

# **Health Corporation Limited and Controlled Entities**

**ABN 30 116 800 269**

**FINANCIAL REPORT  
30 JUNE 2011**

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## Corporate Directory

### Directors

Jason Davis  
Non-Executive Chairman

David Chapman- *Appointed on 30 March 2011*  
Non-Executive Director

Jim Malone – *Appointed on 30 June 2011*  
Non-Executive Director

Matthew Abrahams – *Resigned on 28 February 2011*  
Non-Executive Director

Ken Lee – *Resigned on 27 April 2011*  
Executive Director

Tony Ince – *Resigned on 30 June 2011*  
Non-Executive Director

### Company Secretary

Rachel Jelleff

### Registered Office

Level 21, Allendale Square  
77 St Georges Terrace  
Perth WA 6000  
Tel: +61 8 9389 2000  
Fax: +61 8 9389 2099

### Principal Place of Business

Level 21, Allendale Square  
77 St Georges Terrace  
Perth WA 6000  
Tel: +61 8 9389 2000  
Fax: +61 8 9389 2099

### Auditors

Hall Chadwick  
Level 29, St Martins Tower  
31 Market Street  
Sydney NSW 2000

### Solicitors

Steinepreis Paganin Lawyers  
Level 4, The Read Buildings  
16 Milligan Street  
Perth WA 6000

### Share Register

Boardroom Pty Limited  
Level 7, 207 Kent Street  
Sydney NSW 2000

### Stock Exchange Listing

Health Corporation Limited shares are listed on the Australian Stock Exchange (ASX)

- Code 'HEA' for ordinary shares &
- Code 'HEAO' for listed options

## Directors' Report

The Directors present their report on the company and its controlled entities for the financial year ended 30 June 2011.

### Directors

The names of directors in office at any time during or since the end of the year are:

Jason Davis *Chairman - Appointed 14 May 2010*

David Chapman *Non-Executive Director- Appointed 30 March 2011*

Jim Malone *Non-Executive Director – Appointed 30 June 2011*

Matthew Abrahams *Non-Executive Director – Resigned 28 February 2011*

Ken Lee *Executive Director- Resigned 27 April 2011*

Tony Ince *Non-Executive Director – Resigned 30 June 2011*

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

### Company Secretary

The following person held the position of company secretary at the end of the financial year:

Rachel Jelleff

### Principal Activities

During the period the consolidated group continued its pharmacy franchising operations up until 30 November 2010. The consolidated group also continued to review new complementary investment opportunities, including the acquisition of Intramedics Pty Ltd on 17 August 2010. Following the acquisition of Intramedics, a bioscience company on 17 August 2010, the consolidated group's principal activity is in the bioscience technology sector. The consolidated group is continuing to review a number of new investment and/or acquisition opportunities.

### Operating Results

The consolidated profit of the consolidated group amounted to \$1,935,168 (2010: loss-\$3,180,089).

### Dividends Paid or Recommended

No dividends have been paid or declared for payment during the year.

### Review of Operations

- Acquisition of Intramedics Pty Ltd
- Completion of \$972k placement to sophisticated investors
- Ongoing Review of New Investment Opportunities
- Disposal of Non-Performing Assets
- Change to the Board Composition

The Company has continued to review new strategic investment opportunities during the year. At this stage, no decision to acquire, farm-in or joint venture into any project has been made and the process of project review is continuing.

The Company is looking forward to an exciting future following the major asset restructure in late 2010, with the disposal of its loss making businesses and more recently the changes made to the Board, management and its corporate strategy to find a new lead project. The Company's strategic vision is to focus on value creation for shareholders through making an investment in a company or project with world class assets and an experienced management team.

## **Directors' Report**

### **Significant Changes in State of Affairs**

In November 2010, the Group sold the following subsidiaries to Ken Lee, a director of HEA on that date for a non-cash consideration of \$4,726,187:

- Health Information Pharmacy Franchising Pty Ltd (Franchising segment)
- Leverage Financing Pty Ltd (Leverage Financing segment)
- HIP IP Pty Ltd (Franchising segment)
- Chemconsult Australia Pty Ltd (Franchising segment)
- Asset Trust 1 (Leverage Financing segment)

### **After Balance Date Events**

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

### **Environmental Issues**

The consolidated group's operations are not subject to any significant environmental regulation under the law of the Commonwealth or of a State or Territory.

### **Future Developments, Prospects and Business Strategies**

The company will continue to pursue its policy of enhancing the prospect of greater returns to its investors through further strategic investments during the next financial year. In that light, the company is currently considering a number of complementary business investments and project acquisitions. Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

**Directors' Report**

<b>Jason Davis</b>	<b>Non-Executive Chairman</b>
Qualifications	MAppFin (Macq), Dip Fin Services (AFMA)
Experience	Mr Davis is a stockbroker and active investor in early stage companies. He has been involved in the management of public companies for 11 years.
Interest in Shares and Options	9,544,190 Ordinary Shares in Health Corporation Limited
Directorships held in other listed entities	Success Resources Global Ltd
<b>David Chapman</b>	<b>Non-Executive Director</b>
Qualifications	BSc (Hons) Geology MAUSIMM
Experience	Mr Chapman is a geologist with over 28 years resource industry experience as a senior and executive manager with WMC Resources and within the junior sector in Australia and overseas, particularly South America, including most recently with Mirabela Nickel Ltd.
Interest in Shares and Options	Nil
Directorships held in other listed entities	Nil
<b>Jim Malone</b>	<b>Non-Executive Director</b>
Qualifications	B.Comm
Experience	Mr Malone has worked as an accountant, stockbroker, business analyst and chief executive officer of medium sized businesses for the past 23 years, with the last 11 years in the natural resources sector. Mr Malone has a Bachelor of Commerce degree from the University of Western Australia and is a Member of the Australian Society of Certified Practising Accountants. Mr Malone's expertise is in the area of business development, investor relations, capital raisings, ASX liaison and financial and administrative management.
Interest In Shares and Options	Nil
Directorships held in other listed entities	Richmond Mining Limited Australian American Mining Corp Quest Petroleum NL Forge Resources Limited Exalt Resources Limited
<b>Rachel Jelleff</b>	<b>Company Secretary</b>
Experience	Miss Jelleff has 3 years' experience in administering public companies

## Directors' Report

### Remuneration Report

This report details the nature and amount of remuneration for each key management person of Health Corporation Limited, and for the executives receiving the highest remuneration.

#### Remuneration policy

The remuneration policy of Health Corporation Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The board of Health Corporation Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The remuneration policy, setting the terms and conditions for the key management personnel, was developed by the remuneration committee and approved by the board.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The remuneration committee reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel are also entitled to participate in the employee share and option arrangements.

The key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9% and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to key management personnel is valued at the cost to the company and expensed. Shares given to key management personnel are valued as the difference between the market price of those shares and the amount paid by key management personnel. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the consolidated group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

## Directors' Report

### Performance-based remuneration

As part of each member of the key management personnel's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between key management personnel with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the areas each key management personnel are involved in and have a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short- and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

### Company performance, shareholder wealth and director and executive remuneration

#### Key Management Personnel Remuneration Policy

The board's policy for determining the nature and amount of remuneration of key management for the group is as follows:

The remuneration structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement key management personnel are paid employee benefit entitlements accrued to date of retirement. Any options not exercised before or on the date of termination lapse.



## Directors' Report

## Details of Remuneration

## Compensation of Key Management Personnel Remuneration – 2011

Key Management Personnel	Short-term Benefits			Post-employment Benefits			Total
	Cash, salary and commissions	Other	Superannuation	Termination benefits	Equity	Share based Payment Options	
<b>Directors</b>							
Jason Davis	20,000	-	-	-	-	-	20,000
Ken Lee <sup>1</sup>	23,333	-	-	-	-	-	23,333
Matthew Abrahams <sup>2</sup>	10,699	-	-	-	-	-	10,699
Tony Ince <sup>3</sup>	22,619	-	-	-	-	-	22,619
David Chapman <sup>4</sup>	5,000	-	-	-	-	-	5,000
Jim Malone <sup>5</sup>	-	-	-	-	-	-	-
<b>Other Key Management Personnel</b>							
Rachel Jelleff	8,956	-	-	-	-	-	8,956
<b>Total</b>	<b>90,607</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,607</b>

<sup>1</sup> Resigned on 27 April 2011

<sup>2</sup> Resigned on 28 February 2011

<sup>3</sup> Resigned on 30 June 2011

<sup>4</sup> Appointed on 30 March 2011

<sup>5</sup> Appointed on 30 June 2011

## Compensation of Key Management Personnel Remuneration – 2010

Key Management Personnel	Short-term Benefits			Post-employment Benefits			Total
	Cash, salary and commissions	Other	Superannuation	Termination benefits	Equity	Share based Payment Options	
<b>Directors</b>							
Jason Davis	2,634	-	-	-	-	-	2,634
Ken Lee	187,500	-	16,875	-	-	-	204,375
Matthew Abrahams	20,000	-	-	-	-	-	20,000
Tony Ince	2,634	-	-	-	-	-	2,634
Graham Dunkley <sup>6</sup>	27,500	-	-	-	-	-	27,500
Greg Albert <sup>6</sup>	18,333	-	-	-	-	-	18,333
<b>Other Key Management Personnel</b>							
Rachel Jelleff	436	-	-	-	-	-	436
Stephen Sippel <sup>7</sup>	144,000	5,900	13,491	22,000	-	-	185,391
Brian Taylor <sup>8</sup>	66,047	-	5,944	41,987	-	-	113,978
Kaisha Park <sup>9</sup>	44,231	-	3,981	46,753	-	-	94,965
<b>Total</b>	<b>513,315</b>	<b>5,900</b>	<b>40,291</b>	<b>110,740</b>	<b>-</b>	<b>-</b>	<b>670,246</b>

<sup>6</sup> Graham Dunkley and Greg Albert resigned on 2 June 2010.

