CAPITOL HEALTH LIMITED

ABN 84 117 391 812

2009 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 1, 952 Mount Alexander Road
Essendon, Victoria, 3040

Telephone: (61-3) 8383 6515
Facsimile: (61-3) 9370 0336

Stock Exchange

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

ASX Code: CAJ

Auditor

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
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

MANAGING DIRECTOR'S REVIEW

Dear Shareholder,

Please find following the Annual Report for 2008/9 for Capitol Health Limited.

This has been a challenging year as the Company restructures its operations and infrastructure to meet the demands of the aggressive growth path it has pursued for the past two financial years.

During the 2008/9 financial year the Company consolidated its position within the healthcare field of diagnostic imaging through the organic expansion of its clinic and services plus minor growth through acquisition.

Recent media attention has supported the Company's view that growth in the overall market is largely driven by an ageing population and new developments in technology, which will in turn lead to increased referral for diagnostic imaging services. It has been noted by external sources that healthcare is expected to overtake retail in terms of the highest employment sector within the Australian economy.

The Operating and Financial Review provides detail of the internal programs embarked on to support the early expansion of the consolidated entity into the imaging field. The Board estimates that the group has maintained and extended its lead as the third ranked provider of radiology and associated services in the Victorian market.

The Directors are pleased to report that the company comfortably achieved its stated headline revenue figures. This was achieved with a) no Medicare rebate increase for the financial year (included in the company's forecasts), b) the virtual overhaul of every aspect of the IT infrastructure of the company c) the delay in new clinics coming on line and d) staff shortages. We contrast this with Capitol's current position where we little or no staff shortages, virtually completed our IT rollout, opened our new Dandenong clinic and will receive an 11.6% increase in medicare rebates from 1 November 2009.

The Directors are pleased to report that the company has attracted hi-calibre radiologists, technical and support staff to the company in an environment of general staff scarcity in the diagnostic imaging sector. The Directors believe that Capitol has become an employer of choice within the industry. The attraction of new staff to the company is leading to higher utilization rates of equipment than previously experienced.

The coming financial year should see the benefits of the technology transformation program impact on the bottom line of the Company in addition to the increase in rebates that will flow from Medicare from 1 November 2009 (first real rebate increase since the year 2000).

Due to the timing of the technical upgrade and the rebate increase, benefits to the company will commence flowing through in the second half of the financial year. Shareholders should note that the company was quite prepared to instigate a co-payment regime for its services should the rebate increases in the last Federal Budget not have taken place. However the Directors place a high value on the status of being classified as a bulk-biller with the attendant market positioning resulting from that decision and the off-setting, short-term financial pressures that decision places on the business.

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

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

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

John Conidi
Managing Director

Melbourne, Victoria

30 September 2009

The directors present their report together with the financial report of Capitol Health Limited (the "Company") and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2009, and the auditor's report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Mr John Conidi, BBus, CPA
Managing Director – Appointed 30 August 2007

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

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

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

Mr Kucera will be retiring by rotation and seeking re-election by shareholders at the 2009 Annual General Meeting.

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

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

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

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

Mr Sewell is a Division Director of the Real Estate Consolidated entity of Macquarie Bank Limited and is the CEO of the Macquarie CountryWide Trust, with overall responsibility for the Trust's business operations and investment strategy. Macquarie CountryWide Trust is an ASX listed real estate investment trust, currently owning a portfolio of over 270 retail properties in five countries with a value in excess of A$5.4b.

Mr Sewell has over ten years in the property investment and management industry. He is an active member of the Retail Lease Law and Planning sub-committee of the Shopping Centre Council of Australia. He is a graduate in Science from the University of Melbourne and The Geelong College.

Mr Anthony Ho, BCom, CA
Non-Executive Director – Appointed 1 December 2005, Resigned 7 July 2008

COMPANY SECRETARY

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

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

DIRECTORSHIPS IN OTHER LISTED ENTITIES

Directorships of other listed entities held by directors of the Company during the last 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of directorship From	To
Mr J Conidi	Nil	-	-
Mr D Kucera	Nil	-	-
Mr A Harrison	C @ Limited	2005	Present
Mr S Sewell	Nil	-	-

DIRECTORS' MEETINGS

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

Director	Board Meetings Held	Board Meetings Attended	Nomination and Remuneration Committee Meetings Held	Nomination and Remuneration Committee Meetings Attended	Audit and Risk Committee Meetings Held	Audit and Risk Committee Meetings Attended
Mr J Conidi	4	4	1	1	1	1
Mr D Kucera	4	4	-	-	1	1
Mr A Harrison	4	4	1	1	1	1
Mr S Sewell	4	4	1	1	-	-
Mr A Ho	-	-	-	-	-	-

Committee membership

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

Nomination and Remuneration Committee	Audit and Risk Committee
Mr S Sewell (Chairman)	Mr D Kucera (Chairman)
Mr J Conidi	Mr J Conidi
Mr A Harrison	Mr A Harrison

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

The results for the consolidated entity for the 2008/9 financial year reflect the following key impacts or themes during the reporting period:

1. No adjustment to the Medicare rebates for radiology services during the period;
2. Meeting contractual vendor payment obligations for the radiology acquisitions made in 2007/8;
3. Operating 3 distinct "units" within the consolidated entity, each with their own organisation, technology and processes separate from the other; and
4. Devising and commencing the implementation of a substantial technology and organisational transformation program to overcome the three points above – through greater micro and macro efficiencies.

OPERATING AND FINANCIAL REVIEW (cont'd)

Operating review

Medicare Rebates

The Directors have previously indicated the expectation of an increase in the Medicare rebate levels within the 2008/9 financial year. This did not happen and as a consequence the bottom-line performance results mirror a situation where the industry has had no change to the revenue per item for the last 9 or 10 years, whereas costs per item have increased markedly over that same period.

The Directors have foreshadowed this situation in previous releases. The key decision prior to the May 2009 Federal Budget would be to move from our market position within the medical community as a bulk-biller to one that would charge a "gap" or co-payment for imaging services. Such a move would entail a fair level of attendant risks. The Company was prepared to alter its market profile, however the annualised (albeit delayed) rises in the bulk-bill revenue of approx 11.6% to the company that will flow from the Federal Budget will have a significant future effect on this organisation from 1 November 2009.

We expect that the net increase in revenue for the 2009/10 financial year will be in the order of some 7% to account for the delay in introduction of the changes to the Medicare rebates.

The Directors emphasise the importance of its market position and competitive advantage by remaining as a recognised bulk-billing operator for the foreseeable short-term as the Federal Government conducts a review of Medicare rebate rates over the next 12-18 months.

Vendor Payments

During the reporting period the Company paid out approx $1.3m from its own cash reserves to meet the contractual obligations allied to the radiology acquisitions made in the 2007/8 financial year. These payments have made a significant impact on the reported level of cash balances held by the company at the end of the financial period.

Operational Inefficiencies

The Directors recognise that the current operational methodologies within the organisation are not efficient in the context of a company of its current size. However to rush change in a complex environment such as radiology would invite negative consequences if the change was not well thought out and highly coordinated.

On a Group basis, the Directors recognised the following key or major deficiencies within the radiology organisation as it was at 30 June 2008;

- No provision for digital imaging;
- No universal practice management system;
- No single or universal market recognition (7 individual brands, 2 sub-brands);
- 8 individual general ledger systems;
- 3 individual payroll systems;
- No common communication system (telephone/ internet site/ domain);
- Multiple data service providers;
- Multiple data base locations;
- Incompatible desktop and operating systems environment; and
- Varying technical variances in having common diagnostic imaging equipment and cabling.

To overcome these issues the Directors commissioned studies and tenders that resulted in the creation of 26 individual projects that are designed to produce a single, unified organisation.

Technology and Organisational Transformation Programs

As mentioned above, the Directors embarked on a comprehensive restructuring program to convert the implied opportunities to the shareholders than a reconfigured operation could offer. This program has had an impact on the cash balances of the company ($1.5m of capital expenditure self-funded out of a total program some $3.2m) and the necessary delays in a considered roll-out has prevented the latent efficiencies within the Company being recognised within this financial period.

OPERATING AND FINANCIAL REVIEW (cont'd)

Operating review (cont'd)

To date the Company has the following major programs completed or due for completion within the 2009/10 financial year:

- Enterprise-grade fibre optic network connecting all sites, enabling secure, hi-speed connection and the future introduction of a group VOIP solution – completion by September 2009;
- Introduction of a "best-practice" digital imaging application – currently installed in three sites, completion by December 2009;
- Introduction of a common practice management application to all clinics – currently installed in three sites, completion by November 2009;
- Selection of a state-of-the-art data centre to consolidate all data warehousing and processing – completed and in operation;
- Selection and installation of a unified general ledger and payroll/human relations management package – completion by December 2009;
- Replacement and standardisation of all desktop PC's and selection of a universal operating system – completed;
- All internal wiring in clinics updated to digital imaging standards – completed;
- Clinic imaging equipment standardised to allow Computerised Radiology (CR) – completed;
- Group has achieved Quality Accreditation – completed;
- Devising a complete rebranding of the group – signage, stationery, uniforms, website, intranet etc – most work completed, rebrand to be rolled out on a per-site basis once the technology and procedures are in place for that site – completion by June 2010; and
- Update and standardise all group HR policies, practices & procedures – completion of policies and procedures by December 2009, roll-out of practices to sites in tandem with the rebranding exercise.

For all of the above (and other) programs, the new clinic at Dandenong has been utilised as the "beta-site".

As part of the program the major subsidiary of the consolidated entity, Capitol Radiology Pty Ltd, was renamed as Capital Radiology Pty Ltd, to reflect Australian language and spelling conventions.

Balance Sheet movements

Other than the vendor and capital expenditure movements mentioned above, the Company entered into a new banking arrangement with its provider. This resulted in the reclassification of a substantial part of the structured debt to non-current status.

