PULSE HEALTH LIMITED

A.B.N. 69 104 113 760

2010 ANNUAL REPORT

30 JUNE 2010

CORPORATE DIRECTORY

DIRECTORS	Mr Stuart James (Chairman) Dr Ian Kadish Mr Andrew Gregory Mr Craig Coleman
JOINT COMPANY SECRETARIES	Mr David Franks Mr Justin Matthews
REGISTERED OFFICE	Suite 4, Level 5, Airport Central Tower, 241 O'Riordan St. Mascot, NSW 2020
PRINCIPAL PLACE OF BUSINESS	Suite 4, Level 5, Airport Central Tower, 241 O'Riordan St. Mascot, NSW 2020
SOLICITORS TO THE COMPANY	Norton Rose Grosvenor Place 225 George St Sydney NSW 2000
AUDITOR	PKF Level 10 1 Margaret Street SYDNEY NSW 2000
SHARE REGISTRY	Computershare Investor Services Pty Ltd Level 2 Reserve Bank Building 45 St George's Terrace PERTH WA 6000
INTERNET WEBSITE	www.pulsehealth.net.au

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The directors present their report together with the financial report of Pulse Health Limited (consolidated entity) for the year ended 30 June 2010. The consolidated entity consists of Pulse Health Limited (the "Company") and the entities it controlled during the year (the "Group").

Directors

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

Mr Stuart James (Appointed 7 November 2007)
Mr Craig Coleman (Appointed 1 January 2010)
Dr Barry Landa (appointed 2 May 2006. Resigned 30 June 2010)
Mr Andrew Gregory (Appointed 15 March 2006)
Dr Ian Kadish (Appointed Managing Director 6 July 2010)
Mr Trevor Beazley (Appointed 1 March 2006. Resigned 29 August 2009)
Mr Peter Mangles (Appointed 5 August 2006. Resigned 31 August 2009)

Information on directors:

Mr Stuart James (Age: 61) **(Appointed 7 November 2007)**
Chairman

Mr Stuart James is an experienced executive within the financial and healthcare sectors. Mr James' past roles included Managing Director of Australian Financial Services for Colonial and Managing Director of Colonial State Bank (formerly State Bank of N.S.W).

Mr James' most recent executive role was as CEO of the Mayne Group from January 2002 to January 2005 and prior to that, from July 2000, he was Mayne Group's Chief Operating Officer. Mr James is the Chairman of Prime Financial Group Limited, Progen Pharmaceuticals Ltd, Balnave Capital Group and a non-executive director of Greencross Ltd, Phosphagenics Ltd, and is also a Member of the Supervisory Board of Wolters Kluwer NV and the Advisory Board of Gresham Private Equity Ltd. In the past three years, Mr James was also a director of Coneco Limited.

Mr Craig Coleman (Age: 45) **(Appointed 1 January 2010)**
Non- Executive Director

Since 2006 Mr Coleman has been Senior Advisor and a Director of the Wyllie Group, an investment company founded by the late Bill Wyllie, investing in property, financial services, equities and development.

Mr Coleman is Chairman of Viburnum Funds Pty. Ltd., a wholesale funds management division of the Wyllie Group; and Chairman of Rubik Financial Ltd., a financial services information technology company.

Current Directorships also include Bell Financial Group since the float and Southern Cross Equities. Mr. Coleman is a Director of oil and gas explorer and producer, Amadeus Energy Limited; and Amcom Telecommunications Ltd.

Mr Coleman previously held a number of senior executive positions with ANZ Bank and was a Director of ETrade Australia. He was also the former Managing Director of HomeBuilding Society Limited.