<sup>7</sup> Stephen Sippel resigned on 8 June 2010.

<sup>8</sup> Brian Taylor resigned on 2 November 2009.

<sup>9</sup> Kaisha Park resigned on 27 November 2009.

## Directors' Report

### Meetings of Directors

The Directors attendances at Director's meetings held during the year were:

	Directors' Meetings	
	Number eligible to attend	Number attended
Jason Davis	3	3
David Chapman	0	0
Jim Malone	0	0
Ken Lee	3	2
Matthew Abrahams	2	2
Tony Ince	3	2

### Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Health Corporation Limited support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Stock Exchange Corporate Governance Council, and considers that the Company is in compliance with those guidelines which are of importance to the commercial operation. During the financial year, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. A Corporate Governance Policy is included as part of this report.

### Options

At the date of this report the unissued ordinary shares of Health Corporation Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
28 August 2006	1 December 2011	\$1.20	6,250,000
31 August 2006	1 December 2011	\$1.20	410,000
9 September 2006	1 December 2011	\$1.20	1,184,000
15 December 2006	1 December 2011	\$1.20	3,105,384
8 May 2007	1 December 2011	\$1.20	474,070
30 June 2008	1 December 2011	\$1.20	1,774,970
			<u>13,198,424</u>

During the year ended 30 June 2011 and up to the date of this report, no ordinary shares of Health Corporation Limited have been issued on the exercise of options. No amounts are unpaid on any of the shares. No person entitled to exercise the options had or has any right by virtue of the options to participate in any share issue of any other body corporate.

### Indemnifying Officers or Auditor

During or since the end of the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure all of the directors of the company as named above, the company secretary and all executive officers of the company against any liability incurred as such by a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the notice of the liability and the amount of the premium.

## Directors' Report

### Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

### Non- audit services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the board of directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the service provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The fees for non-audit services were paid / payable to the external auditor during the year ended 30 June 2011 were \$11,500 for tax advisory services and \$20,000 for accounting advisory services.

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 12 of the financial report.

This report is made in accordance with a resolution of directors.



Jason Davis

Chairman

Dated 28 September 2011

**HEALTH CORPORATION LIMITED ABN 30 116 800 269  
AND CONTROLLED ENTITIES  
AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF  
HEALTH CORPORATION LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

- (a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

*Hall Chadwick*

Hall Chadwick  
Level 29, St Martins Tower  
31 Market Street, SYDNEY NSW 2001

*Graham Webb*

**Graham Webb**  
Partner  
Dated: 28 September 2011

**SYDNEY**

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## Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	CONSOLIDATED GROUP	
		30-Jun-11 \$	30-Jun-10 \$
Revenue	2	35,508	24,038
Finance costs	3 (A)	(95,137)	(47,153)
Professional and consultancy fees		(62,372)	(256,148)
Marketing expenses		(4,833)	(326)
Directors fees		(81,651)	(93,829)
Employee benefit expenses	3(B)	(14,318)	(21,339)
Occupancy expenses		(2,364)	-
Doubtful debt expense		(8,381)	-
Impairment expense		(137,356)	-
Other expenses		(78,535)	(85,811)
<b>Loss before income tax</b>		<b>(449,439)</b>	<b>(480,568)</b>
Income tax benefit	4	117,283	-
<b>Loss after income tax from continuing operations</b>		<b>(332,156)</b>	<b>(480,568)</b>
Profit from discontinued operations	29	2,267,324	(2,699,521)
<b>Total comprehensive income/(loss) for the year</b>		<b>1,935,168</b>	<b>(3,180,089)</b>
<b>Loss attributable to:</b>			
Members of the parent entity		1,935,168	(2,630,659)
Non-controlling interests		-	(549,430)
		<b>1,935,168</b>	<b>(3,180,089)</b>
<b>Earnings per share for loss attributable to the ordinary equity holders of the parent:</b>			
<b>From continuing and discontinued operations</b>			
Basic and diluted profit/(loss) per share (cents)		2.08	(5.60)
<b>From continuing operations</b>			
Basic and diluted profit/(loss) per share (cents)		(0.36)	(1.02)
<b>From discontinued operations</b>			
Basic profit/(loss) per share (cents)		2.44	(4.58)

The accompanying notes form part of these financial statements

## Statement of Financial Position

As at 30 June 2011

		CONSOLIDATED GROUP	
		30-Jun-11	30-Jun-10
		\$	\$
	<i>Note</i>		
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	1,070,885	59,470
Trade and other receivables	9	-	69,170
Inventory	10	-	-
Other Current Assets	15	22,938	86,123
<b>Total Current Assets</b>		<b>1,093,823</b>	<b>214,763</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	9	-	4,002
Financial Assets	11	-	13,912,935
Plant and equipment	13	-	-
Intangible assets	14	-	-
<b>Total Non-Current Assets</b>		<b>-</b>	<b>13,916,937</b>
<b>TOTAL ASSETS</b>		<b>1,093,823</b>	<b>14,131,700</b>
<b>CURRENT LIABILITIES</b>			
Trade & other payables	16	227,688	2,275,378
Borrowings	17	-	9,775,677
Short-term financial liabilities	18	37,833	4,486,912
Short term provisions	20	-	32,062
<b>Total Current Liabilities</b>		<b>265,521</b>	<b>16,570,029</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	18	-	700,000
<b>Total Non-Current Liabilities</b>		<b>-</b>	<b>700,000</b>
<b>TOTAL LIABILITIES</b>		<b>265,521</b>	<b>17,270,029</b>
<b>NET ASSETS</b>		<b>828,302</b>	<b>(3,138,329)</b>
<b>EQUITY</b>			
Contributed equity	21	5,514,533	4,032,490
Retained Earnings		(4,686,231)	(6,621,399)
<b>Parent interest</b>		<b>828,302</b>	<b>(2,588,909)</b>
Non-controlling interests		-	(549,420)
<b>TOTAL EQUITY</b>		<b>828,302</b>	<b>(3,138,329)</b>

The accompanying notes form part of these financial statements

**Statement of Changes in Equity**

For the year ended 30 June 2011

<b>Consolidated Group</b>	<b>Share Capital Ordinary \$</b>	<b>Retained Earnings \$</b>	<b>Non- Controlling Interest \$</b>	<b>Total \$</b>
<b>Balance at 1 July 2009</b>	<b>3,981,940</b>	<b>(3,990,740)</b>	<b>10</b>	<b>(8,790)</b>
Loss attributable to members of parent entity	-	(2,630,659)	-	(2,630,659)
Loss attributable to non-controlling interests	-	-	(549,430)	(549,430)
Shares issued during the year	52,050	-	-	52,020
Transaction costs	(1,500)	-	-	(1,500)
<b>Balance at 30 June 2010</b>	<b>4,032,490</b>	<b>(6,621,399)</b>	<b>(549,420)</b>	<b>(3,138,329)</b>
Profit attributable to members of parent entity	-	1,935,168	-	1,935,168
Disposal of non-controlling interests	-	-	549,420	549,420
Shares issued during the year	1,528,998	-	-	1,528,998
Transaction costs	(46,955)	-	-	(46,955)
<b>Balance at 30 June 2011</b>	<b>5,514,533</b>	<b>(4,686,231)</b>	<b>-</b>	<b>828,302</b>

The accompany notes form part of these financial statements

## Statement of Cash Flows

For the year ended 30 June 2011

		CONSOLIDATED GROUP	
Note	30-Jun-11	30-Jun-10	
	\$	\$	
<b><i>Cash flows from operating activities</i></b>			
	613,669	1,894,159	
	24,466	-	
	(1,069,770)	(2,262,788)	
	(24,472)	(673,912)	
	117,283	-	
<b>25</b>	<b>(338,824)</b>	<b>(1,042,541)</b>	
<b><i>Cash flows from investing activities</i></b>			
	-	(5,683)	
	(5,000)	(9,199)	
	<b>(5,000)</b>	<b>(14,882)</b>	
<b><i>Cash flows from financing activities</i></b>			
	(25,000)	(1,604,258)	
	(17,878)	-	
	85,000	430,099	
	(2,000)	1,150,888	
	-	(700,000)	
	1,362,042	50,550	
	-	900,000	
	1,402,164	227,279	
	<b>1,058,340</b>	<b>(830,144)</b>	
	(46,925)	-	
	59,470	889,614	
<b>8</b>	<b>1,070,885</b>	<b>59,470</b>	

The accompany notes form part of these financial statements



## Notes to the Financial Statements

These consolidated financial statements and notes represent those of Health Corporation Limited and Controlled Entities (the “consolidated group” or “group”).

The separate financial statements of the parent entity, Health Corporation Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (“AASB”) and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (“IFRS”) as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and they have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### Financial report prepared on a going concern basis

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

The consolidated entity incurred a loss from continuing operations of \$332,156 (2010: \$480,568) during the year ended 30 June 2011.

In the directors’ opinion there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable for the following reasons:

- (i) In November 2010 the consolidated entity disposed of its active subsidiaries. Pursuant to the disposal transaction, all the borrowings were assigned to the buyer thus removing the loans servicing these subsidiaries and repayment obligations from the group.
- (ii) As the operating subsidiaries were disposed of, the group has no funding operational requirements except for ongoing administrative corporate costs.
- (iii) The company completed successful share placements during the year raising a total of \$1,362,042 cash net of share issue costs.
- (iv) As at 30 June 2011 the group had cash and cash equivalents of \$1,070,885 and \$861,980 as at the date of this report and has sufficient cash to enable the company to pay its debts as and when they become due and payable for at least the next 12 months from the date of this report.
- (v) The Company is continuing to review a number of new investment and/or acquisition opportunities.