The vendor payments and cash demands resulting from the above technical programs during their installation phases have placed significant pressure on the level of cash resources reported for the Company when compared to the previous financial period.

New Clinics

During the financial year new clinics were opened in Mildura and Dandenong, with an expansion of the Footscray clinic into a new location within Western Private Hospital. We have also introduced new clinical modalities at some sites enabling them to increase their service offering.

People

In an environment of general staff scarcity in the diagnostic imaging sector the company has maintained low staff turnover and has attracted more well qualified staff from the other major providers in the industry. Our most valuable asset is our staff. Consequently, we invest considerable amounts of resources in ensuring that we retain and attract professional, dedicated staff who take pride in their work. The IT infrastructure and equipment refresh will ensure that our staff will work in the most modern, efficient and satisfying of clinical environments, ensuring that they facilitate optimal patient care.

Outlook

The scheduled roll-out of the infrastructure listed above in conjunction with the increase in Medicare Rebates from 1 November 2009 will provide a strong base for further expansion within the sector. The technology, once in place, will allow easy expansion in a variety of forms, either wholly-owned operations, joint ventures or as a distributed provider of diagnostic services within the organisation of other health professionals. The technology will also ensure a streamlined workflow, creating an opportunity to achieve significant productivity gains, and an improvement in patient/referrer service delivery that will enhance our referral base and consequently increase revenue.

Financial review (cont'd)

The results included in this report represent a normal year of current operations at the revenue line.

However the Directors state that the cost base of the Group does not yet embody a normalised operation, which is expected to take up to the end of the 2009/10 financial year to complete.

The result for the reported financial year includes a final net contribution to the group of $302,674 on finalisation of all transactions related to the sale of the dental operations.

Due to the loss for the reported financial year, the consolidated entity has a reasonable tax benefit that it can apply to future profit for the coming financial period.

Environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the consolidated entity 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 consolidated entity.

Significant Changes in the State of Affairs

The consolidated entity's net assets decreased by $1,018,218 to $17,663,858 (2008: $18,681,976) during the financial year. The decrease in net assets comprised the net loss of $1,018,218 being incurred for the year.

RESULTS

The consolidated entity made a net loss of $1,018,218 (2008: net profit of $214,521) after income tax for the financial year.

DIVIDENDS

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

EVENTS SUBSEQUENT TO BALANCE DATE

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

LIKELY DEVELOPMENTS

The consolidated entity 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 consolidated entity in future financial years.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years have not been included in this report because disclosure of such information would likely result in unreasonable prejudice to the consolidated entity.

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	Unlisted Options
Mr J Conidi	26,576,332	-
Mr D Kucera	500,000	-
Mr A Harrison	13,400,001	5,000,000
Mr S Sewell	100,000	-

OPTIONS

Options granted

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

Unissued shares under option

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

Class	Expiry Date	Exercise Price	Number of Options
Unlisted Options	31 March 2010	$0.20	20,000,000
Incentive Options	26 September 2010	$0.25	250,000

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

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, BDO Kendalls, did not provide any non-audit services during the year.

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

	Consolidated 2009 $	Consolidated 2008 $
Audit services:		
Auditors of the Company		
- audit and review of financial reports (BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd)	73,426	65,000
Other auditors		
- audit and review of financial reports (non-BDO Kendalls firms)	-	13,845
	73,426	78,845

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 13 of the financial report.

AUDITED REMUNERATION REPORT

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the consolidated entity 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 consolidated entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company. The consolidated entity does not presently employ any executives, other than the executive directors.

KEY MANAGEMENT PERSONNEL

The following were key management personnel of the Consolidated entity 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 (assumed role of Managing Director 31 July 2008)
Mr D Kucera	Executive Director (appointed 31 July 2008)
Mr A Harrison	Non-Executive Director (assumed role of non-executive director 31 July 2008)
Mr S Sewell	Non-Executive Director
Mr A Ho	Non-Executive Director (appointed 1 December 2005, resigned 7 July 2008)

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 consolidated entity.

PRINCIPLES OF REMUNERATION

Compensation levels for key management personnel of the Company and the consolidated entity 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 consolidated entity's performance including:
  - the consolidated entity's earnings, and
  - the growth in share price and delivering constant returns on shareholder wealth.

REMUNERATION STRUCTURE

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

Non-executive director remuneration

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. Total remuneration for all non-executive directors, last voted upon by shareholders at the 2005 General Meeting, is not to exceed $150,000 per annum. Directors' fees cover all main board activities and membership of committees.

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

Executive remuneration

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

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

AUDITED REMUNERATION REPORT (cont'd)

Fixed compensation

Fixed compensation consists of base compensation, as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of the consolidated entity.

Other benefits

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

Short-term incentives

Key management personnel did not receive short-term incentives during the 2008 or 2009 reporting periods.

Long-term incentives

Long-term incentives ("LTI") may be provided to key management personnel via the Capitol Health Limited Incentive Option Scheme ("Scheme") (refer to Note 16 to the financial statements). The LTI are provided as options over ordinary shares of the Company to key management personnel based on their position within the consolidated entity. 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 2008 or 2009 reporting periods.

The Company has introduced a policy that prohibits employees and directors of the consolidated entity 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 consolidated entity'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 since incorporation:

	2009	2008	2007	2006[1]
Net profit/(loss) for the year	($1,018,218)	$214,521	($966,327)	($391,153)
Dividends paid	nil	nil	nil	nil
Change in share price	(0.9 cents)	(2.5 cents)	(17.0 cents)	(73.5 cents)
Share price at beginning of the period	7.0 cents	9.5 cents	26.5 cents	100.0 cents[2]
Share price at end of the period	6.1 cents	7.0 cents	9.5 cents	26.5 cents
Earnings/(loss) per share	(0.37 cents)	0.09 cents	(1.72 cents)	(1.03 cents)

1. These figures cover the period from incorporation on 1 December 2005 to 30 June 2006.
2. The Company was incorporated on 1 December 2005 with an issued capital of one share of $1.00.

The overall level of key management personnel's compensation takes into account the performance of the consolidated entity since the Company's incorporation on 1 December 2005. As a result, the level of compensation has remained unchanged, other than the increase or decrease in compensation levels due to the appointment or resignation of key management personnel. Furthermore, total remuneration for all non-executive directors has remained unchanged since December 2005.

There were no performance related remuneration transactions during the financial year (2008: nil).

EMPLOYMENT AGREEMENTS

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

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Details of the nature and amount of each major element of the remuneration of each key management person of the consolidated entity are:

		SHORT-TERM			POST-EMPLOYMENT	LONG-TERM	SHARE-BASED PAYMENTS			
		Salary & fees $	STI cash bonus $	Other benefits $	Superannuation benefits $	Long service leave $	Options $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors										
Non-executive										
Mr A Harrison[1]	2009	102,576	-	-	3,738	-	-	106,314	-	-
	2008	107,692	-	14,139	9,000	-	-	130,831	-	-
Mr S Sewell	2009	30,000	-	-	2,700	-	-	32,700	-	-
	2008	15,600	-	-	1,404	-	-	17,004	-	-
Mr A Ho[2]	2009	-	-	-	-	-	-	-	-	-
	2008	24,000	-	-	-	-	-	24,000	-	-
Executive										
Mr J Conidi	2009	150,577	-	-	13,318	363	-	164,258	-	-
	2008	111,346	-	-	-	-	-	111,346	-	-
Mr D Kucera[3]	2009	189,504	-	-	17,055	-	-	206,559	-	-
	2008	-	-	-	-	-	-	-	-	-
Total, all key management personnel	**2009**	**472,657**	**-**	**-**	**36,811**	**363**	**-**	**509,831**	**-**	**-**
	2008	**258,638**	**-**	**14,139**	**10,404**	**-**	**-**	**283,181**	**-**	**-**

Notes in relation to the table of remuneration:

1. Mr Harrison stepped down from his role as Managing Director with effect from 31 July 2008. He remains on the board as a non-executive director.
2. Resigned 7 July 2008.
3. Appointed 31 July 2008.

This is the end of the audited Remuneration Report.

Dated at Melbourne, Victoria this 30th day of September 2009.

Signed in accordance with a resolution of the directors:

John Conidi
Managing Director

BDO Kendalls

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
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ABN 17 114 673 540

DECLARATION OF INDEPENDENCE BY NICK MICHAEL TO THE DIRECTORS OF CAPITOL HEALTH LIMITED

As lead auditor of Capitol Health Limited for the year ended 30 June 2009 I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Capitol Health Limited and the entities it controlled during the period.

BDO Kendalls

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
Chartered Accountants

Nick Michael
Director

Melbourne, 30 September 2009

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

The Company acknowledges the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (2nd Edition) (the "Recommendations") that took effect for the financial year from 1 July 2008 to 30 June 2009. This Corporate Governance Statement provides details of the Company's compliance with those Recommendations, or where appropriate, indicates a departure from the Recommendations with an explanation. A checklist summarising the Company's compliance with the Recommendations is also set out at the end of this statement.

The Company's corporate governance policies were updated during the 2009 financial year to comply with the revised Recommendations and are available on the Company's website: www.capitolhealth.com.au. This statement reflects Capitol Health's corporate governance system in place during the 2009 financial year and as at the date of this report.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Board Charter

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

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

Evaluation of the performance of senior executives

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

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

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Composition of the Board

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

The Company has yet to appoint a chairman of the Board. The Board Charter summarises the roles and responsibilities of the Chairman (once appointed) and the Managing Director, Mr Conidi.

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

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

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

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

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

Nomination and Remuneration Committee

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

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

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

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

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

Board renewal and succession planning

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

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

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

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

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

Induction and education

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

Access to information and advice

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

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

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

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

Securities Trading Policy

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

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

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

The Dealing Rules reflects the matters set out in the commentary and guidance for Recommendation 3.2.

The Code of Conduct and a summary of the Dealing Rules for Employees and Directors are available on the Capitol Health website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit and Risk Committee

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

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

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

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

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

External auditor

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

The Company's independent external auditor is BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd ("BDO Kendalls"). The appointment of BDO Kendalls was approved by members at the Annual General Meeting held on 30 November 2007.