Dr Barry Landa (Age: 67) **(appointed 2 May 2006. Resigned 30 June 2010)**
Non- Executive Director

Dr. Landa graduated 1973 MBBS BSc UNSW and practiced anesthetics for 35 years, in the public sector, private sector and internationally. He purchased his first private surgical hospital in 1974 and over the next three years purchased an additional two hospitals, three accommodation hotels in Sydney, and some shopping centres. In the late 1980s he was appointed to the Board of Markalinga Pty Ltd, the first publicly listed private hospital and pathology company in Australia, which were the beginnings of the Mayne Health Group. Dr. Landa has, and is, involved in the design and building of acute health care facilities including primary health care centres, operating theatres, hospitals, day care and rehabilitation facilities. Dr. Landa was part of the original working group that established the Private Hospital Association. He has investments in surgical hospitals, accommodation hotels and shopping centres.

Dr. Landa has not been a director of another public company in the past three years.

Mr Andrew Gregory (Age: 58) **(Appointed 15 March 2006)**
Non- Executive Director

Mr. Gregory is an experienced company manager with 35 years' experience in a variety of industries. He has significant experience with ASX listed equities investments and extensive knowledge in both fundamental and financial analysis principles. Mr. Gregory operates his own successful company as well as having experience as a corporate treasurer and is a qualified CPA and a qualified company secretary. He has been active over a 20 year period in providing strategic planning input and seed capital investment to support start-up enterprises. Based in Melbourne, Mr. Gregory will represent the Company in the investment and capital markets in Victoria, Australia.

In the past three years Mr Gregory has held directorships in the listed Coretrack Limited (appointed 4 November 2005 and retired on 29 December 2006) and the unlisted Black Earth Resources Limited (appointed 6 January 2006 and resigned 12 February 2007).

Dr Ian Kadish (Age: 47) **(Appointed Managing Director 6 July 2010)**
Managing Director and Chief Executive Officer

Dr Kadish was appointed CEO on 1 November 2009 and appointed Managing Director on 6 July 2010. He tendered his notice to resign as CEO and Managing Director on 31 October 2010.

Prior to joining Pulse, Dr Kadish had extensive executive experience leading and advising premier healthcare companies in Australia, South Africa, the US, UK and Canada.

Previously Dr Kadish was CEO of Healthcare Australia Limited, Australia's largest private nursing agency and homecare company. HCA generated annual revenues in excess of $250 Million, employed approximately 8,000 nurses and other health professionals, and operated nationally out of 9 offices in Australia's capital cities.

Prior to this Dr. Kadish was an executive director of Network Healthcare Holdings Limited, one of the world's largest private healthcare companies, with $3 Billion in annual revenues. Dr Kadish joined Netcare as Executive Director in 1997, when the company operated 5 hospitals. At the time that he resigned in 2006, Netcare was the largest owner and operator of private hospitals in both South Africa and the UK. Prior to joining Netcare, Dr Kadish was a consultant with McKinsey and Company, and with CSC Healthcare, in Johannesburg (1996/7) and New York (1989 to 1996). Dr Kadish has also worked as a General Practitioner .

Dr. Kadish has held a number of directorships in both the healthcare and the information technology sectors. He holds a Bachelor of Medicine and Surgery from the University of the Witwatersrand, Johannesburg, and an MBA from The Wharton School, University of Pennsylvania, Philadelphia.

Company Secretaries

Mr David Franks (Age: 38) **(Appointed 13 February 2007)**
Joint Company Secretary

Mr Franks (BEc, CA, F Fin, JP) is principal of Franks and Associates Pty Ltd (Chartered Accountants). He is currently company secretary of the following public companies: Amerod Exploration Limited, Australian Power and Gas Company Limited, Pulse Health Limited, Solar Sailor Holdings Limited, White Energy Technology Limited and White Energy Company Limited.

Mr Justin Matthews (Age: 37) **(Appointed 12 November 2009)**
Joint Company Secretary/ Chief Financial Officer

Mr Justin Matthews was appointed CFO of Pulse Health on 12 November 2009. Mr. Matthews has extensive financial and health care experience, having held a number of finance executive positions. Most recently, Mr. Matthews was CFO and Chief Operating Officer of an international Market Research and Consultancy business.