#### a. Principals of consolidation

A controlled entity is an entity over which Health Corporation Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

## Notes to the Financial Statements

A list of controlled entities is contained in Note 12 to the financial statements. All controlled entities have a 30 June financial year end.

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year ended.

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been charged where necessary to ensure consistencies with those policies applied by the parent entity.

Non-controlling interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the group, are shown separately within the Equity section of the consolidated Statement of Financial Position and in the consolidated Statement of Comprehensive Income.

#### b. Business Combination

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (ie parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

## Notes to the Financial Statements

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### c. Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movement in deferred tax asset deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legal enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legal enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

#### *Tax Consolidation*

Health Corporation Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidated legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the 'stand-alone taxpayer' approach to allocation. Current liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 21 October 2005. The tax consolidated group has entered a tax funding agreement whereby each company in the group contributes to the income tax payable by the group in proportion to their contributions to the group's taxable income. Differences between the amounts of net tax assets and liabilities be derecognised and the net amounts recognised pursuant to the funding agreement are recognised as either a contribution by a distribution to the head entity.

## Notes to the Financial Statements

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### d. Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

##### *Plant and equipment*

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

##### *Depreciation*

The depreciable amount of all fixed assets including building and capitalised lease assets, is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Office furniture & fittings	7.5%
Plant and equipment	7.5 - 40%
Leased plant and equipment	7.5 - 40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

#### e. Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

## Notes to the Financial Statements

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### f. Financial Instruments

##### *Initial Recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

##### *Classification and subsequent measurement*

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

##### *Available - for - sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed determinable payments.

##### *Fair value*

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

##### *Impairment*

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

##### *Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

## Notes to the Financial Statements

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### g. Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### h. Intangibles

##### *Intellectual Property*

Intellectual Property rights comprise various applications, intellectual knowledge and know-how. The value of intellectual property consists of the capitalised cost incurred in acquiring intellectual property less amortisation.

#### i. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

##### *Equity-settled compensation*

The Group operates a number of share-based compensation plans. These include both a share option arrangement and an employee share scheme. The bonus element over the exercise price of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares of the options granted.

#### j. Segment Reporting

An operating segment is a component of the consolidated entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the consolidated entity's other components. The group has disposed of all active subsidiaries in franchising and financing operations which were recognised as reportable segments in the financial report for the year ended 30 June 2010. Based on the information used for internal reporting purposes by the chief operating decision maker, being the executive management that makes strategic decisions, at 30 June 2011 the group operates in a single reportable segment being the biotechnology segment.

#### k. Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

#### l. Inventories

Inventories are measured at the lower costs and net realisable value.

#### m. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

#### n. Revenue

Revenue from the sale of goods and franchise fees is recognised upon the delivery of goods to customers and the entering into a franchise agreement.

## Notes to the Financial Statements

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

#### **o. Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

#### **p. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. 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 in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### **q. Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

#### **r. Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

#### *Key Estimates — Impairment*

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. Management has taken a conservative approach and fully wrote off the carrying value of the goodwill arising on the acquisition during the year of Intramedics Pty Ltd amounting to \$137,356.

### NOTE 2: REVENUE

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Interest income - other persons	7,115	38
Administration fees	10,000	24,000
Debt forgiveness*	18,393	-
	35,508	24,038

\* Debt forgiveness represents a loan that was payable to a third party which was owed by Intramedics. This amount was subsequently forgiven.

## Notes to the Financial Statements

## NOTE 3: LOSS FOR THE YEAR

## A. FINANCE COSTS

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Finance costs:		
External	95,137	47,153
Total finance costs	95,137	47,153
Rental expenses on operating leases:		
Minimum lease repayments	2,364	122,651

## B. EMPLOYEE BENEFITS

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Wages and salaries	14,318	21,339
Superannuation	-	-
	14,318	21,339



## Notes to the Financial Statements

## NOTE 4: INCOME TAX EXPENSE

		CONSOLIDATED GROUP	
		30-Jun-11	30-Jun-10
		\$	\$
(a)	The components of income tax expense comprise:		
	current tax	-	-
	deferred tax	227,196	(827,422)
	DTA not recognised (losses)	225,515	704,152
	DTA not recognised (temporary)	(452,711)	123,270
	Research and development tax refund	(117,283)	-
		(117,283)	-
b)	The prima facie tax on profit /(loss) from continuing operations and discontinued operations before income tax is reconciled to the income tax as follows:		
	Prima facie tax payable on profit / (loss) from continuing operations and discontinued operations before income tax at 30%	545,366	(144,170)
	Add:		
	Tax effect of:		
	other non-allowable items	219,363	126,605
	Other assessable items	233,697	-
	Less:		
	Tax effect of:		
	Non-assessable items	(719,001)	-
	Loss of discontinued operations	(52,229)	(809,857)
	DTA not recognised (losses)	225,515	704,152
	DTA not recognised (temporary)	(452,711)	123,270
	Research and development tax refund	(117,283)	-
	Income tax expense/(benefit)	(117,283)	-
	The applicable weighted average effective tax rates are as follows: Deferred Tax Assets Not Brought to Account, the benefits of which will only be realised if the conditions for deductibility set out in Note (1) occur		
	Tax Losses	1,462,625	1,661,257
	Temporary Differences	41,146	485,149
	Total	1,503,771	2,146,406

## Notes to the Financial Statements

## NOTE 5: KEY MANAGEMENT PERSONNEL DISCLOSURES

The totals of remuneration paid to KMP of the company and the group during the year were as follows:

	CONSOLIDATED GROUP	
	30-Jun-11 \$	30-Jun-10 \$
Short-term employee benefits	90,607	519,215
Post-employment benefits	-	151,031
	90,607	670,246

The key management personnel disclosures include the following directors and other key management personnel who have resigned or were appointed during the year:

Ken Lee - Resigned on 27 April 2011

Matthew Abrahams - Resigned on 28 February 2011

Tony Ince - Resigned on 30 June 2011

David Chapman - Appointed on 30 March 2011

Jim Malone - Appointed on 30 June 2011

**(a) Options Holdings of Key Management Personnel**

Details of options and rights held directly, indirectly or beneficially by Key Management Personnel and their parties are as follows.

**OPTION HOLDINGS 2011**

There were options which were held by key management personnel as at 30 June 2011

Key Management Personnel	Balance 1.7.2010	Granted as Compensation	Options Exercised	Net Other Changes	Balance 30.6.2011	Total Vested 30.6.2010	Total Exercisable 30.6.2010
<b>Directors</b>							
Jason Davis	-	-	-	-	-	-	-
Ken Lee <sup>1</sup>	5,750,000	-	-	(1,407,870)	4,342,130	4,342,130	4,342,130
Matthew Abrahams <sup>2</sup>	17,500	-	-	-	17,500	17,500	17,500
Tony Ince <sup>3</sup>	-	-	-	-	-	-	-
David Chapman <sup>4</sup>	-	-	-	-	-	-	-
Jim Malone <sup>5</sup>	-	-	-	-	-	-	-
<b>Other Key Management Personnel</b>							
Rachel Jelleff	-	-	-	-	-	-	-
Total	5,767,500			(1,407,870)	4,359,630	4,359,630	4,359,630

## Notes to the Financial Statements

## NOTE 5: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

## OPTION HOLDINGS 2010

There were options which were held by key management personnel as at 30 June 2010

Key Management Personnel	Balance 1.7.2009	Granted as Compensation	Options Exercised	Net Change Other	Balance 30.6.2010	Total Vested 30.6.2010	Total Exercisable 30.6.2010
<b>Directors</b>							
Jason Davis	-	-	-	-	-	-	-
Ken Lee <sup>1</sup>	5,750,000	-	-	-	5,750,000	5,750,000	5,750,000
Matthew Abrahams <sup>2</sup>	17,500	-	-	-	17,500	17,500	17,500
Tony Ince <sup>3</sup>	-	-	-	-	-	-	-
Graham Dunkley <sup>6</sup>	250,000	-	-	-	250,000	250,000	250,000
Greg Albert <sup>6</sup>	250,000	-	-	-	250,000	250,000	250,000
<b>Other Key Management Personnel</b>							
Rachel Jelleff	-	-	-	-	-	-	-
Stephen Sippel <sup>7</sup>	-	-	-	-	-	-	-
Brian Taylor <sup>8</sup>	2,100	-	-	-	2,100	2,100	2,100
Kaisha Park <sup>9</sup>	81,700	-	-	-	81,700	81,700	81,700
<b>Total</b>	<b>6,351,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,351,300</b>	<b>6,351,300</b>	<b>6,351,300</b>

<sup>1</sup> Resigned on 27 April 2011

<sup>2</sup> Resigned on 28 February 2011

<sup>3</sup> Resigned 30 June 2011

<sup>4</sup> Appointed on 30 March 2011

<sup>5</sup> Appointed on 30 June 2011

<sup>6</sup> Resigned 2 June 2010

<sup>7</sup> Resigned on 8 June 2010

<sup>8</sup> Resigned on 2 November 2009

<sup>9</sup> Resigned on 27 November 2009

**(b) Shareholdings of Key Management Personnel**

Details of equity instruments (other than options and rights) held directly, indirectly or beneficially by Key Management Personnel and their parties are as follows.

## SHAREHOLDINGS 2011

Key Management Personnel	Balance 1.7.2010	Granted as Compensation	Options Exercised	Net Other Changes*	Balance 30.6.2011
<b>Directors</b>					
Jason Davis	1,920,000	-	-	7,624,190	9,544,190
Ken Lee <sup>1</sup>	19,611,641	-	-	(27,667)	19,583,974
Matthew Abrahams <sup>2</sup>	50,000	-	-	33,334	83,334
Tony Ince <sup>3</sup>	-	-	-	-	-
David Chapman <sup>4</sup>	-	-	-	-	-
Jim Malone <sup>5</sup>	-	-	-	-	-
<b>Other Key Management Personnel</b>					
Rachel Jelleff	-	-	-	49,690	49,690
<b>Total</b>	<b>21,581,641</b>	<b>-</b>	<b>-</b>	<b>7,679,547</b>	<b>29,261,188</b>

\* Net other changes are as a result of shares allotted on share issue and other movement due to changes in directors' related entities.

