CAPITOLHEALTH LIMITED

GUIDANCE FY 09/10 - TRADING AND OPERATIONAL UPDATE

ASX ANNOUNCEMENT **3 JUNE 2010**

The Directors of Capitol Health Limited (Capitol) wish to advise a revision to guidance for FY09/10.

The Directors report that the YTD Operational Revenue and Net Profit Before Tax results (unaudited) as at the close of the March Quarter FY 09/10 exceeded the equivalent pro-rata position under the previous market guidance.

However the Directors note that external factors have impacted the diagnostic imaging industry since the March quarter close. Recent media attention to the application of CT scans for diagnostic purposes appears to have had a knock-on effect onto the general level of imaging referrals. This has resulted in a softening in demand for higher revenue-producing, but more costly, services such as CT in recent weeks - with variable flow-on to other modalities (e.g. x-ray, ultrasound, etc). As a consequence, the internal balance and efficiencies within Capitol have been artificially distorted.

The Directors understand that the above are industry-wide issues and not just limited to Capitol. Other diagnostic imaging providers whose current fee structures include substantial "gap" or co-payment charges are expected to be hit harder by these issues, especially those where the gap fees entirely support the profit of the operation – i.e. their cost structure is prohibitive under Bulk Billing.

Taking the above into account and as a prudent measure, the Directors have revised the market guidance for FY 09/10 for Operational Revenue to $34m+ (up from $32.8m) and Net Profit Before Tax for the Company to $0.6m+ (down from $1.2m).

The Directors expect the change in demand pattern is likely to be temporary, and the diagnostic imaging industry will return to long term growth trends. Therefore at this stage the Directors are currently instituting cost reduction programs based on the expectation of a short-term fluctuation. Cost saving technical innovations scheduled for implementation in FY 10/11, are now being fast-tracked for earlier start-up.

However, given the need for high capital-expenditure levels to meet regulated standards for operational equipment, the Directors have reviewed the Bulk Billing model as used by Capitol and determined that it is now not a viable long-term option. Planning for FY 10/11 includes the gradual application of affordable gap fees for selected services.

The Directors note that the major competitors to Capitol are estimated to apply gap fees to between 40-60% of their service output compared to less than 2% currently for Capitol.

The Directors will advise at the release of the full year results if their view of the demand pattern has altered to that of a longer-term realignment. If so, then the following actions will take place:

- acceleration of the movement away from the Bulk-Billing model to the progressive introduction of gap fees; and
- further restructuring and cost saving initiatives to align Capitol's cost base to slower demand growth.

Any processes adopted by Capitol to implement gap fees will seek to avoid the significant short-term impact on revenue and demand that major providers in the health industry have encountered when introducing similar charges.

Movement away from a Bulk Billing model may lead to a reduction or consolidation of services in certain sub-markets where Bulk Billing is the expected offering. Additional gap revenue will offset any reduction in local clinic facilities.

After taking the above into account and subject to the current changes in demand being a short term fluctuation, the Directors expect that performance for FY 10/11 will produce Operational Revenue of $34m+ and Net Profit Before Tax of approximately $1.7m after a conservative allowance for the impact of the introduction of gap fees.

This initial projection does not take into account any of the attractive growth opportunities that Capitol continues to see in the currently destabilised diagnostic imaging market, nor substantial savings from technical innovations under review.

Authorised by:

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