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

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

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

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

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

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

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

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

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management Policy

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

Risk oversight

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

Reporting and assurance

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

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

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

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Nomination and Remuneration Committee

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

Non-executive directors' remuneration policy

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

Executive directors' remuneration policy

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

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

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 1	**Lay solid foundations for management and oversight**		
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose the functions.	Yes	Website & Page 13
Rec 1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Website & Page 13
Rec 1.3	Companies should provide the information indicated in the Guide to reporting to Principle 1.	Yes	Website & Page 13
Pr 2	**Structure the board to add value**		
Rec 2.1	A majority of the board should be independent directors.	No	Website & Page 13
Rec 2.2	The chairman should be an independent director.	No	Website & Page 13
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	No	Website & Page 13
Rec 2.4	The board should establish a nomination committee.	Yes	Website & Page 14
Rec 2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Website & Page 14
Rec 2.6	Companies should provide the information indicated in the Guide to reporting to Principle 2.	Yes	Website & Page 13 & 14
Pr 3	**Promote ethical and responsible decision making**		
Rec 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: ▪ the practices necessary to maintain confidence in the company's integrity; ▪ the practices necessary to take account of their legal obligations and reasonable expectations of their stakeholders; and ▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Website & Page 14
Rec 3.2	Companies should establish a policy concerning trading in company securities by directors, officers and employees and disclose the policy or a summary of that policy.	Yes	Website & Page 15
Rec 3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes	Website & Page 14 & 15

	Requirement	Comply Yes/ No	Reference/ Explanation
Pr 4	**Safeguard integrity in financial reporting**		
Rec 4.1	The board should establish an audit committee.	Yes	Website & Page 15
Rec 4.2	The audit committee should be structured so that it: ▪ consists only of non-executive directors; ▪ consists of a majority of independent directors; ▪ is chaired by an independent chair, who is not the chair of the board; and ▪ has at least three members.	Yes	Website & Page 15
Rec 4.3	The audit committee should have a formal charter.	Yes	Website & Page 15
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Website & Page 15
Pr 5	**Make timely and balanced disclosure**		
Rec 5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior level for that compliance and disclose those policies or a summary of those policies.	Yes	Website & Page 15
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes	Website & Page 15
Pr 6	**Respect the rights of shareholders**		
Rec 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Website & Page 16
Rec 6.2	Company should provide the information indicated in the Guide to reporting on Principle 6.	Yes	Website & Page 16
Pr 7	**Recognise and manage risk**		
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website & Page 16
Rec 7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	Website & Page 16
Rec 7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Website & Page 16
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	Website & Page 16
Pr 8	**Remunerate fairly and responsibly**		
Rec 8.1	The board should establish a remuneration committee.	Yes	Website & Page 16 & 17
Rec 8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Website & Page 16 & 17
Rec 8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Website & Page 16 & 17

INCOME STATEMENTS
for the year ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Continuing operations					
Revenue	3	28,311,196	13,452,021	680	26,237
Other income	4	1,214,826	-	-	-
Employee benefits expense	6	(18,177,438)	(8,261,852)	(123,121)	(258,513)
Depreciation expense		(1,326,070)	(662,998)	(27,305)	(27,571)
Impairment of goodwill		(1,894,632)	-	-	-
Consumables expense		(1,712,073)	(688,328)	-	-
Marketing expenses		(331,979)	(150,324)	(828)	(88,720)
Occupancy expenses		(1,908,060)	(684,642)	-	(29,725)
Interest expense		(446,327)	(187,986)	(10,145)	(11,349)
Bad debt expense		(101,582)	(41,922)	(1,308)	-
Equipment-related costs		(2,695,508)	(1,308,747)	(370)	(21,748)
Other expenses	5	(2,522,200)	(1,178,274)	(1,294,310)	(362,337)
Profit/(loss) before income tax		(1,589,847)	286,948	(1,456,707)	(773,726)
Income tax (expense)/ benefit	8	268,955	(139,670)	(10,574)	22,577
Profit/(loss) from continuing operations		(1,320,892)	147,278	(1,467,281)	(751,149)
Discontinued operations					
Profit/ (loss) from discontinued operations, net of income tax	24	302,674	67,243	-	-
Net profit/(loss) for the year attributable to equity holders of the parent		(1,018,218)	214,521	(1,467,281)	(751,149)
Earnings per share					
Basic earnings/ (loss) per share (cents)	22	(0.37)	0.09		
Diluted earnings/ (loss) per share (cents)	22	(0.37)	0.09		
Continuing operations					
Basic earnings/ (loss) per share (cents)	22	(0.47)	0.06		
Diluted earnings/ (loss) per share (cents)	22	(0.47)	0.06		

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

BALANCE SHEETS
as at 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
CURRENT ASSETS					
Cash and cash equivalents	9	197,304	1,925,113	2,979	817
Trade and other receivables	10	969,782	1,058,652	-	2,274
Other financial assets	11	211,469	201,342	-	-
Non-current assets classified as held for sale	25	-	303,260	-	-
Total Current Assets		1,378,555	3,488,367	2,979	3,091
NON CURRENT ASSETS					
Receivables	10	-	-	16,562,190	18,097,003
Other financial assets	11	-	-	1	1
Deferred tax assets	8	717,281	448,326	12,003	22,577
Property, plant & equipment	12	5,041,813	3,905,625	21,237	48,544
Intangible assets	13	20,161,294	22,055,926	-	-
Total Non Current Assets		25,920,388	26,409,877	16,595,431	18,168,125
TOTAL ASSETS		27,298,943	29,898,244	16,598,410	18,171,216
CURRENT LIABILITIES					
Trade and other payables	14	2,229,395	1,902,974	168,781	203,793
Employee benefits	15	1,007,955	956,930	-	23,506
Income tax liability		269,045	269,045	269,045	269,045
Loans and borrowings	17	1,451,365	6,096,810	78,342	43,889
Liabilities directly associated with non-current assets held for sale	25	-	89,055	-	-
Total Current Liabilities		4,957,760	9,314,814	516,168	540,233
NON CURRENT LIABILITIES					
Employee benefits	15	259,777	199,705	-	-
Loans and borrowings	17	4,417,548	1,701,649	-	81,460
Total Non Current Liabilities		4,677,325	1,901,354	-	81,460
TOTAL LIABILITIES		9,635,085	11,216,168	516,168	621,693
NET ASSETS		**17,663,858**	**18,682,076**	**16,082,242**	**17,549,523**
EQUITY					
Issued capital	18	19,654,326	19,654,326	19,654,326	19,654,326
Reserves	18	170,609	170,609	170,609	170,609
Accumulated losses	19	(2,161,077)	(1,142,859)	(3,742,693)	(2,275,412)
TOTAL EQUITY		**17,663,858**	**18,682,076**	**16,082,242**	**17,549,523**

The balance sheet is to be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS
for the year ended 30 June 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Cash flows from operating activities					
Cash receipts in the course of operations		28,373,225	13,837,062	2,275	-
Cash payments in the course of operations		(26,336,476)	(11,464,567)	(144,198)	(709,465)
Interest received		28,983	43,845	680	26,237
Interest paid		(446,327)	(245,604)	(10,145)	(11,349)
Net cash provided by/ (used in) operating activities	28	1,619,405	2,170,736	(151,388)	(694,577)
Cash flows from investing activities					
Proceeds from sale of subsidiaries		227,000	320,826	-	-
Payments for property, plant and equipment		(1,583,714)	(1,466,273)	2	-
Payments for acquisition of subsidiaries		(1,274,797)	(4,747,674)	-	(1)
Net cash used in investing activities		(2,631,511)	(5,893,121)	2	(1)
Cash flows from financing activities					
Proceeds from the issue of share capital		-	2,500,000	-	2,500,000
Payment of share issue costs		-	(251,501)	-	(251,501)
Proceeds from sale and leasebacks		710,707	524,938	-	524,938
Payment of leasing arrangements		(1,678,513)	-	-	-
Proceeds from loans from controlled entities		-	-	200,000	-
Payments for loans to controlled entities		-	-	(46,452)	(2,041,429)
Proceeds from secured loans from external entities		689,603	3,502,661	-	-
Repayment of secured loans to external entities		(437,500)	(819,608)	-	(39,251)
Net cash provided by/ (used in) financing activities		(715,703)	5,456,490	153,548	692,757
Net increase/ (decrease) in cash and cash equivalents		(1,727,809)	1,734,105	2,162	(1,821)
Cash and cash equivalents at 1 July		1,925,113	191,008	817	2,638
Cash and cash equivalents at 30 June	9	**197,304**	**1,925,113**	**2,979**	**817**

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

STATEMENTS OF CHANGES IN EQUITY
for the year ended 30 June 2009

Consolidated	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Balance as at 1 July 2007	2,022,902	3,698	(1,357,380)	669,220
Total recognised gains and losses for the year:				
Profit for the year	-	-	214,521	214,521
Transactions with equity holders in their capacity as equity holders:				
Shares issued	17,890,000	-	-	17,890,000
Share issue costs	(258,576)	-	-	(258,576)
Options granted	-	164,500	-	164,500
Equity-settled share-based payment	-	2,411	-	2,411
At 30 June 2008	19,654,326	170,609	(1,142,859)	18,682,076
Total recognised gains and losses for the period:				
Loss for the year	-	-	(1,018,218)	(1,018,218)
Transactions with equity holders in their capacity as equity holders:				
Equity-settled share-based payment	-	-	-	-
At 30 June 2009	**19,654,326**	**170,609**	**(2,161,077)**	**17,663,858**

Company	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Balance as at 1 July 2007	2,022,902	3,698	(1,524,263)	502,337
Total recognised gains and losses fro the year				
Loss for the year	-	-	(751,149)	(751,149)
Transactions with equity holders in their capacity as equity holders				
Shares issued	17,890,000	-	-	17,890,000
Share issue costs	(258,576)	-	-	(258,576)
Options granted	-	164,500	-	164,500
Equity-settled share-based payment	-	2,411	-	2,411
At 30 June 2008	19,654,326	170,609	(2,275,412)	17,549,523
Total recognised gains and losses for the period:				
Loss for the year	-	-	(1,467,281)	(1,467,281)
Transactions with equity holders in their capacity as equity holders:				
Equity-settled share-based payment	-	-	-	-
At 30 June 2009	**19,654,326**	**170,609**	**(3,742,693)**	**16,082,242**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 2009 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

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

Basis of preparation

Statement of compliance

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

The financial statements were approved by the Board of Directors on 30 September 2009.