## Notes to the Financial Statements

## NOTE 5: KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

## SHAREHOLDINGS 2010

Key Management Personnel	Balance 1.7.2009	Granted as Compensation	Options Exercised	Net Other Changes *	Balance 30.6.2010
<b>Directors</b>					
Jason Davis	-	-	-	1,920,000	1,920,000
Ken Lee <sup>1</sup>	34,642,174	-	-	(15,030,533)	19,661,641
Matthew Abrahams <sup>2</sup>	50,000	-	-	-	50,000
Tony Ince <sup>3</sup>	-	-	-	-	-
Graham Dunkley <sup>4</sup>	250,001	-	-	30,401	280,402
Greg Albert <sup>5</sup>	250,000	-	-	-	250,000
<b>Other Key Management Personnel</b>					
Rachel Jelleff	-	-	-	-	-
Stephen Sippel <sup>7</sup>	46,333	-	-	-	46,333
Brian Taylor <sup>8</sup>	10,000	-	-	(8,800)	1,200
Kaisha Park <sup>9</sup>	68,401	-	-	-	68,401
<b>Total</b>	<b>35,316,909</b>	<b>-</b>	<b>-</b>	<b>(13,088,932)</b>	<b>22,227,977</b>

<sup>1</sup> Resigned on 27 April 2011

<sup>2</sup> Resigned on 28 February 2011

<sup>3</sup> Resigned on 30 June 2011

<sup>4</sup> Appointed on 30 March 2011

<sup>5</sup> Appointed on 30 June 2011

<sup>6</sup> Resigned on 2 June 2010

<sup>7</sup> Resigned on 8 June 2010

<sup>8</sup> Resigned on 2 November 2009

<sup>9</sup> Resigned on 27 November 200

## NOTE 6: AUDITOR'S REMUNERATION

	CONSOLIDATED GROUP	
	30-Jun-11 \$	30-Jun-10 \$
<b>Remuneration of the auditors of the parent entity:</b>		
Audit and review of financial reports	48,000	98,987
Accounting advisory services	20,000	15,775
Tax advisory services	11,500	-
<b>Total auditors' remuneration</b>	<b>79,500</b>	<b>114,762</b>

## Notes to the Financial Statements

## NOTE 7: EARNINGS PER SHARE

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
<i>Reconciliation of earnings to profit or loss</i>		
Earnings used in calculating basic and diluted EPS	1,935,168	(3,180,089)
Loss used in calculating basic and diluted loss per share from continuing operations	(332,156)	(480,568)
Loss from discontinued operations	2,267,324	(2,699,521)
Loss attributable to non-controlling interests	-	549,430
Loss used in calculating basic loss per share from discontinuing operations	2,267,324	(2,150,091)
	<b>Number</b>	<b>Number</b>
<i>Weighted average number of ordinary shares and potential ordinary shares</i>		
Weighted average number of ordinary shares used in calculating basic EPS	88,745,294	46,992,306
Weighted average number of potential ordinary shares used in calculating diluted EPS	88,745,294	46,992,306
Diluted earnings per share is not reflected for discontinued operations as the result is anti-dilutive in nature.		
Anti-dilutive options on issue not used in dilutive EPS calculation	13,198,424	13,198,424

## NOTE 8: CASH AND CASH EQUIVALENTS

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Cash at bank and in hand	1,070,885	59,470
	1,070,885	59,470

## Notes to the Financial Statements

## NOTE 9: TRADE AND OTHER RECEIVABLES

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
<b>Current:</b>		
Trade receivables	-	379,996
Less: Provision for doubtful debts	-	(310,826)
Interest receivable	-	-
Other receivables	-	-
Loans to franchisees	-	-
	-	69,170
<b>Non-current:</b>		
Loans to franchisees	-	568,650
Loans to related entities	-	239,754
Less: Provision for non-repayment of loan	-	(804,402)
	-	4,002

## Ageing analysis

## a) Impaired trade receivables

As at 30 June 2011 \$Nil (2010: \$310,829) of the trade receivables of the Group was impaired. The ageing analysis of the trade receivables is as follows:

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
0-30 days	-	-
31-60 days	-	17,803
61-90 days	-	10,450
90+ days	-	282,576
	-	310,829

## b) Past due but not impaired

As at 30 June 2011, trade receivables of \$Nil (2010: \$32,792) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
31-60 days	-	19,787
61-90 days	-	2,200
90+ days	-	10,805
	-	32,792

## Notes to the Financial Statements

## NOTE 9: TRADE AND OTHER RECEIVABLES (CONTINUED)

## c) Interest rate risk

Information about the Group's exposure to the interest rate risk in relation to trade and other receivables is provided in Note 31.

## d) Credit terms

Credit terms which apply to trade customers are payment within 30 days from the date of invoice.

## e) Fair value and credit risk

Due to short-term nature of trade receivables, the carrying amount of these receivables approximates their fair value. For further information on the risk management policy of the Group and the credit quality of the trade receivables, refer to Note 31.

## NOTE 10: INVENTORY

	CONSOLIDATED GROUP	
	30-Jun-11 \$	30-Jun-10 \$
Opening balance	-	8,445
Purchases	-	-
Less Sales	-	(3,064)
Stock written off	-	(5,381)
Closing balance	-	-

## NOTE 11: FINANCIAL ASSETS

	CONSOLIDATED GROUP	
	30-Jun-11 \$	30-Jun-10 \$
Loans and receivables	-	13,912,935

The carrying value of the loans and receivables are secured against pharmacy assets. The current valuation of the pharmacy assets exceeded the carrying value of the investments. Valuation of the pharmacies will be performed by Independent Pharmacy Valuation Specialists on a regular basis to ensure that value of the pharmacy asset exceeds the carrying value of the investment. These loans and receivables were disposed off on disposal of discontinued operation on 30 November 2010, refer Note 29.

## NOTE 12: CONTROLLED ENTITIES

	Country of incorporation	Percentage Owned (%)*	
		2011	2010
<i>Parent Entity:</i>			
Health Corporation Limited	Australia	-	-
<i>Subsidiaries of Health Corporation Limited:</i>			
Health Information Pharmacy Franchising Pty Limited	Australia	-	100
HEA Management Pty Limited	Australia	100	100
Intramedics Pty Limited	Australia	100	-
Leverage Financing Pty Limited	Australia	-	100
HP IP Pty Limited	Australia	-	100
HIP MBA Pty Ltd	Australia	100	100
Cheomconsult Australia Pty Limited	Australia	-	100
Asset Trust 1	Australia	-	50

\* Percentage of voting power in proportion to ownership

## Notes to the Financial Statements

## NOTE 12: CONTROLLED ENTITIES (CONTINUED)

## Acquisition of controlled entity

On 17 August 2010, the Company acquired Intramedics Pty Ltd (Intramedics), a bioscience company involved in the development of a biologically stable form of Hyaluronic Acid ("HA"). Loss arising from the acquisition of Intramedics included in the consolidated statement of comprehensive income amounted to \$ 120,218.

Acquisition of Intramedics was settled by the issue of 6 million fully paid ordinary shares in the Company at 2 cents per share. The fair value of acquired net assets and the resulting goodwill are as follows:

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Cash on hand	120	-
<b>Identifiable assets acquired</b>		
Cash on hand	120	-
Trade and other receivables	917	-
Loans payable	(18,393)	-
<b>NET LIABILITIES ACQUIRED</b>	<b>(17,356)</b>	<b>-</b>
<i>Consideration paid</i>		
Fully paid ordinary shares in the Company - 6 million shares at 2 cents per share	120,000	-
Goodwill recognised on acquisition	137,356	-

Management have taken a conservative approach and fully impaired goodwill arising on the acquisition of Intramedics.

## Disposal of controlled entities

In November 2010, the Group disposed of the following subsidiaries:

- Health Information Pharmacy Franchising Pty Ltd (Franchising segment)
- Leverage Financing Pty Ltd (Leverage Financing segment)
- HIP IP Pty Ltd (Franchising segment)
- Chemconsult Australia Pty Ltd (Franchising segment)
- Asset Trust 1 (Leverage Financing segment)

The total profit arising from the disposal of the above subsidiaries included in the consolidated statement of comprehensive income amounted to \$2,267,324 through the transfer of liabilities with the disposal of subsidiaries.

Refer note 29 for further details on the disposal.