Between 2004 and 2007, he held the position of CFO of Healthcare Australia Limited (previously Pacific Nursing Solutions). Healthcare Australia Limited is Australia's largest private nursing agency and homecare company, with revenues in excess of $250m per annum and it employs approximately 8,000 nurses and other health professionals.

Prior to this Mr Matthews was an Associate Director at GE Commercial Finance and a Senior Manager at KPMG in Sydney and in the UK. Mr Matthews is a Chartered Accountant and holds a Bachelor of Business with the University of South Australia.

Directors' Meetings

The number of directors' meetings held and the number of meetings attended by each of the directors of the Company during the year are:

Director	Board Meetings		Finance & Audit Committee Meetings		Remuneration & Nomination Committee Meetings	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Mr Stuart James	25	25	1	1	2	2
Mr Craig Coleman	9	9	1	1	*	*
Mr Andrew Gregory	25	25	2	2	2	2
Dr Barry Landa	25	24	4	4	2	2
Mr Trevor Beazley	5	5	2	2	*	*
Mr Peter Mangles	5	5	2	2	*	*

* Not a member of the relevant committee.

During the year ended 30 June 2010, there was no Risk Management Committee as all issues related to these committees are addressed by the full Board. Further details are provided in the Corporate Governance Statement.

Principal Activity

The principal activity of the Group during the year was the acquisition and operation of private hospitals and related health care focused organisations.

Operating Results

The Group incurred a loss of $1.31M (2009: $6.16M) after income tax for the year.

Review of Operations

In the year ended 30 June 2010, the Group has progressed through its transformation with the following operations and revenue contributions (net of inter-company entries):

Operation	Period Operated	Segment	Revenues Year ended 30 June 2010 $000's	Revenues Year ended 30 June 2009 $000's
Pulse Health Limited	Year ended 30 June 2009 & 2010	Holding Company	23	-
Northside Nursing	Year ended 30 June 2009 & 1 July 2009 to date of sale, 30 November 2009	Community Care	-	401
Bega Valley Private Hospital Pty Ltd	Year ended 30 June 2009 & 2010	Private Hospital	2,384	1,897
Recruitment Specialist Group Pty Ltd	Year ended 30 June 2009 & 2010	Recruitment & Locums	1,303	1,712
Forster Private Hospital Pty Ltd	Year ended 30 June 2009 & 2010	Private Hospital	10,216	9,749
Gympie Private Hospital Pty Ltd	Year ended 30 June 2009 & 2010	Private Hospital	4,181	4,498
KPH Hospital Pty Ltd	Year ended 30 June 2009 & 2010	Private Hospital	2,353	2,661
North Coast Community Care Pty Ltd	Year ended 30 June 2009 & 2010	Community Care	2,023	2,061
Westmead Rehabilitation Hospital	1 November 2008 & year ended 30 June 2010	Private Hospital	12,060	8,136
Total Revenues – continuing operations			**34,543**	**31,115**
Discontinued operations:				
Care Call Pty Ltd	Year ended 30 June 2008 & 2009	Community Care	335	3,702
Northside Nursing	Year ended 30 June 2009 & 1 July 2009 to date of sale, 30 November 2009	Community Care	174	-
Total Revenues			**35,052**	**34,817**

Litigation

No Litigation was undertaken in the year and to the Group's knowledge, none are threatened or pending at the date of this report.

Dividends

No dividend has been declared or paid by the Company to the date of this report and no dividend is recommended in respect of the year ended 30 June 2010.

Significant Changes in the State of Affairs

1. Capital raising

During the year, the Group successfully raised $6.0m (net of transaction cost) in new equity capital. There was also early conversion of 5,600,000 convertible notes which converted to 9,333,333 shares at $0.06 each.