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 consolidated entity is the Australian Dollar.

Significant accounting policies

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

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result 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 these 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 consolidated determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. An impairment loss of $1,894,632 was recognised in the current year in respect of goodwill. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in Note 13. If any of these estimates were to significantly change, it may have a material impact on the reported amount of goodwill.

Provision for long service leave

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

Estimation of useful lives of assets

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

(ii) Significant accounting judgements

Recovery of deferred tax assets

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

Classification of assets and liabilities as held for sale

The consolidated entity classified assets and liabilities as held for sale in respect of its dental operations during the previous financial year. These assets and liabilities were disposed of during the 2009 financial year.

Summary of Significant Accounting Policies

Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments.

Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the consolidated entity. Control exists when the consolidated entity 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.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet 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 Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Financial instruments

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

Financial instruments are recognised initially at fair value plus, any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

A financial instrument is recognised if the consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the consolidated entity's contractual rights to the cash flows from the financial assets expire or if the consolidated entity 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 consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

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 consolidated entity 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.

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 income statement over the period of the borrowings using the effective rate of interest. Borrowings are removed from the balance sheet when the obligation is discharged, cancelled or expired.

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 consolidated entity. Trade accounts payable are normally settled within 60 days. Trade and other payables are recognised initially at fair value, and subsequently at amortised cost.

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.

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 an item of property, plant and equipment if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity 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 straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The estimated useful lives are as follows:

Plant and equipment	3 to 15 years
Office furniture and equipment	3 to 5 years
Leasehold improvements	3 to 10 years
Motor vehicles	2.5 to 3 years

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

Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries or other business combinations. Goodwill represents the excess of the cost of the acquisition over the consolidated entity'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.

Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and the leased assets are not recognised in the consolidated entity's balance sheet.

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.

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

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 consolidated entity'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 group of identifiable assets 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 the other assets in the unit (consolidated entity 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.

Employee Benefits

Wages and salaries, annual leave, sick leave and long service leave

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and are capable of being measured reliably.

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

Share-based payments

The Consolidated entity provides benefits to employees (including directors) of the consolidated entity 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.

Employee Benefits (cont'd)

Share-based payments (cont'd)

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 consolidated, 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.

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 Consolidated entity and any criteria to be met for revenue recognition have been fulfilled.

Services

Revenue is recognised when the diagnostic imaging or dental service is rendered.

Interest income

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

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.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that the parent is able to control the timing of reversal and it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Income tax (cont'd)

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 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 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 consolidated entity to the extent that it is probable that future taxable profits of the tax-consolidated 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 consolidated entity, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated 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.

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 balance sheet.

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.

Non-current assets held for sale and discontinued operations

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.

A discontinued operation is a component of the consolidated entity's business that represents a separate major line of business or geographical area of operations that has been disposed of or is 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 current year results presented separately on the face of the income statement.

Earnings per share

The consolidated entity presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share used is calculated by adjusting basic earnings for the impact of the after tax effect of costs associated with dilutive ordinary shares and the weighted average number of additional ordinary shares that would be outstanding assuming the conversion of all dilutive potential ordinary shares.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the annual reporting period ending 30 June 2009: These are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on consolidated entity financial report	Application date for consolidated entity
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the consolidated entity's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. The directors have assessed the reportable business segments under AASB 114 Segment Reporting and have determined that on adoption of AASB 8 Segment Reporting (applicable from 1 January 2009), it is unlikely additional operating segments will need to be reported.	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The consolidated entity has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the consolidated entity's financial report.	1 July 2009

New accounting standards and interpretations (cont'd)

Reference	Title	Summary	Application date of standard	Impact on consolidated entity financial report	Application date for consolidated entity
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the consolidated entity's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The consolidated entity has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The consolidated entity does not have share-based payment arrangements that are affected by these amendments.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The consolidated entity may enter into some business combinations during a future financial year and may therefore require adoption of the amendments.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the consolidated entity changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the consolidated entity's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009

New accounting standards and interpretations (cont'd)

Reference	Title	Summary	Application date of standard	Impact on consolidated entity financial report	Application date for consolidated entity
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments. In addition, if the consolidated entity enters into any consolidated entity reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	1 July 2009
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]	The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: ▪ quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); ▪ inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and ▪ inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). These amendments arise from the issuance of Improving Disclosures about Financial Instruments (Amendments to IFRS 7) by the IASB in March 2009. The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.	These amendments are only expected to affect the presentation of the consolidated entity's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.	1 July 2009
AASB 2009-7	Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]	These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements.	1 July 2009	These amendments are unlikely to have any impact on the consolidated entity.	1 July 2009

New accounting standards and interpretations (cont'd)

Reference	Title	Summary	Application date of standard	Impact on consolidated entity financial report	Application date for consolidated entity
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-Settled Share-Based Payment Transactions [AASB 2]	The amendments clarify the accounting for consolidated entity cash-settled share-based payment transactions, in particular: ▪ the scope of AASB 2; and ▪ the interaction between IFRS 2 and other standards. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the consolidated entity settles the transaction, and no matter whether the transaction is settled in shares or cash. A "consolidated entity" has the same meaning as in IAS 27 Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries. The amendments also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2—Consolidated entity and Treasury Share Transactions. As a result, IFRIC 8 and IFRIC 11 have been withdrawn.	1 January 2010	The consolidated entity does not have share-based payment arrangements that are affected by these amendments.	1 July 2010

Determination of fair values

A number of the consolidated entity'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 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 is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Determination of fair values (cont'd)

Borrowings

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

Share-based payment transactions

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

Going Concern

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

At 30 June 2009, the consolidated entity has a net working capital deficiency of $3,579,205, has incurred a loss of $1,018,218 and negative cash flows of $1,727,809 for the period then ended. The majority of the deficiency in working capital and negative cash flows is a result of deferred settlement payments made with respect to historical acquisitions.

These conditions indicate a material uncertainty that may cast doubt over the consolidated entity's ability to continue as a going concern.

The directors believe the going concern basis of preparation to be appropriate primarily based upon Capitol Health Limited securing additional finance. The following measures were taken to assist the consolidated entity in continuing as a going concern:

- Post year end the directors have developed a business plan that will result in a capital injection which may include a capital raising and/or an extension of existing loan facilities, these measure are expected to take effect within the next two months;
- Cash reserves in place at the date of this report and the cash flow forecast for the year ended 30 June 2010 demonstrate that the company and consolidated entity will be able to pay its debts as and when they fall due;
- The Board remains committed to a business plan that should result in the group becoming profitable and cash flow positive;
- Ongoing sales, marketing and IT efficiency initiatives are being undertaken, the results of which should have a positive impact on the group; and
- The continued support of the bank has been sought not to call in repayment of existing loans and is anticipated.

The directors believe these measures will ensure the consolidated entity is in a position to meet its debts and obligations as and when they fall due and are payable. Should the consolidated entity not be successful in achieving the above measures, there is uncertainty as to whether the consolidated entity will be able to continue as a going concern.

2. FINANCIAL RISK MANAGEMENT

Overview

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

- credit risk
- liquidity risk
- market risk

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

2. FINANCIAL RISK MANAGEMENT (cont'd)

Overview (cont'd)

Capitol Health'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 consolidated entity'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 consolidated entity 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 consolidated entity'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 consolidated entity if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the consolidated entity's trade and other receivables and cash and cash equivalents. For the Company it arises from receivables due from controlled entities.

The consolidated entity does not hold any credit derivatives to offset its credit exposure.

Trade and other receivables

It is the consolidated entity'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 consolidated entity trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the consolidated entity's policy to securitise its trade and other receivables.

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

Liquidity risk

Liquidity risk arises from the financial liabilities of the consolidated entity and the consolidated entity's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

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

Market risk

Market risk is the risk that changes in market prices, such as interest rates will affect the consolidated entity'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.

Interest rate risk

The consolidated entity's exposure to interest rates primarily relates to the consolidated entity's long-term debt obligations. Fixed interest borrowings expose the consolidated entity to fair value interest rate risk, and variable rate borrowings expose the consolidated entity 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 consolidated entity does not hedge against these risks.

2. FINANCIAL RISK MANAGEMENT (cont'd)

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 are 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 has no current plans to issue further shares on the market.

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 consolidated entity had loans and borrowings of $5,868,913 at 30 June 2009 (2008: $7,798,459).

The consolidated entity has no formal financing and gearing policy or criteria during the year having regard to the early status of its development and low level of activity. This position has not changed from the previous year.

There were no changes in the consolidated entity's approach to capital management during the year.

The consolidated entity is not subject to any externally imposed capital requirements.