## Notes to the Financial Statements

## NOTE 13: PLANT AND EQUIPMENT

## a) Carrying amount of Plant and Equipment

	CONSOLIDATED GROUP	
	30-Jun-11 \$	30-Jun-10 \$
<b><i>Plant and equipment</i></b>		
At cost	-	79,354
Accumulated depreciation	-	(57,986)
Accumulated impairment losses	-	(21,368)
	-	-
<b><i>Office furniture and fittings</i></b>		
At cost	-	52,593
Accumulated depreciation	-	(16,616)
Accumulated impairment losses	-	(35,977)
	-	-
<b><i>Leased plant and equipment</i></b>		
At cost	-	114,195
Accumulated depreciation	-	(55,977)
Accumulated impairment losses	-	(58,218)
	-	-
<b>Total carrying value of Plant and equipment</b>	-	-

## b) Movement in Carrying amounts

Movement in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

CONSOLIDATED GROUP	Plant and equipment	Office furniture and fittings	Leased plant and equipment	Total
<b>Balance at 1 July 2009</b>	34,346	40,770	63,406	138,522
Additions	5,683	-	-	5,683
Disposals	-	-	-	-
Impairment	(21,368)	(35,977)	(58,218)	(115,563)
Depreciation	(18,661)	(4,793)	(5,188)	(28,642)
<b>Balance at 30 June 2010</b>	-	-	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Impairment	-	-	-	-
Depreciation	-	-	-	-
<b>Balance at 30 June 2011</b>	-	-	-	-

## Notes to the Financial Statements

## NOTE 14: INTANGIBLE ASSETS

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
<b>Goodwill</b>		
Balance at the beginning of the year	-	-
Arising on business combination	137,356	-
Impairment	(137,356)	-
<b>Net carrying value</b>	-	-
<b>Intellectual property - HIP Franchise system</b>		
Balance at the beginning of the year	-	420,740
Impairment	-	(420,740)
<b>Net carrying value</b>	-	-
<b>Software development - Chemconsult</b>		
Balance at the beginning of the year	-	13,233
Additions	-	9,166
Amortisation charge	-	(8,365)
Impairment	-	(14,034)
<b>Net carrying value</b>	-	-
<b>Total intangibles</b>	-	-

Management have taken a conservative approach given the performance of the group and fully impaired the HIP Franchise system and Chemconsult software.

## NOTE 15: OTHER ASSETS

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
<b>Current</b>		
Deposit paid	-	29,016
GST receivable	22,938	57,107
	<b>22,938</b>	<b>86,123</b>

## NOTE 16: TRADE AND OTHER PAYABLES

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
<b>Current</b>		
Trade payables	149,500	372,865
Sundry payables and accrued expenses	78,188	1,602,241
Rebates and claims payable	-	287,072
Customer deposits	-	13,200
	<b>227,688</b>	<b>2,275,378</b>

## Notes to the Financial Statements

## NOTE 17: BORROWINGS

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
<i>Secured liabilities</i>		
Bank loans	-	9,775,677
<b>Total current borrowings</b>	-	<b>9,775,677</b>
<i>Non-current</i>		
Bank loans	-	-
<b>Total non-current borrowings</b>	-	<b>-</b>
	-	<b>9,775,677</b>

## a) Collateral provided:

The bank loan is secured by the assets of the various pharmacies for which the group has on lent those funds. Refer Note 11.

The consolidated entity has classified the bank loans as current, due to Asset Trust 1, a subsidiary of the Group, being unable to meet its bank covenants. The Directors acknowledge that the bank may call in this debt at any time.

## NOTE 18: FINANCIAL LIABILITIES

		CONSOLIDATED GROUP	
		30-Jun-11	30-Jun-10
		\$	\$
Hire purchase	(a)	-	17,878
Loan payable to director	(c)	37,833	230,000
Convertible note	(b)	-	50,000
Loans payable to other entities		-	772,856
Loans payable to related entities		-	3,416,178
		<b>37,833</b>	<b>4,486,912</b>
<i>Non-current</i>			
Loans payable to related entities		-	700,000
<b>Total non-current borrowings</b>		-	<b>700,000</b>
		<b>37,833</b>	<b>5,186,912</b>

## a) Secured liabilities

The Groups secured financial liabilities are comprised of hire purchase liabilities which are secured by a charge over the hire purchased assets.

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Hire purchase -current	-	17,878
Hire purchase – non-current	-	-
	-	<b>17,878</b>

## b) Convertible note

A convertible note deed with a two year term effect from 12<sup>th</sup> December 2008 – 12<sup>th</sup> December 2010. Interest rate of 12% per annum calculated daily, based on 365 day year. At any time prior to the maturity date Notes can be converted into ordinary shares.

## Notes to the Financial Statements

## c) Loan payable to director

The loan is a short term advance from a company direct that is interest free and has no fixed repayment terms. The loan was settled subsequent to year-end.

## NOTE 19: PARENT COMPANY DISCLOSURES

	30-Jun-11	30-Jun-10
	\$	\$
Current Assets	1,093,823	608,112
Non-Current Assets	25,002	4,161,908
<b>Total Assets</b>	<b>1,118,825</b>	<b>4,770,020</b>
Current Liabilities	265,522	4,942,091
Non-Current Liabilities	-	700,000
<b>Total Liabilities</b>	<b>265,522</b>	<b>5,642,091</b>
Contributed equity	5,514,532	4,032,490
Accumulated losses	(4,661,229)	(4,904,561)
<b>Total Equity</b>	<b>853,303</b>	<b>(872,071)</b>
<b>Profit / (Loss) for the year</b>	<b>243,332</b>	<b>(913,831)</b>
<b>Total comprehensive income / (loss) for the year</b>	<b>243,332</b>	<b>(913,831)</b>

## NOTE 20: PROVISIONS

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
<i>Current</i>		
Provision for employee entitlements	-	32,062
	-	<b>32,062</b>
<i>Reconciliation of movement in provisions</i>		
<b>Opening balance at the beginning of the year</b>	<b>32,062</b>	<b>77,805</b>
Additional provisions	-	28,174
Amount used / transferred on disposal of subsidiaries	(32,062)	(73,917)
<b>Balance at the end of the year</b>	<b>-</b>	<b>32,062</b>

**Provision for Long-term Employee Entitlements**

A provision has not been recognised for employee entitlements relating to long service leave as this amount is immaterial. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

## Notes to the Financial Statements

## NOTE 21: ISSUED CAPITAL

	30-Jun-11 NUMBER	30-Jun-10 NUMBER	30-Jun-11 \$	30-Jun-10 \$
Ordinary shares on issue, fully paid	190,000,000	53,266,827	5,514,533	4,032,490
	<b>190,000,000</b>	<b>53,266,827</b>	<b>5,514,533</b>	<b>4,032,490</b>

## a) Reconciliation of movement in share capital

<i>Reconciliation of share movement 2011</i>		No. Of Shares	Issue Price	Amount
Opening balance at beginning of year		53,266,827		4,032,490
Share issue – August 2010		35,511,218	0.0075	266,334
Share issue - December 2010		6,000,000	0.0200	120,000
Share issue - March 2011		14,200,000	0.012	170,400
Share issue - June 2011		81,021,955	0.012	972,264
				<u>5,561,488</u>
Less costs of issue				(46,955)
At the end of year		<u>190,000,000</u>		<u>5,514,533</u>
<i>Reconciliation of share movement 2010</i>		No. Of Shares	Issue Price	Amount
Opening balance at beginning of year	1/07/2009	46,326,827	-	3,981,940
Share issue	27/05/2010	6,940,000	0.0075	52,050
				<u>4,033,990</u>
Less costs of issue				(1,500)
At the end of year		<u>53,266,827</u>		<u>4,032,490</u>

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

## b) Options

- i. For information relating to the Health Corporation Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end refer to Note 26 Share-based Payments.
- ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 26 Share-based Payments.

## c) Capital risk management

The group's objective when managing capital is to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the group manages its capital by assessing the group's financial risk and adjusts its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year.

## Notes to the Financial Statements

## NOTE 22: CAPITAL AND LEASING COMMITMENTS

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Payable - minimum lease payments:		
- not later than 12 months	-	20,608
- between 12 months and 5 years	-	-
- later than 5 years	-	-
Minimum lease payments	-	20,608
Less: Future finance charges	-	(2,730)
<b>Present value of minimum lease payments</b>	-	<b>17,878</b>
<b><i>b) Operating lease commitments</i></b>		
Non-cancellable operating leases contracted for, but not capitalised in the financial statements		
- not later than 12 months	-	85,880
- between 12 months and 5 years	-	-
- later than 5 years	-	-
	-	<b>85,880</b>
<b>Total commitments</b>	-	<b>103,758</b>

## NOTE 23: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no known contingent liabilities or contingent assets at the balance date.

## NOTE 24: SEGMENT REPORTING

**Basis of accounting for purposes of reporting by operating segments**

Accounting policies adopted

Unless otherwise stated, all amounts reported to the executive management team, as the Chief decision maker with respect to operating segments, are determined in accordance with the accounting policies that are consistent to those adopted in the annual financial statements of the Group.

**Segment reporting – 30 June 2011**

The group has disposed of all active subsidiaries in franchising and financing operations which were recognised as reportable segments in the financial report for the year ended 30 June 2010. Based on the information used for internal reporting purposes by the chief operating decision maker, being the executive management that makes strategic decisions, at 30 June 2011 the group operates in a single reportable segment being the biotechnology segment.

## Notes to the Financial Statements

## NOTE 24: SEGMENT REPORTING (CONTINUED)

Segment reporting – 30 June 2010	Franchising Operations \$	Leverage Finance Operations \$	Total \$
<b>Revenue</b>			
External revenue	1,272,066	1,470,791	2,742,857
Total segment revenue	1,272,066	1,470,791	2,742,857
<b>Results</b>			
Segment result	(1,887,578)	(1,292,511)	(3,180,089)
Loss before income tax	(1,887,578)	(1,292,511)	(3,180,089)
Income tax expense	-	-	-
Loss after income tax	(1,887,578)	(1,292,511)	(3,180,089)
<b>Assets</b>			
Segment assets	198,235	13,933,465	14,131,700
Total assets	198,235	13,933,465	14,131,700
<b>Liabilities</b>			
Segment liabilities	(6,400,063)	(10,869,966)	(17,270,029)
Total liabilities	(6,400,063)	(10,869,966)	(17,270,029)
<b>Other</b>			
Acquisition of non-current segment assets	14,849	-	14,849
Depreciation of segment assets	37,039	-	37,039

## Notes to the Financial Statements

## NOTE 25: CASH FLOW INFORMATION

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
<i>Reconciliation of Cash Flow from Operations with loss after Income Tax</i>	\$	\$
Loss after income tax	1,935,168	(3,180,089)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in loss		
Profit from discontinued operations	(2,552,373)	-
Bad debts written off	8,381	-
Impairment expense	137,356	-
Depreciation	-	37,039
Third party loan forgiven	(18,393)	-
Provision for doubtful loans	-	940,304
Write off plant and equipment	-	115,563
Write off Intangible assets	-	434,774
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase) in trade and other receivable	(186,201)	(162,925)
Decrease in inventory	-	8,445
Increase in tax refundable	-	-
Increase in trade payables and accruals	337,238	810,091
(Decrease) / increase in provisions	-	(45,743)
<b>Cash flow from operations</b>	<b>(338,824)</b>	<b>(1,042,541)</b>

The following were the significant non-cash financing activities of the consolidated group during the financial year ended 30 June 2011:

- (i) Settlement of \$25,000 outstanding on a convertible note by a Company Director
- (ii) Settlement of \$12,833 in outstanding directors' fees by a Company Director

## NOTE 26: SHARE-BASED PAYMENTS

	2011		2010	
	Number of options NUMBER	Weighted average exercise price \$	Number of options NUMBER	Weighted average exercise price \$
Outstanding at the beginning of the year	2,508,424	1.20	2,508,424	1.20
Outstanding at year-end	2,508,424	1.20	2,508,424	1.20
Exercisable at year-end	2,508,424	1.20	2,508,424	1.20

There were no options exercised during the year ended 30 June 2011. These options had a weighted average share price of \$1.20 at exercise date.