2. Sale of Care on Call and Northside Nursing

On 31 July 2009 the Care on Call business based in Canberra was sold to an external party and on 30 November 2009 the Northside Nursing business based in Gordon, N.S.W. was sold to an external party. Both businesses disposed of are reported in the financial report as discontinued operations.

After Balance Date Events

1. Convertible Notes:

   a) On 1 July 2010, the Company repaid the 2,650,000 30 June 2010 maturing convertible notes at $0.10 each, amounting to $265,000.

   b) On 1 July 2010, the Company issued 1,275,000 new secured convertible notes with a face value of $0.10 and a conversion rate of $0.10 with a coupon rate of 10% pa payable quarterly in arrears and maturing 30 June 2011, raising $127,500.

Except for the matters stated above, no matters or circumstances has arisen since 30 June 2010 that has significantly affected or may significantly affect:

(a) The Group's operations in future financial years; or

(b) The results of those operations in future financial years; or

(c) The Group's state of affairs in future financial years.

Environmental Issues

The Group's operations are subject to standard environmental regulation under the law of the Commonwealth and State applicable to businesses located in Australia, New South Wales, Queensland and the Australian Capital Territory, including regulations. The directors are not aware of any breaches by the Group in relation to environmental regulations.

Likely Developments

The Board is currently proceeding with plans to raise additional capital for the Group to permit it to continue its growth strategies and to improve its debt levels.

The Board is currently reviewing a number of potential transactions in the healthcare industry. Disclosure of further information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

Options

As at the date of this report, there were 13,925,000 unissued ordinary shares of the Company under option as follows:

Grant Date	Expiry Date	Exercise Price	Number of Options
18 January 2008	1 December 2010	14 cents	500,000
31 July 2009	31 July 2012	10 cents	2,625,000
27 November 2009	31 May 2011	10 – 40 cents	10,800,000

These options do not entitle the holder to participate in any share issue of the Company or any other entity but must be dealt with in accordance with their terms and conditions and listing rules.

Shares issued on exercise of options

No ordinary shares were issued during the year on exercise of the options granted.

Convertible Notes

As at the date of this report, the following convertible notes were on issue and therefore potential unissued ordinary shares of the Company from convertible notes are:

Expiry Date	Exercise Price	Number of Notes
30 June 2011	10 cents	1,275,000

Remuneration Report

The remuneration report section of the director's report outlines the remuneration arrangements in place for directors and executives of the Group.

Remuneration Philosophy

The performance of the Group depends upon the quality of its directors and executives. The Group's main business is providing services in the private health care and hospital market with a commitment to the provision of improved patient care and stakeholder involvement. To prosper, the company must attract, motivate and retain highly skilled directors and executives.

A remuneration committee was established and Long Term Incentives (LTI) and Short Term Incentives (STI) set for management personnel.

Remuneration Report (continued)

The annual STI amounts are determined by the employee meeting key performance indicators which shall be agreed between the Company's Remuneration Committee and the Employee. The STI shall be determined annually in advance within 30 days of the Company Board of Directors accepting the determinate of the Company's forecast for the ensuing financial year and shall continue for each financial year.

To encourage, recognise and reward an employee for substantial material movement in both enterprise value and also company shareholders wealth creation, annual long term incentives are provided in the form of share options or other equity based schemes as considered appropriate.

Directors' and Senior Executives' Remuneration

The Board as a whole is responsible for considering remuneration policies and packages applicable both to Board members and senior executives of the Company. Broadly, the Group's remuneration policy is to ensure that any remuneration package properly reflects the person's duties and responsibilities and that it is competitive in attracting, retaining and motivating people of the highest quality.

Non - Executive Director Remuneration

To achieve these competing objectives the non-executive board are remunerated. The remuneration basis was ratified at a shareholders general meeting with a combined amount not to exceed $500,000 per annum pro rata between the directors on a quarterly basis.