	Consolidated		Company	
	2009	2008	2009	2008
3. REVENUE	$	$	$	$
Services	28,284,354	13,413,336	-	-
Interest income	26,842	38,685	680	26,237
	28,311,196	13,452,021	680	26,237
4. OTHER INCOME				
Government grants	297,000	-	-	-
Forgiveness of vendor liabilities	917,826	-	-	-
	1,214,826	-	-	-
5. OTHER EXPENSES				
Corporate and administrative expenses	(2,522,200)	(1,178,274)	(1,294,310)	(362,337)
6. PERSONNEL EXPENSES				
Wages and salaries costs	16,133,238	7,485,638	11,991	219,382
Other associated personnel expenses	708,836	238,817	(1,352)	-
Defined contribution superannuation costs	1,094,267	461,112	5,988	18,457
Increase/(decrease) in liability for annual and long service leave	111,097	61,874	(23,506)	6,263
Non-executive directors' fees	130,000	12,000	130,000	12,000
Equity-settled share based payment transactions	-	2,411	-	2,411
	18,177,438	8,261,852	123,121	258,513

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
7. AUDITORS' REMUNERATION				
Audit services:				
Auditors' of the Company (BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd)				
- audit and review of financial reports	73,426	65,000	73,426	65,000
Other auditors				
- audit and review of financial reports	-	13,845	-	13,845
	73,426	78,845	73,426	78,845

8. INCOME TAX

(a) Income tax expense/(benefit)

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

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Current income tax				
Current income tax charge	-	269,045	-	-
Deferred income tax				
Current year deferred tax	(17,015)	(129,375)	10,574	(22,577)
Prior year overprovision	17,237	-	-	-
Recognition of carried forward tax losses	(269,177)	-	-	-
Income tax expense/(benefit) reported in the income statement	(268,955)	139,670	10,574	(22,577)

(b) Numerical reconciliation between aggregate tax expense recognised in the income statement 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 consolidated entity's applicable income tax rate is as follows:

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Accounting profit before tax from continuing operations	(1,589,847)	286,948	(1,456,707)	(773,726)
Profit/(loss) before tax from discontinued operations	302,674	67,243	-	-
Total accounting profit before income tax	(1,287,173)	354,191	(1,456,707)	(773,726)
At the consolidated entity's statutory income tax rate of 30% (2008: 30%)	(386,152)	106,257	(437,012)	(232,118)
Tax effect on amounts which are not tax deductible:				
- Impairment loss on goodwill	568,389	79,011	-	-
- Amounts provided against loans to controlled entity	-	-	-	-
- Income not assessable	(364,448)	-	-	
- Cost of equity settled transactions	-	723	-	724
- Sundry amounts	(103,981)	(46,321)	(37,649)	(47,925)
Deferred tax asset not brought to account	-	-	485,235	256,742
Prior year overprovision	17,237	-	-	-
Aggregate income tax expense/(benefit)	(268,955)	139,670	10,574	(22,577)

8. INCOME TAX (cont'd)	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Aggregate income tax expense/(benefit) is attributable to:				
Continuing operations	(268,955)	139,670	10,574	(22,577)
Discontinued operations	-	-	-	-
	(268,955)	139,670	10,574	(22,577)
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)	-	-	-	-
Unrecognised deferred tax asset at 30%	-	-	-	-
(d) Recognised and unrecognised temporary differences				
Temporary differences:				
- Employee benefits provision	1,267,732	1,223,710	-	23,506
- Accrued expenses	212,599	267,314	40,011	51,750
- Provision for doubtful receivables	-	3,399	-	-
- Finance leases	13,349	-	-	-
Total temporary differences for which deferred tax assets have not been recognised	-	-	-	-
Total temporary differences for which deferred tax assets have been recognised	1,493,680	1,494,423	40,011	75,256
Deferred tax asset at 30%	448,104	448,326	12,003	22,577
Recognised deferred tax asset				
Deferred tax assets on temporary differences	448,104	448,326	12,003	22,577
Deferred tax asset recognised for unused tax losses	269,177	-	-	-
	717,281	448,326	12,003	22,577

(e) Tax Losses

The consolidated entity has carried forward losses which were incurred in 2009 of $897,257 for which a deferred tax asset has been recognised as shown above of $269,177.

In addition the consolidated entity has carried forward capital losses of $271,630 which were incurred during 2009. A deferred tax asset was not recognised for the loss.

Both revenue losses and capital losses are expected to be available to offset against future income subject to the consolidated entity continuing to meet statutory tests.

(f) Tax Consolidation

Capitol Health Limited and its 100% owned subsidiaries formed a tax consolidated group effective the year commencing 1 July 2005. Capitol Health Limited is the Head Entity of the tax consolidated group. The Head Entity and each of its subsidiaries continue to account for their own current and deferred tax amounts. In addition to its own current and deferred tax amounts, the Head Entity recognises the current tax liability of the subsidiaries of the tax consolidated group. Consistent with Interpretation 1052 Tax Consolidation Accounting a tax funding agreement is in place between members of the consolidated entity under which payments to/from the head company are recognised via an intercompany loan which is at call.

	Consolidated		Company	
	2009	2008	20098	2008
9. CASH AND CASH EQUIVALENTS	$	$	$	$
Cash at bank	197,304	1,925,113	2,979	817

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

10. TRADE AND OTHER RECEIVABLES

Current

Trade receivables	824,541	827,104	-	-
Other receivables	145,241	231,548	-	2,274
	969,782	1,058,652	-	2,274

Non Current

Unsecured loans to subsidiaries	-	-	16,562,190	18,633,704
Less: Impairment	-	-	-	(536,701)
	-	-	16,592,190	18,097,003

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

Loans to subsidiaries are neither past due nor impaired.

11. OTHER FINANCIAL ASSETS

Current

Prepayments	80,853	133,012	-	-
Bonds	130,616	42,275	-	-
Other	-	26,055	-	-
	211,469	201,342	-	-

Non Current

Investment in subsidiary:

Shares in CHL Operations Pty Ltd (100% owned) – at cost	-	-	1	1
Shares in Capitol Radiology Pty Ltd (100% owned) – at cost	-	-	1	1
Less: Impairment of investment	-	-	(1)	(1)
	-	-	1	1

12. PROPERTY, PLANT & EQUIPMENT

	Consolidated					Company				
	Plant & equipment	Office furniture & equipment	Leasehold improvements	Motor vehicles	Total	Plant & equipment	Office furniture & equipment	Leasehold improvements	Motor vehicles	Total
At 1 July 2008	3,179,737	147,155	551,583	27,150	3,905,625	-	29,279	7,342	11,923	48,544
Additions	1,420,098	648,695	451,613	-	2,520,406	-	-	-	-	-
Disposals	(58,148)	-	-	-	(58,148)	-	-	-	-	-
Depreciation charge for the year	(1,043,047)	(118,688)	(147,828)	(16,507)	(1,326,070)	-	(12,735)	(4,911)	(9,661)	(27,307)
At 30 June 2009, net of accumulated depreciation	3,498,640	677,162	855,368	10,643	5,041,813	-	16,544	2,431	2,262	21,237
At 30 June 2009										
Cost	5,096,969	928,645	1,069,076	48,826	7,143,516	-	145,703	14,653	28,822	189,178
Accumulated depreciation	(1,598,329)	(251,483)	(213,708)	(38,183)	(2,101,703)	-	(129,159)	(12,222)	(26,560)	(167,941)
Net carrying amount	3,498,640	677,162	855,368	10,643	5,041,813	-	16,544	2,431	2,262	21,237

	Consolidated					Company				
	Plant & equipment	Office furniture & equipment	Leasehold improvements	Motor vehicles	Total	Plant & equipment	Office furniture & equipment	Leasehold improvements	Motor vehicles	Total
At 1 July 2007	404,162	99,735	38,801	21,583	564,281	-	42,279	12,253	21,583	76,115
Acquisitions through business combinations	2,287,789	134,247	602,810	20,004	3,044,850					
Other additions	1,466,273	-	-	-	1,466,273	-	-	-	-	-
Transfer to assets held for sale	(118,556)	(10,235)	(5,754)	-	(134,545)					
Disposals	(304,221)	(47,220)	(20,795)	-	(372,236)	-	-	-	-	-
Depreciation charge for the year	(555,710)	(29,372)	(63,479)	(14,437)	(662,998)	-	(13,000)	(4,911)	(9,660)	(27,571)
At 30 June 2008, net of accumulated depreciation	3,179,737	147,155	551,583	27,150	3,905,625	-	29,279	7,342	11,923	48,544
At 30 June 2008										
Cost	3,735,019	279,950	617,463	48,826	4,681,258	-	145,703	14,653	28,822	189,178
Accumulated depreciation	(555,282)	(132,795)	(65,880)	(21,676)	(775,633)	-	(116,424)	(7,311)	(16,899)	(140,634)
Net carrying amount	3,179,737	147,155	551,583	27,150	3,905,625	-	29,279	7,342	11,923	48,544

	Consolidated		Company	
13. INTANGIBLES	**2009 $**	**2008 $**	**2009 $**	**2008 $**
Goodwill arising through business combinations:				
Acquisition of Radiology Entities – at cost and acquired	15,654,636	15,654,636	-	-
Less: Impairment loss	(1,894,632)	-	-	-
	13,760,004	15,654,636	-	-
Acquisition of South East Medical Imaging – at cost	2,784,180	2,784,180	-	-
Acquisition of Bell Imaging – at cost	3,617,110	3,617,110	-	-
	20,161,294	22,055,926	-	-

Impairment testing for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill is allocated to each acquisition which represents a separate cash generating unit. Impairment testing was performed for each of the cash-generating units as at 30 June 2009. Impairment testing was based on value in use calculations for each identified cash generating unit. The discount rate to determine recoverable amount at 30 June 2009 for all cash generating units is 13%. Discounted cash flows for each cash generating unit have been estimated based on past performance, and increased by expected growth in revenue and expenditure rates for a period of 5 years. A terminal value has been calculated based on no growth and included in the recoverable amount as management believe that the imaging diagnostics services will still be delivered well beyond 5 years. Head office administration costs have been allocated to each of the cash generating units based on relative revenues expected to be generated. If any of the assumptions above were to significantly change this may have a material impact on the reported amounts of goodwill above for the Radiology Entities. The same changes would be unlikely to affect the carrying amounts of goodwill of the other entities above.

