia	100%	-
MDI Radiology Pty Ltd	Australia	100%	-
MDI Malvern Pty Ltd	Australia	100%	-
MDI Manningham Pty Ltd	Australia	100%	-
MDI Monash Pty Ltd	Australia	100%	-
MDI Operations Pty Ltd	Australia	100%	-
Melbourne Diagnostic Imaging Pty Ltd	Australia	100%	-
Molecular Diagnostic Imaging Pty Ltd	Australia	100%	-
XMR Pty Ltd	Australia	76%	-

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

27. DISCONTINUED OPERATIONS

There were no discontinued operations during the current or prior reporting period.

2013	2012
\$	\$

28. RELATED PARTIES
Key management personnel remuneration

Short-term employee benefits	729,839	589,396
Post-employment benefits	55,315	49,533
Long-term employee benefits	85,017	55,499
	<u>870,171</u>	<u>694,428</u>

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 8 to 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

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

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

The Boards directive is that the terms and conditions of such transactions are to be no more favourable to the supplier than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis. Any known or intended transactions are expected to be disclosed to the Board.

There were no recorded transactions of this type in 2013 (2012: \$Nil).

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:

	Held at year opening	Issued	Exercised	Other changes	Held at year end
Directors					
2013					
Mr J Conidi	-	-	-	-	-
Mr A Harrison	-	-	-	-	-
Mr D Kucera	-	-	-	-	-
Mr S Sewell	-	-	-	-	-
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	-	-	-	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2013 or 2012.

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:

	Held at year opening	Purchases	Received on exercise of options	Disposals	Held at year end
Directors					
2013					
Mr J Conidi	32,626,264	-	-	-	32,626,264
Mr A Harrison	13,400,001	-	-	(9,891,229)	3,508,772
Mr D Kucera	1,406,432	20,806	-	-	1,427,238
Mr S Sewell	104,082	5,182	-	-	109,264
2012					
Mr J Conidi	29,809,215	2,317,049	500,000	-	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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

29. 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 Australia. Given the data transmission infrastructure and techniques employed by the segment, further sub-division of the geographic area is deemed unnecessary.

Segment results

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

2013
\$

2012
\$

30. RECONCILIATION OF CASH FLOWS PROVIDED BY OPERATING ACTIVITIES
Cash flows from operating activities

Profit for the year	3,627,361	2,134,225
Adjustments for:		
Depreciation and amortisation	2,183,271	2,128,854
Impairment of assets	207,958	60,220
Net gain on sale of assets	20,656	-
Income tax expense	1,685,715	818,539
Operating profit before changes in working capital & provisions	<u>7,724,961</u>	<u>5,141,838</u>
Change in trade and other receivables	(1,133,751)	(67,644)
Change in other assets	(1,779,498)	(479,762)
Change in trade and other payables	785,861	(1,043,564)
Change in provisions and employee benefits	794,956	763,340
Net cash provided by operating activities	<u>6,392,529</u>	<u>4,314,208</u>

31. PARENT ENTITY DISCLOSURES
Financial information

Profit for the year	-	3,224,066
Total comprehensive income for the year	<u>-</u>	<u>3,224,066</u>
Current Assets	350,355	183,108
Total Assets	<u>31,200,739</u>	<u>23,369,779</u>
Shareholders Equity		
Issued capital	31,200,739	23,369,779
Total Equity	<u>31,200,739</u>	<u>23,369,779</u>

No dividend from a controlled entity was accrued in 2013 (2012: \$4,165,818).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2013

31. PARENT ENTITY DISCLOSURES (cont'd)

Guarantees

Cross guarantees have been provided by the Company and its controlled entities as listed in Note 23. The fair value of 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 \$13,099,059 (2012: \$5,639,962), secured by a first registered charge over the assets of the entity.

Other commitments

The Company has no commitments to acquire plant and equipment (2012: \$Nil) and has no contingent liabilities.

32. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to balance date the Company declared a final dividend for the financial year ending 30 June 2013 of \$0.003 per share (2012: \$0.002), with a maximum dividend payable subject to elections under the Company's Dividend Reinvestment Plan of \$1,291,296 (2012: \$744,162).

DIRECTORS' DECLARATION

In the opinion of the Directors of Capitol Health Limited:

- (a) the financial statements and notes thereto and the Remuneration Report contained in the Directors' Report, set out on pages 8 to 10, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2013 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 2013.