The options outstanding at 30 June 2011 had a weighted average exercise price of \$1.20 and a weighted average remaining contractual life of 5 months expiring on 1 December 2011.

These share options were issued to former employees of the group under the Health Corporation Limited employee option plan.

No options were granted during the year.



## Notes to the Financial Statements

## NOTE 27: EVENTS AFTER THE BALANCE SHEET DATE

There were no reportable subsequent events that would have a material impact on the financial report for the period ended 30 June 2011.

## NOTE 28: RELATED PARTY TRANSACTIONS

## Key management personnel loans

## Loans to/(from) directors and related parties

	Balance at 1-Jul-10 \$	Net movement in loans \$	Balance at 30-Jun-11 \$
<b>Non interest bearing loans</b>			
Mr Ken Lee	(229,968)	229,968	-
Health Information Services Trust	212,751	(212,751)	-
HIP On-Line Pty Limited	3,971	(3,971)	-
HIP Brimbank Pty Limited	(860,284)	860,284	-
K & J Lee Partnership(HIP C)	(180,000)	180,000	-
HIP Morningside	(29,563)	29,563	-
Jason Davis	-	(37,833)	(37,833)
<b>Interest bearing loans</b>			
Ken & Julia Lee Partnership	(2,443,689)	2,443,689	-
HIP Qld Pty Ltd	(579,642)	579,642	-
<b>Loans secured by pharmacies</b>			
HIP Brimbank Pty Limited	5,617,500	(5,617,500)	-
HIP Castle Hill Pty Ltd	3,846,550	(3,846,550)	-
HIP Morningside Pty Ltd	4,448,885	(4,448,885)	-
	9,806,511	(9,844,344)	(37,833)

## Loans to/(from) Ken Lee and related parties

	Balance at 1-Jul-09 \$	Net movement in loans \$	Balance at 30-Jun-10 \$
<b>Non interest bearing loans</b>			
Mr Ken Lee	28,426	(258,394)	(229,968)
Health Information Services Trust	235,751	(23,000)	212,751
HIP On-Line Pty Limited	3,771	200	3,971
HIP Brimbank Pty Limited	(490,942)	(369,342)	(860,284)
K & J Lee Partnership(HIP C)	-	(180,000)	(180,000)
HIP Morningside	-	(29,563)	(29,563)
<b>Interest bearing loans</b>			
Ken & Julia Lee Partnership	(2,443,689)	-	(2,443,689)
HIP Qld Pty Ltd	(579,642)	-	(579,642)
<b>Loans secured by pharmacies</b>			
HIP Brimbank Pty Limited	5,252,500	365,000	5,617,500
HIP Castle Hill Pty Ltd	4,000,346	(153,796)	3,846,550
HIP Morningside Pty Ltd	4,525,227	(76,342)	4,448,885
	10,531,748	(725,237)	9,806,511

## Notes to the Financial Statements

### NOTE 28: RELATED PARTY TRANSACTIONS (CONTINUED)

#### Other related transactions- Ken Lee and related parties

	CONSOLIDATED GROUP	
	2011	2010
	\$	\$
Sales to pharmacies related to Ken Lee	151,632	264,419
Interest received or receivable from pharmacies related to Ken Lee	94,522	603,422
Interest paid or payable to an entity controlled by Ken Lee	-	338,077

During the year, the group disposed of subsidiaries to a related party, Ken Lee (refer note 29) for further details.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

### NOTE 29: DISCONTINUED OPERATIONS

In November 2010, the Group sold the following subsidiaries:

- Health Information Pharmacy Franchising Pty Ltd (Franchising segment)
- Leverage Financing Pty Ltd (Leverage Financing segment)
- Health Information Pharmacy IP Pty Ltd (Franchising segment)
- Chemconsult Australia Pty Ltd (Franchising segment)
- Asset Trust 1 (Leverage Financing segment)

The above subsidiaries, with net assets of \$2,458,863 as at 30 November 2010 were sold to Ken Lee, a director of HEA on that date for a non-cash consideration of \$4,726,187.

The consideration for the sale of subsidiaries to Ken Lee consists of following:

- The forgiveness of debt totalling \$2,443,689 owed by HEA to Eferes Pty Ltd;
- The transfer of the Company's debt totalling \$230,000 owed to K&J Superannuation Fund to Ken Lee;
- The forgiveness of debt totalling \$579,642 owed by the Company to HIP Queensland Pty Ltd;
- The transfer of debt totalling \$700,000 owed by the Company to HIP Brimbank Pty Ltd to Ken Lee;
- The transfer of debt totalling \$579,642 owed by the Company to Health for Tomorrow Pty Ltd to Ken Lee; and
- The transfer of the Company's debt totalling \$193,214 owed to Lawsfield Holdings Pty Ltd to Ken Lee.

## Notes to the Financial Statements

## NOTE 29: DISCONTINUED OPERATIONS (CONTINUED)

The financial performance of the discontinued operations to the date of sale which is included in profit/ (loss) from discontinued operations per the statement of comprehensive income is as follows:

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Revenue	700,973	2,718,819
Expenses	(986,022)	(5,418,340)
Loss before income tax	(285,049)	(2,699,521)
Income tax expense	-	-
Loss attribute to members of the parent entity	(285,049)	(2,699,521)
Profit on sale before income tax	2,552,373	-
Income tax expense	-	-
Profit on sale after income tax	2,552,373	-
Total profit / (loss) after tax attribute to the discontinued operation	<b>2,267,324</b>	<b>(2,699,521)</b>

Cash flows from/ (used in) discontinued operations which have been incorporated into the statement of cash flows are as follows

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Net cash used in operating activities	(166,316)	(702,155)
Net cash (used in) / from investing activities	(5,000)	(14,882)
Net cash from / (used) financing activities	57,392	(23,273)
Net cash used in discontinued operation	<b>(113,924)</b>	<b>(740,310)</b>

## Effect of disposal on the financial position of the Group

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Cash and cash equivalents	46,925	-
Trade and other receivables	74,047	-
Other current assets	61,877	-
Long term receivables	13,616,311	-
Property, plant and equipment	(6,555)	-
Intangible assets	858	-
Trade and other payables	(1,154,371)	-
Short term borrowings	(9,680,688)	-
Short term financial liabilities	(467,479)	-
Short term provisions	(32,062)	-
Net assets and liabilities	<b>2,458,863</b>	<b>-</b>

	CONSOLIDATED GROUP	
	30-Jun-11	30-Jun-10
	\$	\$
Consideration received, satisfied in cash	-	-
Cash disposed of	46,925	-
Net cash outflow	<b>(46,925)</b>	<b>-</b>

## Notes to the Financial Statements

### NOTE 30: FINANCIAL RISK MANAGEMENT

The group's financial instruments consist mainly of deposits with banks, payables, loans to and from subsidiaries and loans to directors.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

#### i. Financial risks

The main risks the group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

##### *Interest rate risk*

At reporting date, the group's financial instruments were in fixed rate instruments.

##### *Liquidity risk*

The group manages liquidity risk by monitoring forecast cash flows.

##### *Credit risk*

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

#### ii. Interest rate risk

The consolidated group's exposure to interest rate risk which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets of the group are summarised in the following tables:

## Notes to the Financial Statements

## NOTE 30: FINANCIAL RISK MANAGEMENT (CONTINUED)

	Floating interest rate \$	1 Year or less \$	Over 1 to 5 years \$	Non- interest bearing \$	Total \$	Weighted average interest rate %
<b>2011</b>						
<b>Financial assets</b>						
Cash and cash equivalents	1,070,885	1,070,885	-	-	1,070,885	5.50
	1,070,885	1,070,885	-	-	1,070,885	
<b>Financial liabilities</b>						
Trade and sundry payables	-	-	-	227,688	227,688	
Short term financial liabilities	-	-	-	37,833	37,833	
	-	-	-	265,521	265,521	
<b>2010</b>						
<b>Financial assets</b>						
Cash and cash equivalents	-	-	-	59,470	59,470	
Receivables	-	-	13,912,935	73,172	13,986,107	6.02
	-	-	13,912,935	132,642	14,045,577	
<b>Financial liabilities</b>						
Trade and sundry payables	-	-	-	2,275,378	2,275,378	
Hire purchase	-	17,878	-	-	17,878	5.43
Loans payable to directors	-	230,000	-	-	230,000	12.00
Convertible note	-	50,000	-	-	50,000	12.00
Loans payable to other entities	-	772,856	-	-	772,856	10.19
Loans payable to related entities	-	3,416,178	700,000	-	4,116,178	10.19
Bank Loan	9,775,677	-	-	-	9,775,677	6.02
	9,775,677	4,486,912	700,000	2,275,378	17,237,967	

## iii. Sensitivity analysis

**Interest rate risks**

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk, and credit risk. This sensitivity analysis demonstrates the effect on the current year results which could result from a change in these risks.