14. TRADE AND OTHER PAYABLES				
Trade creditors	1,530,515	1,641,124	83,170	152,043
Other creditors and accruals	698,880	261,950	85,611	51,750
	2,229,395	1,903,074	168,781	203,793

15. EMPLOYEE BENEFITS				
Current				
Liability for annual leave	777,822	596,687	-	23,506
Provision for long service leave	230,133	360,243	-	-
	1,007,955	956,930	-	23,506
Non Current				
Provision for long service leave	259,777	199,705	-	-

16. SHARE BASED PAYMENTS

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

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

Each option is convertible to one ordinary share. The exercise price of the options is determined by the Board in its absolute discretion, subject to any minimum price specified in the Listing Rules of the ASX.

All options expire on the earlier of their expiry date or 30 days after the termination of the individual's employment. The vesting terms of the options are as follows:

Portion	Vesting date
50%	12 months (26 September 2007)
50%	24 months (26 September 2008)

There are no voting or dividend rights attached 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.

The fair value of the options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. The following table gives the assumptions made in determining the fair value of options on grant date:

Fair value at measurement date	$0.026
Share price	$0.20
Exercise price	$0.25
Expected volatility	25.00%
Option life	4 years
Expected dividends	0.00%
Risk-free interest rate	5.63%
Non listed status discount	35.00%

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

During the year ended 30 June 2009 there were no options exercised (2008: nil).

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

	2009 Number	2009 WAEP	2008 Number	2008 WAEP
Outstanding at the beginning of the year	250,000	$0.25	250,000	$0.25
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Granted during the year	-	-	-	-
Outstanding at the end of the year	250,000	$0.25	250,000	$0.25
Vested and exercisable at the end of the year	250,000	$0.25	125,000	$0.25

	Consolidated		Company	
	2009	2008	2009	2008
Employee expenses	$	$	$	$
Share options granted in 2006 – equity settled	-	2,411	-	2,411

17. LOANS AND BORROWINGS

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Current				
Finance lease liabilities	10,956	8,342	10,956	8,342
Secured bank loan	437,500	2,500,000	-	-
Secured equipment finance facilities	863,675	763,075	67,386	35,547
Unsecured loans	139,234	2,825,393	-	-
	1,451,365	6,096,810	78,342	43,889
Non Current				
Finance lease liabilities	-	10,956	-	10,956
Secured bank loan	2,502,103	-	-	-
Secured equipment finance facilities	1,915,445	1,690,693	-	70,504
	4,417,548	1,701,649	-	81,460

Terms of loans and borrowings

Secured bank loan and associated facilities

Capitol Radiology Pty Ltd ("Capitol Radiology") entered into a loan facility agreement for the purposes of assisting the purchase of the South East Medical Imaging and Bell Imaging. The term of this loan facility is 10 years, principal and interest reducing with no redraw facility.

Capitol Radiology entered into a loan facility agreement for the purposes of assisting the payout of existing finance leases as part of the transfer of banking facilities. The term of this loan facility is 10 years, converted to principal and interest reducing in January 2009, with no redraw facility.

The Company has a $100,000 overdraft facility. The Company has a $100,000 credit card facility. The Company has a $449,000 rental guarantee facility.

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

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

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

Utilisation of secured facilities

	2009			2008		
	Facility	Utilised	Available	Facility	Utilised	Available
Secured bank loan	2,939,603	2,939,603	-	3,189,603	3,189,603	-
Overdraft	100,000	-	100,000	-	-	-
Credit card	100,000	-	100,000	-	-	-
Rental guarantee	449,000	449,000	-	-	-	-
	3,588,603	3,388,603	200,000	3,189,603	3,189,603	-

17. LOANS AND BORROWINGS (cont'd)

Secured equipment finance facilities

Capitol Radiology entered into agreements for the purchase of assets during the financial year. These facilities bear interest at between 7.720% and 9.645% per annum.

As at the date of this report the Company had lease facilities open for a further $2.3m of asset purchases.

Unsecured loans

The unsecured loans do not bear interest.

Finance lease liabilities

Finance lease liabilities of the Company and the consolidated entity are payable as follows:

At 30 June 2009	**Consolidated**			**Company**		
	Minimum lease payments 2009 $	**Interest 2009 $**	**Principal 2009 $**	**Minimum lease payments 2009 $**	**Interest 2009 $**	**Principal 2009 $**
Less than one year	10,992	25	10,956	10,992	25	10,956
Between one and five years	-	-	-	-	-	-
	10,992	25	10,956	10,992	25	10,956

At 30 June 2008	**Consolidated**			**Company**		
	Minimum lease payments 2008 $	**Interest 2008 $**	**Principal 2008 $**	**Minimum lease payments 2008 $**	**Interest 2008 $**	**Principal 2008 $**
Less than one year	9,254	843	8,342	9,254	843	8,342
Between one and five years	10,992	25	10,956	10,992	25	10,956
	20,246	868	19,298	20,246	868	19,298

18. ISSUED CAPITAL AND RESERVES

	Consolidated		**Company**	
	2009 $	**2008 $**	**2009 $**	**2008 $**
Issued capital				
278,416,241 (2008: 278,416,241) fully paid ordinary shares	19,654,326	19,654,326	19,654,326	19,654,326

The following movements in issued capital occurred during the year:

	2008 Number of Shares	**2008 Number of Shares**	**2009 $**	**2008 $**
Balance at the beginning of the year	278,416,241	56,100,001	19,654,326	2,022,902
Issue of shares at $0.08 each for the acquisition of the Radiology Entities	-	183,000,000	-	14,640,000
Issue of shares at $0.09 each	-	27,777,778	-	2,500,000
Issue of shares at $0.065 each for the acquisition of Bell Imaging	-	11,538,462	-	750,000
Share issue costs	-	-	-	(258,576)
Balance at the end of the year	278,416,241	278,416,241	19,654,326	19,654,326

18. ISSUED CAPITAL AND RESERVES (cont'd)

Issued capital (cont'd)

The Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regards to the Company's residual assets.

Options

Options granted during the year

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

Unissued shares under option

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

Class	Expiry Date	Exercise Price	Number of Options
Unlisted Options	31 March 2010	$0.20	20,000,000
Incentive Options	26 September 2010	$0.25	250,000

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

	Consolidated		Company	
Reserves	**2009 $**	**2008 $**	**2009 $**	**2008 $**
Share- based payments reserve				
Balance at the beginning of the year	6,109	3,698	6,109	3,698
Equity-settled share-based payment	-	2,411	-	2,411
Balance at the end of the year	6,109	6,109	6,109	6,109
Option premium reserve				
Balance at the beginning of the year	164,500	-	164,500	-
Grant of options at 1.645 cents each for the acquisition of the Radiology Entities	-	164,500	-	164,500
Balance at the end of the year	164,500	164,500	164,500	164,500
Reserves at the end of the year	170,609	170,609	170,609	170,609

Share- based payments reserve

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

Option premium reserve

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

19. ACCUMULATED LOSSES

	Consolidated 2009	Consolidated 2008	Company 2009	Company 2008
Accumulated losses at the beginning of the year	(1,142,859)	(1,357,380)	(2,275,412)	(1,524,263)
Profit/ (loss) for the year	(1,018,218)	214,521	(1,467,281)	(751,149)
Accumulated losses at the end of the year	(2,161,077)	(1,142,859)	(3,742,693)	(2,275,412)

20. FINANCIAL INSTRUMENTS DISCLOSURE

Credit risk

Exposure to credit risk

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

	Consolidated Carrying Amount		Company Carrying Amount	
	2009 $	2008 $	2009 $	2008 $
Cash and cash equivalents	197,304	1,925,113	2,979	817
Trade and other receivables	969,762	1,058,652	16,562,190	18,099,277
Other financial assets	130,616	68,330	1	1
	1,297,682	3,052,095	16,565,170	18,100,095

The consolidated entity's maximum exposure to credit risk for trade receivables at reporting date by geographic region was:

	Carrying Amount	
	2009 $	2008 $
Victoria	824,541	827,104

Impairment losses

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

	Gross 2009 $	Impairment 2009 $	Gross 2008 $	Impairment 2008 $
Not past due	487,297	-	497,928	-
Past due 15-30 days	182,067	-	209,356	-
Past due 31-120 days	101,683	-	14,760	-
Past due 121 days to one year	51,844	-	59,195	-
More than one year	1,650	-	45,865	-
	824,541	-	827,104	-

There was no allowance made for impairment in respect of trade receivables during the year (2008: nil).

The allowance account in respect of trade receivables is used to record impairment losses unless the consolidated entity 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 2009 the consolidated entity does not have any collective impairment on its trade receivables (2008: nil).

20. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Consolidated

30 June 2009	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Secured bank loans	2,939,603	(3,099,223)	(230,628)	(230,628)	(461,256)	(1,845,025)	(331,686)
Finance lease and hire purchase liabilities	10,956	(10,956)	(10,956)	-	-	-	-
Secured equipment finance facilities	2,779,030	(3,041,647)	(462,616)	(482,675)	(894,601)	(1,201,755)	-
Unsecured loan	139,324	(139,324)	(139,324)	-	-	-	-
Trade and other payables	2,498,440	(2,498,440)	(2,319,395)	(179,045)	-	-	-
	8,367,353	(8,778,634)	(3,151,963)	(892,348)	(1,355,857)	(3,046,780)	(331,686)

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Consolidated

30 June 2008	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Secured bank loans	2,500,000	(2,648,250)	(2,648,250)	-	-	-	-
Finance lease and hire purchase liabilities	19,298	(20,246)	(4,627)	(4,627)	(10,992)	-	-
Secured equipment finance facilities	2,453,768	(2,915,224)	(484,294)	(484,294)	(699,570)	(1,247,066)	-
Unsecured loan	2,825,393	(2,825,393)	(2,825,393)	-	-	-	-
Trade and other payables	1,902,974	(1,902,074)	(1,902,074)	-	-	-	-
	9,701,433	(10,311,187)	(7,864,638)	(488,921)	(710,562)	(1,247,066)	-

Company

30 June 2009	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Finance lease liabilities	10,956	(10,956)	(10,956)	-	-	-	-
Secured equipment finance facilities	67,386	(67,386)	(21,724)	(21,724)	(23,938)	-	-
Trade and other payables	168,781	(168,781)	(168,781)	-	-	-	
	247,123	(247,123)	(201,461)	(21,754)	(23,938)	-	-

30 June 2008	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Finance lease liabilities	19,298	(20,246)	(4,627)	(4,627)	(10,992)	-	-
Secured equipment finance facilities	106,051	(119,484)	(21,724)	(21,724)	(76,036)	-	-
Trade and other payables	203,793	(203,793)	(203,793)	-	-	-	-
	329,142	(343,523)	(230,144)	(26,351)	(87,028)	-	-

20. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Interest rate risk

Profile

At the reporting date the interest rate profile of the Company's and the consolidated entity's interest bearing financial instruments was:

	Consolidated Carrying Amount		Company Carrying Amount	
	2009 $	2008 $	2009 $	2008 $
Fixed rate instruments				
Financial liabilities	(2,789,986)	(2,473,066)	(78,342)	(125,349)
Variable rate instruments				
Financial assets	197,304	1,925,113	2,979	817
Financial liabilities	(2,939,603)	(2,500,000)	-	-
	(2,742,299)	(574,887)	2,979	817

Fair value sensitivity analysis for fixed rate instruments

The consolidated entity 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 is performed on the same basis for 2008.