The current Director fee rates are outlined below:

	2010	**2009**
Chairman	$100,000 pa + 9% superannuation	$50,000 pa + 9% superannuation
Non-executive Director	$70,000 - $80,000pa + 9% superannuation	$40,000 pa + 9% superannuation

Employment and Consulting Contracts

During the financial year, contracts were entered into with Dr Ian Kadish (Chief Executive Officer and Managing Director), Justin Matthews (Chief Financial Officer) and Wendy Thorne (Corporate Operations Manager). The board has approved a remuneration package for each generally comprising:

(a) $275,000 per annum (including superannuation at a rate of 9%) for Dr Ian Kadish and termination benefits equal to 3 months base wages;
(b) $175,000 per annum (including superannuation at a rate of 9%) for Justin Matthews and termination benefits equal to 3 months base wages; and
(c) $136,000 per annum (including superannuation at a rate of 9%) for Wendy Thorne and termination benefits equal to 3 months base wages

Termination benefits are payable on early termination by the company, other than for gross misconduct, unless otherwise indicated.

Share options may be offered pursuant to the Pulse Health Limited long term incentive scheme and exercised according to the scheme.

Remuneration Report (continued)

Details of the nature and amount of each major element of the remuneration of each Director, key management personnel and other executives of the Company and Group during the year are:

2010	Salary & fees $	Other fees $	Share Based Payments $	Super - annuation contributions $	Termination & Retirement benefits $	Total $	Perfor-mance related %
Directors							
Non executive							
Mr Stuart James	87,500	-	-	7,875	-	95,375	-
Mr Craig Coleman (a)	35,000	-	-	3,150	-	38,150	-
Mr Andrew Gregory	70,000	-	-	6,300	-	76,300	-
Dr Barry Landa (b)	62,500	-	-	5,625	-	68,125	-
Mr Trevor Beazley (e)	6,575	-	-	592	-	7,167	-
Executive							
Dr Ian Kadish (c) ^	173,667	-	37,000	9,667	-	220,334	17%
Mr Peter Mangles (h) ^	150,950	-	-	10,313	-	161,263	-
Other key management personnel of the Group							
Mr Justin Matthews (d) ^	102,062	-	22,000	9,186	-	133,248	17%
Ms Wendy Thorne (f) ^	122,380		-	7,868	-	130,248	8%
Mr Philip Symon (g) ^	63,836	-	-	5,034	-	68,870	-

^ denotes one of the 5 highest paid relevant executives of the Company and Group, as required to be disclosed under the Corporations Act 2001.

(a) Mr Craig Coleman was appointed non-executive director of Pulse Health Limited on 1 January 2010.
(b) Dr Barry Landa resigned as director of Pulse Health Limited on 30 June 2010.
(c) Dr Ian Kadish was appointed Chief Executive Officer of Pulse Health Limited on 1 November 2009, and Managing Director on 6 July 2010. Dr Kadish tendered his notice to resign as CEO and Managing Director on 31 October 2010.
(d) Mr Justin Matthews was appointed Chief Financial Officer of Pulse Health Limited on 12 November 2009.
(e) Mr Trevor Beazley resigned as a director of Pulse Health Limited on 29 August 2009.
(f) Ms Wendy Thorne was appointed a Corporate Operations Manager on 15 June 2010. Prior to this, she was General Manager and General Manager Support Services.
(g) Mr. Philip Symon resigned as Chief Financial Officer of Pulse Health Limited on 13 August 2009 and remained employed until 12 November 2009.
(h) Mr. Peter Mangles resigned as the Managing Director of Pulse Health Limited on 31 August 2009 and Chief Executive Officer on 30 November 2009.