**Group sensitivity**

At 30 June 2011, if interest rates had changed by +/-20 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$1,178 lower/higher (2010:Nil)

**Credit risk**

The main exposure to credit risk as at 30 June 2011 relates to the advances to related entities of the Group amounting to \$25,000 (2010: \$13,912,935).

**Notes to the Financial Statements****NOTE 31: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS**

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report.

- AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013).

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a “related party” to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Group.

- AASB 1053: Application of Tiers of Australian Accounting Standards and AASB 2010–2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).
- AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:
  - Tier 1: Australian Accounting Standards; and
  - Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

Since the Group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

- AASB 2010–2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific “RDR” disclosures.
- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

- AASB 2009–14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Group.

- AASB 2010–4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard is not expected to impact the Group.

**Notes to the Financial Statements****NOTE 31: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (CONTINUED)**

- AASB 2010–5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

- AASB 2010–6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards, and AASB 7: Financial Instruments: Disclosures, establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

- AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

- AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

- AASB 2010–9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applies to periods beginning on or after 1 July 2011).

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this Standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this Standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Group.

- AASB 2010–10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009–11 & AASB 2010–7] (applies to periods beginning on or after 1 January 2013).

## Notes to the Financial Statements

### NOTE 31: NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (CONTINUED)

This Standard makes amendments to AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this Standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009–11 will only affect early adopters of AASB 2009–11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010–7.]

This Standard is not expected to impact the Group.

### NOTE 32: COMPANY DETAILS

#### Registered Office

Level 21, Allendale Square  
77 St Georges Terrace  
Perth WA 6000  
Tel: +61 8 9389 2000  
Fax: +61 8 9389 2099

#### Principal Place of Business

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77 St Georges Terrace  
Perth WA 6000  
Tel: +61 8 9389 2000  
Fax: +61 8 9389 2099



## Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 13 to 48, are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the consolidated group;
  
2. the chief executive officer and chief finance officer have each declared that:
  - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view;
  
3. In the directors' opinion 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 is made in accordance with a resolution of the Board of Directors.



Jason Davis

Chairman

Dated 28 September 2011

**HEALTH CORPORATION LIMITED ABN 30 116 800 269  
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT TO  
THE MEMBERS OF HEALTH CORPORATION LIMITED**

**Report on the Financial Report**

We have audited the accompanying financial report of Health Corporation Limited which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

**Directors' Responsibility for the Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards (IFRS).

**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. Those 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.

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 judgment, 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 opinion.

**Independence**

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

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**HEALTH CORPORATION LIMITED ABN 30 116 800 269  
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT TO  
THE MEMBERS OF HEALTH CORPORATION LIMITED**

**Auditor's Opinion**

In our opinion:

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

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 7 to 9 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

**Auditor's Opinion**

In our opinion, the remuneration report of Forge Resources Limited for the year ended 30 June 2011 complies with section 300A of the Corporations Act 2001.



Hall Chadwick  
Level 29, St Martins Tower  
31 Market Street, SYDNEY NSW 2001



**Graham Webb**

Partner

Date: 28 September 2011

## Corporate Governance

### OVERVIEW

In March 2003, the Australian Securities Exchange (ASX) Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations ("Recommendations").

In August 2007, the ASX Corporate Governance Council published a revised Principles and Recommendations (2<sup>nd</sup> Edition).

In 2010, the ASX Corporate Governance Council published a further revised Corporate Governance Principles and Recommendations with 2010 Amendments (2<sup>nd</sup> Edition) to ensure that these remain relevant to the Australian business and investment communities. The Company's Corporate Governance Statement is structured below with reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments (2<sup>nd</sup> Edition). The Company's Board of Directors has reviewed the recommendations. In many cases the Company was already achieving the standard required. In a limited number of instances, the Company has determined not to comply with the standard set out in the recommendations, largely due to the recommendation being considered by the Board to be unduly onerous for a Company of this size. Recommendations which the Company does not comply with are highlighted in this report.

### 1. PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

#### 1.1 Companies should establish and disclose the respective roles and responsibilities of board and management.

- **Recommendation 1.1:** Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.
- **Recommendation 1.2:** Companies should disclose the process for evaluating the performance of senior executives.
- **Recommendation 1.3:** Companies should provide the information indicated in the Guide to reporting on Principle 1.

#### 1.2 The Company's practice:

The Board considers that the essential responsibility of directors is to oversee the Company's activities for the benefit of its shareholders, employees and other stakeholders and to protect and enhance shareholder value. Responsibility for management of The Company's business is delegated to the chairman, who is accountable to the Board.

Further, the Board takes specific responsibility for:-

- Contributing to the development of and approving corporate strategy;
- Appointing, assessing the performance of and, if necessary removing the executive director;
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- Overseeing and monitoring:
  - Organizational performance and the achievement of strategic goals and objectives
  - Compliance with the Company's code of conduct
  - Progress of major capital expenditures and other corporate projects including acquisitions, mergers and divestments;
- Monitoring financial performance including approval of the annual, half yearly and quarterly reports and liaison with the auditor;
- Ensuring there are effective management processes in place, including reviewing and ratifying systems of risk identification and management, ensuring appropriate and adequate internal control processes, and that monitoring and reporting procedures for these systems are effective;
- Enhancing and protecting the Company's reputation;
- Approving major capital expenditure, capital management, acquisitions and divestments;
- Reporting to shareholders;
- Appointment of directors; and
- Any other matter considered desirable and in the interest of the Company.

## Corporate Governance

The Board is responsible for the overall Corporate Governance of the Company including the strategic direction, establishing goals for management and monitoring the achievement of these goals.

The Company has a formal Board Charter which is on the Company's website and summarised above. In broad terms, the Board is accountable to the shareholders and must ensure that the Company is properly managed to protect and enhance shareholders' wealth and other interests. The Board Charter sets out the role and responsibilities of the Board within the governance structure of the Company and its related bodies corporate (as defined in the Corporations Act).

Senior executives are responsible for the ongoing management of the Company's operations and report to the Board. They are accountable for all functions that are necessary to the operations of the Company and not specifically reserved to the Board. Senior executive's performance is reviewed on a regular basis by the Board.

Based on the above information the Company believes it is fully compliant with Recommendations 1.1, 1.2 and 1.3.

### 2. PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

#### 2.1 Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.

- **Recommendation 2.1:** A majority of the board should be independent directors.
- **Recommendation 2.2:** The chair should be an independent director.
- **Recommendation 2.3:** The roles of chair and chief executive officer should not be exercised by the same individual.
- **Recommendation 2.4:** The board should establish a nomination committee.
- **Recommendation 2.5:** Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.
- **Recommendation 2.6:** Companies should provide the information indicated in the Guide to reporting on Principle 2.

#### 2.2 The Company's practice:

##### Independence

Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement. In accordance with this definition, the Company has two independent, non-executive directors. The Company also has a third non-executive director who would be qualified as independent except for the fact that he was previously employed in an executive capacity by the Company within the past three years. The Board as a whole comprises a non-executive chairman and two non-executive directors.

##### Composition

The directors have been chosen for their particular expertise to provide the company with a competent and well-rounded decision-making body and which will assist the company and shareholders in meeting their objectives.

The term in office held by each director in office at the date of this report is as follows and details of the professional skills and expertise of each of the directors are set out in the Directors' Report.

## Corporate Governance

Name	Position	Term in Office
Jason Davis	Chairman	1 Year and 4 Months
Jim Malone	Non-executive Director	2 months
David Chapman	Non-executive Director	7 months

The directors meet frequently, both formally and informally, so that they maintain a mutual, thorough understanding of the Company's business and to ensure that the Company's policies of corporate governance are adhered to.

### Education

The Company has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the Company's expectations concerning the performance of directors. Directors are given access to and encouraged to participate in continuing education opportunities to update and enhance their skills and knowledge.

### Independent professional advice and access to company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified advisor at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other board members.

### Nomination committee

The Company does not currently have a separate nomination committee and as such has not complied with Recommendation 2.4. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full board, given the size and nature of the Company's activities and as such, the Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee.

### Monitoring of Board Performance

The performance of all directors is reviewed by the Chairman on an ongoing basis and any director whose performance is considered unsatisfactory is asked to retire. The Chairman's performance is reviewed by the other Board members.

The Company has established firm guidelines to identify the measurable and qualitative indicators of the director's performance during the course of the year. Those guidelines include:

- Attendance at all Board meetings. Missing more than three consecutive meetings without reasonable excuse will result in that director's position being reviewed,
- Attendance at the Company's Shareholder Meetings. Non-attendance without reasonable excuse will result in that director's position being reviewed.

Based on the above information the Company believes it is fully compliant with Recommendations 2.1, 2.2, 2.3, 2.5 and 2.6. The Company is not compliant with Recommendation 2.4 as outlined.

## 3. PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

### 3.1 Companies should actively promote ethical and responsible decision-making.

- **Recommendation 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

## Corporate Governance

- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices
- **Recommendation 3.2:** Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.
- **Recommendation 3.3:** Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.
- **Recommendation 3.4:** Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.
- **Recommendation 3.5:** Companies should provide the information indicated in the Guide to reporting on Principle 3.

### 3.2 The Company's practice:

#### **Ethical Standards**

The Company has a formal Code of Conduct as per Recommendation 3.1. This code outlines how directors and employees of the Company and its related bodies corporate are to behave when conducting business. A full copy of this Code of Conduct is available on the Company's website.