Consolidated

	Profit or loss		Equity	
30 June 2009	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(27,423)	27,423	(27,423)	27,423)

	Profit or loss		Equity	
30 June 2008	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(5,749)	5,749	-	-

Company

	Profit or loss		Equity	
30 June 2009	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(29)	29	-	-

	Profit or loss		Equity	
30 June 2008	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	(8)	8	-	-

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

20. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Fair value of financial instruments

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

21. COMMITMENTS

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Operating lease commitments				
Future operating lease rentals not provided for in the financial statements and payable:				
Within one year	1,881,244	1,112,118	-	-
One year or later and no later than five years	4,662,091	2,957,038	-	-
	6,543,335	4,069,156	-	-

The consolidated entity 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.

During the year ended 30 June 2009 $1,908,060 was recognised as an expense in the income statement in respect of operating leases (2008: $684,642).

Plant and equipment

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Within one year	2,126,339	1,496,138	-	-
One year or later and no later than five years	5,281,460	4,145,012	-	-
More than five years	141,999	82,670	-	-
	7,549,798	5,723,820	-	-

Service contracts

The Company has entered into a service agreement with Townshend York Pty Ltd ("Townshend York"), a company associated with Mr Ho, to provide company secretarial services in connection with the operations of the consolidated entity, under which Townshend York receives $60,000 per annum. At 30 June 2009, the unexpired portion of the term of agreement amounts to $56,167 (2008: $54,500).

22. LOSS PER SHARE

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share at 30 June 2009 was based on the loss attributable to ordinary shareholders of $1,018,218 (2008: profit of 214,521) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2009 of 278,416,241 (2008: 226,996,992) calculated as follows:

	Consolidated					
	2009			2008		
Profit/ (loss) attributable to ordinary shareholders	**Continuing operations**	**Discontinued operations**	**Total**	**Continuing operations**	**Discontinued operations**	**Total**
Net profit/ (loss) for the year	(1,320,892)	302,674	(1,018,218)	147,278	67,243	214,521

22. LOSS PER SHARE (cont'd)

Basic earnings/(loss) per share (cont'd)

Weighted average number of ordinary shares	**Number 2009**	**Number 2008**
Issued ordinary shares at 1 July	278,416,241	56,100,001
Effect of shares issued on 30 August 2007	-	152,500,000
Effect of shares issued on 6 December 2007	-	15,710,383
Effect of shares issued on 28 March 2008	-	2,076,503
Effect of shares issued on 2 May 2008	-	580,105
	278,416,241	226,966,992

Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is based on loss for the year of $1,018,218 (2008: loss of $214,521) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 298,666,241 (2008: 245,300,325), calculated as follows.

Weighted average number of ordinary shares (diluted)	**Number 2009**	**Number 2008**
Issued ordinary shares at 1 July	278,416,241	56,100,001
Effect of shares issued on 30 August 2007	-	152,500,000
Effect of shares issued on 6 December 2007	-	15,710,383
Effect of shares issued on 28 March 2008	-	2,076,503
Effect of shares issued on 2 May 2008	-	580,105
Effect of share options on issue	-	18,333,333
	278,416,241	245,300,325

23. CONTROLLED ENTITIES

	Country of Incorporation	**Entity interest 2009**	**Entity interest 2008**
Parent entity			
Capitol Health Limited	Australia	-	-
Controlled entity			
CHL Operations Pty Ltd	Australia	100%	100%
Capital Radiology Pty Ltd	Australia	100%	100%

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

24. DISCONTINUED OPERATIONS

During the year, the consolidated entity completed the divestment of the consolidated entity's dental operations segment. Management committed to a plan to sell this segment in November 2007 due to a strategic decision to place greater focus on the consolidated entity's key competencies, being the diagnostic imaging operations.

	Note	2009 $	2008 $
Results of discontinued operations			
Revenue		25,490	1,337,896
Expenses		77,184	(1,063,304)
Impairment loss on goodwill		-	(263,370)
Profit / (loss) before tax		102,674	11,222
Income tax		-	-
Profit / (loss) after tax		102,674	11,222
Net gain on sale of discontinued operations		200,000	56,021
Net profit/ (loss) loss for the year		302,674	67,243
Basic earnings/ (loss) per share	22	0.001 cents	0.030 cents
Cash flow (used in) / from discontinued operations			
Net cash from operating activities		13,318	365,802
Net cash from investing activities		200,000	300,754
Net cash used in financing activities		-	(780,357)
Net cash (used in) / from discontinued operations		213,318	(113,801)

25. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During the year, the consolidated entity disposed of goodwill, inventory and property, plant and equipment associated with Kalamunda Dental Care for a consideration of $295,000. This sale, settled in August 2008, completed the consolidated entity's divestment of its dental operations segment.

At 30 June 2008, the remaining dental operations segment was presented as a disposal segment held for sale following the commitment of the Board, in November 2007, to a plan to sell this segment due to a strategic decision to place greater focus on the consolidated entity's key competencies, being the diagnostic imaging operations.

At 30 June 2008, the disposal segment comprised assets of $303,260 less liabilities of $89,055.

An impairment loss of $263,370 on the remeasurement of the disposal segment to the lower of its carrying amount and its fair value was recognised in other expenses during the 2008 financial year.

25. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (cont'd)

Assets	Note	2009 $	Consolidated Date of sale 31 Aug 2008	2008 $
Property, plant and equipment	12	-	134,545	134,545
Intangibles		-	135,000	135,000
Inventories		-	33,715	33,715
		-	303,260	303,260

Liabilities	Note	2009 $	Consolidated Date of sale 31 Aug 2008	2008 $
Trade and other payables		-	84,193	79,439
Employee benefits		-	6,916	9,616
		-	91,109	89,055

26. RELATED PARTIES

Key management personnel remuneration

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Short-term employee benefits	472,657	272,777	71,538	161,431
Post-employment benefits	36,811	10,404	6,438	10,404
Long-term employee benefits	363	-		
	509,831	283,181	77,976	171,835

Individual key management personnel compensation disclosures

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

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

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

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

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

	Transaction	Note	Transactions value year ended 30 June 2009	Transactions value year ended 30 June 2008	Balance outstanding as at 30 June 2009	Balance outstanding as at 30 June 2008
Directors						
Mr A Ho	Secretarial and accounting fees	(i)	-	171,505	-	83,410
Dr R Fine	Sales revenue – service fee	(ii)	-	57,166	-	-
Dr R Fine	Dental fees	(iii)	-	24,444	-	-
Mr J Conidi	Rent expenses	(iv)	69,800	73,993	-	-
	Forgiveness of vendor liabilities	(v)	(142,261)	-	-	-

26. RELATED PARTIES (cont'd)

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

Notes in relation to the table of related party transactions

(i) A company associated with Mr Ho, Townshend York Pty Ltd ("Townshend York"), provides company secretarial services in connection with the operations of the consolidated entity. Terms for such services are based on market rates, and amounts are payable on a monthly basis.

(ii) Pursuant to a Services Agreement and Facilities Licence dated 2 May 2006 ("SAFL"), CHL Operations provides Dr Fine administration and billing services, equipment and serviced premises for the use of dentists to conduct Dr Fine's dental practice from Booragoon Dental Clinic. Terms for such services, administration and accommodation are based on market rates, and amounts are payable on a monthly basis.

(iii) Dr Fine provides dental services in connection with the operations of CHL Operations pursuant to the SAFL dated 2 May 2006. Terms for such services are based on market rates, and amounts are payable on a monthly basis.

(iv) A company associated with Mr Conidi, provided commercial premises to the consolidated entity. Terms for such accommodation was based on market rates, and amounts were payable on a monthly basis.

(v) A company associated with Mr Conidi, had vendor liabilities outstanding relating to a prior year business combination. During the financial year, the provision for vendor liabilities was restated.

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 1 July 2008	Issued	Exercised	Other changes	Held at 30 June 2009	Vested at 30 June 2009	Vested and exercisable at 30 June 2009
Directors							
Mr J Conidi	-	-	-	-	-	-	-
Mr D Kucera	-	-	-	-	-	-	-
Mr A Harrison	5,000,000	-	-	-	5,000,000	5,000,000	5,000,000
Mr A Ho	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
Mr S Sewell	-	-	-	-	-	-	-

	Held at 1 July 2007	Issued	Exercised	Other changes	Held at 30 June 2008	Vested at 30 June 2008	Vested and exercisable at 30 June 2008
Directors							
Mr A Harrison	5,000,000	-	-	-	5,000,000	5,000,000	5,000,000
Mr J Conidi	-	-	-	-	-	-	-
Mr A Ho	1,000,000	-	-	-	1,000,000	1,000,000	1,000,000
Mr S Sewell	-	-	-	-	-	-	-
Dr R Fine	2,500,000	-	-	-	2,500,000	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2008 or 2009.