Remuneration Report (continued)

2009	Salary & fees $	Other fees $	Share Based Payments $	Super-annuation contributions $	Termination & Retirement benefits $	Total $	Perfor-mance Related %
Directors							
Non executive							
Mr Stuart James	50,000	-	-	4,500	-	54,500	-
Dr John Hewson (a)	30,000	-	-	2,700	-	32,700	-
Mr Trevor Beazley (b)	40,000	-	-	3,600	-	43,600	-
Mr Andrew Gregory	40,000	-	-	3,600	-	43,600	-
Dr Barry Landa	40,000	-	-	3,600	-	43,600	-
Executive							
Mr Peter Mangles^(c)	275,000	-	113,400	24,750	-	413,150	27%
Other key management personnel of the Group							
Mr Philip Symon(d)	150,000	-	-	13,500	-	163,500	-
Mr David Bromfield (e)^	34,487	-	-	2,437	11,538	48,462	-
Mr Brian Hill (f)^	71,854	-	-	6,215	11,250	89,319	-

^ denotes one of the 5 highest paid relevant executives of the Company and Group, as required to be disclosed under the Corporations Act 2001.

(a) Dr John Hewson resigned as a director of Pulse Health Limited on 31 March 2009.

(b) Mr Trevor Beazley resigned as a director of Pulse Health Limited on 29 August 2009.

(c) Mr. Peter Mangles resigned as the Managing Director of Pulse Health Limited and its subsidiaries on 31 August 2009. In accordance with his employment agreement, Mr. Mangles remained as Chief Executive Officer of the Group until 30 November 2009.

(d) Mr. Philip Symon submitted his resignation as Chief Financial Officer of Pulse Health Limited on 13 August 2009. In accordance with his employment agreement, Mr. Symon remained employed until 12 November 2009.

(e) Mr David Bromfield resigned from the company, effective 5 September 2008.

(f) Mr Brian Hill was appointed as Executive Manager – recruitment on 25 of August 2008. He resigned from the company, effective 1 March 2009.

Remuneration Report (continued)

Share based compensation

Non-recourse Loan

In accordance with the General Meeting of the Company on 26 November 2009, approval was given to advance Dr Ian Kadish matching funds up to a maximum of $250,000, to acquire shares in the Company in a placement.

The material terms of the loan were as follows:

- The purpose of the loan was to fund Dr Kadish's subscription for shares in a Company placement
- To be able to draw on the loan and subscribe for loan shares, Dr Kadish must first invest, using his own financial sources as consideration, in the subscription of new fully paid ordinary shares in the capital of the Company.
- For each dollar of investment made by Dr Kadish, the Company will fund the equivalent amount, up to $250,000 in total, for the subscription of new, fully paid ordinary shares in the capital of the Company (Investment)
- The price paid per share by Dr Kadish for the loan shares utilising the loan will be the equivalent to the price paid per share by Dr Kadish for the Investment.
- The loan will be repayable on or before that date which is five years from the date of appointment by shareholders or if Dr Kadish ceases to be an employee of the Company, whichever occurs earlier.
- The loan will be interest free
- The loan will be unsecured and Dr Kadish's liability will be limited to the value of the loan shares
- The loan shares will be subject to a holding back lock until the loan is repaid; and
- Dividends received on the loan shares will be treated as follows:
    - All dividends will be paid at the top marginal tax rate less any imputation credits; and
    - The balance will be used to repay the loan

Dr Kadish utilised $80,000 of the loan matched with $80,000 of his own funds to acquire 2,666,668 shares in the Company's November 2009 placement at $0.06 per share.

Under International Financial Reporting Standards, the granting of the loan to an amount of $80,000 is treated as a share option, resulting in the recognition of a share based payment amount of $10,000 and has been included in the remuneration table above. The fair value of the share option granted was determined at grant date (ie. 27 November 2009) using a Black-Scholes option pricing model and is allocated equally from grant date to vesting date.

Options

Options were granted to Dr Ian Kadish (CEO) of the Company on 27 November 2009 under the Company's LTI scheme which was approved by the shareholders at the 2009 AGM. Options were also granted to Mr Justin Matthews (CFO). Both option packages were allotted on 27 November 2009.