Signed in accordance with a resolution of the Directors.



John Conidi
Managing Director

Dated at Melbourne, Victoria this 22nd day of August 2013.

**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 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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 2013 and of its performance for the year ended on that date; 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.

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 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.



RSM BIRD CAMERON PARTNERS



R B MIANO
Partner

Dated: 22 August 2013
Melbourne, Victoria

CORPORATE GOVERNANCE STATEMENT

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.

CORPORATE GOVERNANCE STATEMENT

Mr Sewell holds 109,264 fully paid ordinary shares in the Company. The Board considers this an immaterial volume. He is regarded as independent as he is not a substantial shareholder as defined by the *Corporations Act*.

Mr Harrison was the Company's founding Managing Director, a role he relinquished in 2007. Mr Harrison holds 3,508,772 fully paid ordinary shares in the Company. The Board considers this an immaterial volume. He is regarded as independent as he has not held an executive position in the Company since 2007 and is not a substantial shareholder as defined by the *Corporations Act*.

Due to the number of members on the Board, 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.

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: <ul style="list-style-type: none"> ▪ 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 50%
- women employees in the Group 65%

CORPORATE GOVERNANCE STATEMENT

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: <ul style="list-style-type: none"> ▪ 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 Company is at variance with Recommendation 4.2 in that the Committee does not consist of at least three members due to the number of non-executive members on the Board. 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. The Audit and Risk Committee consists of two non-executive members and is chaired by Mr Sewell.

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.

CORPORATE GOVERNANCE STATEMENT

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: <ul style="list-style-type: none"> • 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 Harrison.

 SHAREHOLDER INFORMATION

Details of shares and options as at 16 August 2013:
Top holders

The 20 largest holders of each class of equity security as at 16 August 2013 were:

Fully paid ordinary shares

Name	No. of Shares	%
Idinoc Pty Ltd <J & R Conidi Family A/C>	28,912,886	6.72
National Nominees Limited	26,797,340	6.23
BNP Paribas Nominees Pty Ltd ACF Pengana <DRP A/C>	24,271,807	5.64
J P Morgan Nominees Australia Limited	16,717,391	3.88
Nick Conidi Pty Ltd <Conidi Family A/C>	16,414,740	3.81
Gia Chau Pty Ltd	16,186,547	3.76
Mr Peter Hunt + Mrs Janette Hunt <Hunt Super Fund A/C>	15,000,000	3.48
UBS Nominees Pty Ltd	12,787,117	2.97
HSBC Custody Nominees (Australia) Limited	11,395,416	2.65
Monaco Bond Pty Ltd <Mobilio Family A/C>	10,000,000	2.32
Ms Stella Janice Ha + Mr Andrew Juen-Fai Ha <Stelhaven Super Fund A/C>	9,677,419	2.25
Sandhurst Trustees Ltd <Endeavor Asset Mgmt MDA A/C>	8,644,964	2.01
Ms Stella Ha	8,057,333	1.87
Teleah Pty Ltd <Jr Sauvey Super Fund A/C>	6,027,852	1.40
Mr Wayne David Mcgregor	5,854,575	1.36
Bond Street Custodians Limited <Bkohn - I37810 A/C>	5,551,695	1.29
Citicorp Nominees Pty Limited	5,526,882	1.28
Mr Ian Davies	5,000,000	1.16
UBS Wealth Management Australia Nominees Pty Ltd	4,750,000	1.10
Gang – Gang Pty Ltd <Pippa A/C>	4,000,000	0.93
	241,573,964	56.11

SHAREHOLDER INFORMATION

Distribution schedules

A distribution of each class of equity security as at 16 August 2013:

Fully paid ordinary shares

Range	Holders	Units	%
1 - 1,000	54	6,020	0.00
1,001 - 5,000	343	1,202,644	0.28
5,001 - 10,000	391	3,215,003	0.75
10,001 - 100,000	1,090	42,769,973	9.94
100,001 - Over	379	383,238,481	89.03
Total	2,257	430,432,121	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
Idinoc Pty Ltd	30,866,409
National Australia Bank Limited	26,797,340
Acorn Capital Limited	22,538,222

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 1,725 as at 16 August 2013):

Holders	Units
68	28,933

Voting Rights

The voting rights attaching to ordinary shares are:

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

Options do not carry any voting rights.

On-Market Buy Back

There is no current on-market buy-back.

END OF REPORT