Movements in shares

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

	Held at 1 July 2008	Held at date of appointment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at 30 June 2009
Directors							
Mr J Conidi	26,546,332	N/A	30,000	-	-	N/A	26,576,332
Mr D Kucera	N/A	-	500,000	-	-	N/A	500,000
Mr A Harrison	13,400,001	N/A	-	-	-	N/A	13,400,001
Mr A Ho	1,000,000	N/A	-	-	-	1,000,000	N/A
Mr S Sewell	100,000	N/A	-	-	-	N/A	100,000

26. RELATED PARTIES (cont'd)

	Held at 1 July 2007	Held at date of appointment	Purchases	Received on exercise of options	Other changes	Held at date of resignation	Held at 30 June 2008
Directors							
Mr A Harrison	13,400,001	N/A	-	-	-	N/A	13,400,001
Mr J Conidi	-	55,618,464	237,100	-	(29,309,232)	N/A	26,546,332
Mr A Ho	1,000,000	N/A	-	-	-	N/A	1,000,000
Mr S Sewell	-	100,000	-	-	-	N/A	100,000
Dr R Fine	7,550,000	N/A	-	-	-	7,550,000	N/A

No shares were granted to key management personnel during the reporting period as compensation in 2008 or 2009.

Non-key management personnel disclosures

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

Aggregate amounts receivable from the subsidiaries are as follows (Note 10):

	Company 2009 $	Company 2008 $
Non-current		
Unsecured loans to controlled entity	16,562,190	18,364,659
Impairment	-	(536,701)
	16,562,190	17,827,958

No dividends were received from the subsidiary in the 2009 or 2008 financial year.

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

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

No loans were advanced in the reporting period.

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

27. SEGMENT INFORMATION

Business segments

The consolidated entity comprises the following main business segments:

- *Diagnostic imaging (continuing) operations:* The acquisition of diagnostic imaging businesses and facilities.
- *Dental (discontinued) operations:* The acquisition of dental surgeries and facilities and the provision of administration and management services to those surgeries.

Geographic segments

The dental operations segment operates from Perth, Western Australia. The diagnostic imaging segment operates from Melbourne, Victoria. In August 2008 the consolidated entity completed the divestment of the consolidated entity's dental operations segment.

	Diagnostic Imaging (continuing) operations		Dental (discontinued) operations		Consolidated	
	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
Revenue						
Segment revenue	29,499,852	13,413,336	25,490	1,337,896	29,525,342	14,751,232
Unallocated interest revenue					680	38,685
					29,526,022	14,789,917
Result						
Segment result	146,389	898,427	302,674	67,243	449,063	965,670
Unallocated corporate expenses					(1,467,281)	(751,149)
					(1,018,218)	214,521
Depreciation and amortisation	1,326,070	635,428	4,191	55,670	1,330,231	691,098
Impairment	1,894,632	-	-	263,370	1,894,632	263,370
Unallocated corporate expenses					27,305	27,570
					3,252,168	982,038
Assets						
Segment assets	27,262,723	29,208,430	-	615,602	27,262,723	29,824,032
Unallocated corporate assets					36,220	74,212
Consolidated total assets					27,298,943	29,898,244
All fixed assets purchased during the year relate to the diagnostic imaging segment.						
Liabilities						
Segment liabilities	9,118,917	10,505,219	-	89,356	9,118,917	10,594,575
Unallocated liabilities					516,168	621,693
Consolidated total liabilities					9,635,085	11,216,268

28. RECONCILIATION OF CASH FLOWS PROVIDED BY/ (USED IN) OPERATING ACTIVITIES

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Cash flows from operating activities				
Profit/(loss) for the year	(1,018,218)	214,521	(1,467,281)	(751,149)
Adjustments for:				
Depreciation	1,326,070	716,144	27,305	27,571
Impairment losses on reclassification to Assets Held for Sale (see Note 27)	-	263,370	-	-
Impairment of goodwill	1,894,632	-	-	-
Forgiveness of vendor liabilities	(917,816)			
Share-based payment expense	-	2,411	-	2,411
Net gain on sale of assets	(285,165)	(11,039)	-	-
Income tax expense	(268,955)	139,670	10,574	(22,577)
Operating profit/(loss) before changes in working capital and provisions	730,538	1,325,077	(1,429,402)	(743,744)
Change in trade and other receivables	88,870	(109,055)	2,274	-
Change in inventories	-	92,164	-	-
Change in other assets	(10,127)	(887,434)	1,294,311	-
Change in trade and other payables	699,027	1,568,454	4,935	42,904
Change in provisions and employee benefits	111,097	181,530	(23,506)	6,263
Net cash provided by/ (used in) operating activities	1,619,405	2,170,736	(151,388)	(694,577)

29. EVENTS SUBSEQUENT TO REPORTING DATE

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

DIRECTORS' DECLARATION

In the opinion of the directors of Capitol Health Limited:

(a) the financial statements and notes and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 9 to 11, are in accordance with the Corporations Act 2001, including:

 (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2009 and of 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) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2009.

Signed in accordance with a resolution of the directors.

John Conidi
Managing Director

Dated at Melbourne, Victoria this 30th day of September 2009.

BDO Kendalls

BDO Kendalls Audit & Assurance
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INDEPENDENT AUDITOR'S REPORT

To the members of Capitol Health Limited

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Capitol Health Limited for the year ended 30 June 2009 included on Capitol Health Limited's web site. The company's directors are responsible for the integrity of Capitol Health Limited's web site. We have not been engaged to report on the integrity of Capitol Health Limited's web site. The auditor's report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Report on the Financial Report

We have audited the accompanying financial report of Capitol Health Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 whether the financial report is free from material misstatement.

Auditor's Responsibility (continued)

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* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's 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 company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the 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 as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1, page 34, in the financial report which indicates that the Group incurred a loss of $1,018,218 during the year ended 30 June 2009 and cash decreased by $1,727,809 during the same period and, as of that date, the Group's current liabilities exceeded its current assets by $3,579,205. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

BDO Kendalls

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 12 of the directors' report for the year ended 30 June 2009. 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 year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001.*

BDO Kendalls

BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd

Nick Michael
Director

Melbourne, 30 September 2009

Details of shares and options as at 30 September 2009:

Top holders

The 20 largest holders of each class of equity security as at 30 September 2009 were:

Fully paid ordinary shares

	Name	No. of Shares	%
1.	Peter Hunt & Jeanette Hunt <Hunt Super Fund A/C>	31,949,072	11.48
2.	Monaco Bond Pty Ltd <Mobilio Family A/C>	25,408,656	9.13
3.	Idinoc Pty Ltd <J & R Conidi Family A/C>	24,054,672	8.64
4.	Nick Conidi Pty Ltd <Conidi Family A/C>	21,309,232	7.65
5.	Gia Chau Pty Ltd	17,734,752	6.37
6.	Ms Stella Ha	17,734,752	6.37
7.	Harry Kaplan Pty Ltd <H & C Kaplan Family A/C>	17,157,600	6.16
8.	Relentless Corporation Pty Ltd <Sun Tzu A/C>	13,400,000	4.81
9.	Yarra Braes Pty Ltd <Yarra Braes A/C>	7,109,280	2.55
10.	Mr Wayne David McGregor	5,769,231	2.07
11.	Mr John Richard Sauvey	5,769,231	2.07
12.	Mr Russell Jonathon & Ms Jessica Rachel Fine <RJ Fine Services>	4,780,081	1.72
13.	Mr Jo Upton <Coup Discretionary A/C>	4,500,000	1.62
14.	Worldwide Pty Ltd	4,500,000	1.62
15.	Fine Superannuation Fund Pty Ltd <Fine Super Fund A/C>	3,789,919	1.36
16.	Liew Serng Yee	2,731,409	0.98
17.	Goay Choo Lim	2,300,000	0.83
18.	Colbern Fiduciary Nominees Pty Ltd	2,272,222	0.82
19.	Monteleone Melbourne Pty Ltd	2,254,560	0.81
20.	Two Tops Pty Ltd	2,222,222	0.80
		216,746,891	77.86

Options exercisable at $0.20 each on or before 31 March 2010

	Name	No. of Options	%
1.	Worldwide Pty Ltd	10,000,000	50.00
2.	Relentless Corporation Pty Ltd <Sun Tzu Trust>	5,000,000	25.00
3.	R J & J R Fine <RJ Fine Services A/C>	2,500,000	12.50
4.	Liew Serng Yee	1,500,000	7.50
5.	Anthony Ho	1,000,000	5.00
		20,000,000	100.00

Distribution schedules

A distribution of each class of equity security as at 30 September 2009:

Fully paid ordinary shares

Range	Holders	Units	%
1 - 1,000	3	752	0.00
1,001 - 5,000	17	59,710	0.02
5,001 - 10,000	70	678,722	0.24
10,001 - 100,000	107	4,975,591	1.79
100,001 - Over	116	272,701,466	97.95
Total	313	278,416,241	100.00

Options exercisable at $0.20 each on or before 31 March 2010

Range	Holders	Units	%
1 - 1,000	-	-	0.00
1,001 - 5,000	-	-	0.00
5,001 - 10,000	-	-	0.00
10,001 - 100,000	-	-	0.00
100,001 - Over	5	20,000,000	100.00
Total	5	20,000,000	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
Kingsley Amber Pty Ltd	34,449,072
Monaco Bond Pty Ltd	25,408,656
Nick Conidi Pty Ltd	24,809,232
Idinoc Pty Ltd	24,054,672
Ms Stella Ha	19,378,464
Gia Chau Pty Ltd	17,734,752
Harry Kaplan Pty Ltd	17,157,000

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 11,112 as at 30 September 2009):

Holders	Units
91	750,184

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.