The Company is committed to the highest level of integrity and ethical standards in all business practices. directors and employees must conduct themselves in a manner consistent with current community and corporate standards and in compliance with all legislation. In addition, the Board subscribes to the Statement of Ethical Standards as published by the Australian Institute of Company Directors.

All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

#### **Diversity Policy**

The Board has adopted a Diversity Policy as per Recommendation 3.2. The Diversity Policy addresses equal opportunities in the hiring, training and career advancement of directors, officers and employees. The Diversity Policy outlines the processes by which the Board will set measurable objectives to achieve the aims of its Diversity Policy, with particular focus on gender diversity within the Company.

The Company is committed to ensuring a diverse mix of skills and talent exists amongst its directors, officers and employees and is utilised to enhance the Company's performance.

The Board is responsible for monitoring Company performance in meeting the Diversity Policy requirements, including the achievement of diversity objectives.

#### **Gender Diversity**

As a priority, the Company is focusing on the participation of women on its Board and within senior management. The Board is in the process of determining appropriate measurable objectives for achieving gender diversity.

#### **Women Employees, Executives and Board Members**

The Company and its consolidated entities have two (2) female employees/executives:

- its company secretary; and
- its chief financial officer

which represent approximately 40% of the total employees, executives and/or board members of the Company and its consolidated entities. There are currently no female members of the Board of the Company.

## Corporate Governance

Based on the above information the Company believes it is fully compliant with Recommendations 3.1, 3.2, 3.3, 3.4 and 3.5.

### 4. PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

#### 4.1 Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

- **Recommendation 4.1:** The board should establish an audit committee.
- **Recommendation 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 chair of the board
  - has at least three members.
- **Recommendation 4.3:** The audit committee should have a formal charter.
- **Recommendation 4.4:** Companies should provide the information indicated in the Guide to reporting on Principle 4.

#### 4.2 The Company's practice:

##### **Audit Committee**

The Board has not established a separate audit committee and as such has not complied with Recommendation 4.1 & 4.2. The duties and responsibilities typically delegated to such a committee are the responsibility of the full Board, due to the size and current operations of the Company.

The processes the Board applies in performing this function include:-

- reviewing internal control and recommending enhancements;
- monitoring compliance with Corporations Act 2001, Securities Exchange Listing Rules, matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investment Commission and financial institutions;
- improving the quality of the accounting function, personnel and processes;
- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner; and
- reviewing the performance of the external auditors on an annual basis and nomination of auditors is at the discretion of the Board.

##### **Audit and Compliance Policy**

The Board imposes stringent policies and standards to ensure compliance with all corporate financial and accounting standards. Where considered appropriate, the Company's external auditors, professional advisors and management are invited to advise the Board on these issues and the Board meets quarterly to consider audit matters prior to statutory reporting.

The Company requires that its auditors must not carry out any other major area of service to the Company and should have expert knowledge of both Australian and international jurisdictions.

The Board assumes responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board maintains responsibility for a framework of internal control and ethical standards for the management of the consolidated entity.



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The board, consisting of members with financial expertise and detailed knowledge and experience of the mineral exploration and evaluation business, advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. The chairman and chief financial officer declared in writing to the Board that the Company's financial reports for the year ended 30 June 2011 present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

Based on the above information the Company believes it is fully compliant with Recommendations 4.3 and 4.4. The Company is not compliant with Recommendations 4.1 and 4.2 as outlined.

### 5. PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

#### 5.1 Companies should promote timely and balanced disclosure of all material matters concerning the company.

- **Recommendation 5.1:** Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.
- **Recommendation 5.2:** Companies should provide the information indicated in the Guide to reporting on Principle 5.

#### 5.2 The Company's practice:

##### Continuous Disclosure Policy

The Company has a formal Continuous Disclosure Policy as required by Recommendation 5.1. This policy was introduced to ensure the Company achieves best practice in complying with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules and ensuring The Company and individual officers do not contravene the Corporations Act or ASX Listing Rules. A full copy of this policy can be found on the Company's website.

The Company is required to immediately tell the ASX once it becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.

Therefore to meet this obligation the Company undertakes to:

- (a) Notify the ASX immediately it becomes aware of any information that a reasonable person would expect to have a material effect on the price and value of the companies securities, unless that information is not required to be disclosed under the listing rules;
- (b) Disclose notifications to the ASX on the Company website following confirmation of the publishing of the information by the ASX; and
- (c) Not respond to market speculation or rumour unless the ASX considers it necessary due to there being, or likely to be, a false market in the Company's securities.

The chairman and the company secretary are responsible for co-ordinating the disclosure requirements. To ensure appropriate procedure all directors, officers and employees of the Company coordinate disclosures through the chairman and the company secretary, including:

- (d) Media releases;
- (e) Analyst briefings and presentations; and
- (f) The release of reports and operational results.

Based on the above information the Company believes it is fully compliant with Recommendations 5.1 and 5.2.

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### 6. PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

#### 6.1 Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

- **Recommendation 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.
- **Recommendation 6.2:** Companies should provide the information indicated in the Guide to reporting on Principle 6.

#### 6.2 The Company's practice:

##### Shareholder Communication

It is the policy of the Company to communicate effectively with its shareholders by giving them ready access to balanced and understandable information about the Company and making it easier for them to participate in general meetings.

The Board encourages full shareholder participation at the Annual General Meeting as it provides shareholders an opportunity to review the Company's annual performance. Shareholder attendance also ensures a high level of accountability and identification with the Company's strategy and goals.

The shareholders are responsible for voting on the appointment of directors, approval of the maximum amount of directors' fees and the granting of options and shares to directors. Important issues are presented to the shareholders as single resolutions.

The Company's auditor is required to be present, and be available to shareholders, at the Annual General Meeting.

Information is communicated to shareholders through:-

- the Annual Report which is distributed to all shareholders;
- Half-Yearly Reports, Quarterly Reports, and all Australian Securities Exchange announcements which are posted on the Company's website;
- the Annual General Meeting and other meetings so called to obtain approval for Board action as appropriate; and
- compliance with the continuous disclosure requirements of the Australian Securities Exchange Listing Rules.

The Company's full policy on shareholder communication can be found on our website.

Based on the above information the Company believes it is fully compliant with Recommendations 6.1 and 6.2.

### 7. PRINCIPLE 7: RECOGNISE AND MANAGE RISK

#### 7.1 Companies should establish a sound system of risk oversight and management and internal control.

- **Recommendation 7.1:** Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.
- **Recommendation 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.
- **Recommendation 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

## Corporate Governance

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.

- **Recommendation 7.4:** Companies should provide the information indicated in the Guide to reporting on Principle 7.

### 7.2 The Company's practice:

#### RISK MANAGEMENT

##### Recognise and Manage Risk

Risk oversight, management and internal control are dealt with on a continuous basis by management and the Board, with differing degrees of involvement from various directors and management, depending upon the nature and materiality of the matter.

The Board has established a formal policy to effectively recognise and manage risk as required by Recommendation 7.1. The Company's policy is to achieve levels of operation that balance risk and reward with the ultimate aim of optimising shareholder value. The Risk Management and Internal Control policy is detailed in full on our website.

##### Oversight of the risk management system

The Board takes a proactive approach to risk management. The Board is responsible for oversight of the processes whereby the risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. This oversight encompasses operational, financial reporting and compliance risks.

The Company believes that it is crucial for all Board members to be a part of the process, and as such the Board has not established a separate risk management committee. The Board oversees the establishment, implementation and annual review of the Company's risk management policies as part of the Board approval process for the strategic plan, which encompasses the Company's vision and strategy, designed to meet stakeholder's needs and manage business risks.

The chairman has declared, in writing to the Board and in accordance with section 295A of the Corporations Act, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the Company.

##### Internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that deals with:

- Financial reporting - there is a comprehensive budgeting system with an annual budget, updated on a regular basis approved by the Board. Monthly actual results are reported against these budgets.
- Investment appraisal - the Company has clearly defined guidelines for capital expenditure including annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses or assets are being acquired or divested.
- Quality and integrity of personnel - the Company's policies are detailed in an approved induction manual. Formal appraisals are conducted annually for all employees.

Based on the above information the Company believes it is fully compliant with Recommendations 7.1, 7.2, 7.3 and 7.4.

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### 8. PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

#### 8.1 Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

- **Recommendation 8.1:** The board should establish a remuneration committee.
- **Recommendation 8.2:** The remuneration committee should be structured so that it:
  - consists of a majority of independent directors
  - is chaired by an independent chair
  - has at least three members
- **Recommendation 8.3:** Companies should clearly distinguish the structure of non-executive directors' remuneration from that of directors and senior executives.
- **Recommendation 8.4:** Companies should provide the information indicated in the Guide to reporting on Principle 8.

#### 8.2 The Company's practice:

##### Remuneration committee

The Company does not currently have a separate remuneration committee and as such has not complied with Recommendation 8.1 or Recommendation 8.2. The duties and responsibilities typically delegated to such a committee are considered to be the responsibility of the full board, given the size and nature of the Company's activities.

##### Remuneration policies

Remuneration of Directors are formalised in service agreements. The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, the chairman and the executive team.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and senior executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Board links the nature and amount of chairman's and senior executive's emoluments to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- 1.Retention and Motivation of senior executives
- 2.Attraction of quality management to the Company
- 3.Performance incentives which allow executives to share the rewards of the success of the Company

Remuneration of non-executive directors is determined by the Board with reference to comparable industry levels and, specifically for directors' fees, within the maximum amount approved by shareholders. There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

For details on the amount of remuneration and all monetary and non-monetary components for all directors refer to the Remuneration Report on pages 7 to 9 of the Financial Report. In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the period.

Based on the above information the Company believes it is fully compliant with Recommendation 8.3 and is not compliant with Recommendation 8.1 or Recommendation 8.2 as outlined.