The options vest on the date upon the 60 day Volume Weighted Average Share Price (VWAP) between 27 November 2009 and 31 May 2011 equalling or exceeding certain performance hurdles outlined in the table below. On vesting, the options may be exercisable at any time prior to 31 May 2011. Once exercisable, each option is convertible into one ordinary share.

Options not exercised on or before 31 May 2011 will automatically lapse. There will be no participating entitlement inherent in the options to participate in the new issues of capital which may be offered to shareholders during the currency of the options.

The assessed fair value at grant date (i.e. 27 November 2009) is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration table above. Fair values at grant date have been determined independently using a Black-Scholes option pricing model.

Remuneration Report (continued)

The details of options issued to Dr Ian Kadish and Mr Justin Matthews of the Company during the current year as remuneration were as follows:

Name	VWAP equaling or Exceeding Exercise Price	Options Vesting	Exercise Price	Vesting Date	Value Per Option $	Share based Payment $
Dr Ian Kadish						
Tranche 1	$0.10	2,000,000	$0.10	31-May-2011	$0.0240	
Tranche 2	$0.15	1,000,000	$0.15	31-May-2011	$0.0155	
Tranche 3	$0.20	1,000,000	$0.20	31-May-2011	$0.0060	
Tranche 4	$0.30	1,000,000	$0.30	31-May-2011	$0.0011	
Tranche 5	$0.40	1,000,000	$0.40	31-May-2011	$0.0001	
Total options granted		**6,000,000**				$27,000
Mr Justin Matthews						
Tranche 1	$0.10	1,600,000	$0.10	31-May-2011	$0.0240	
Tranche 2	$0.15	800,000	$0.15	31-May-2011	$0.0155	
Tranche 3	$0.20	800,000	$0.20	31-May-2011	$0.0060	
Tranche 4	$0.30	800,000	$0.30	31-May-2011	$0.0011	
Tranche 5	$0.40	800,000	$0.40	31-May-2011	$0.0001	
Total options granted		**4,800,000**				$22,000

All the options have an expiry date of 31 May 2011. No options vested during the year.

Apart from the above, no options over shares in the Company were granted as remuneration during the year.

Shares provided on exercise of remuneration options

No ordinary shares were issued during the year as a result of exercise of the remuneration option granted in the current and previous year.

Directors' Interests

The relevant interest of each current director in the Company's shares and options at the date of this report is as follows:

Director	*Shares*	*Options*
Mr Stuart James	2,392,857	-
Mr Andrew Gregory	7,320,237	-
Mr Craig Coleman	1,785,714	-
Dr Ian Kadish*	2,666,668	6,000,000

* Dr Kadish tendered his notice to resign as Chief Executive Officer and Managing Director of Pulse Health Limited on 31 October 2010.

Indemnification and Insurance of Officers

Indemnification

The Company has agreed to indemnify all current and former directors and officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors or officers of the Company, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

Insurance Premiums

An Insurance policy which indemnifies the company and its directors and officers from any liability arising out of performing their role as a director of Pulse Health Limited was extended from previous year.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required by Section 307C of the Corporations Act 2001 is set out on page 14.

Non Audit Services

The following non audit services were provided by the entity's auditor, PKF. The directors are satisfied that the provision of non audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non audit service provided means that auditor independence was not compromised. PKF received or are due to receive the following amounts for provision of non audit services.

	2010 $	2009 $
Taxation and compliance advice	18,320	16,500

Signed in accordance with a resolution of the directors:

Chairman

Sydney, New South Wales
28 September 2010

PKF

Chartered Accountants
& Business Advisers

Auditor's Independence Declaration

As lead auditor for the audit of Pulse Health Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief there have been:

(a) no contraventions of the auditor independence requirements of 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.

This declaration is in respect of Pulse Health Limited and the entities it controlled during the year.

PKF

Grant Saxon
Partner

28 September 2010

Pulse Health Limited (**Company**) and its board are committed to achieving and demonstrating the highest standards of corporate governance. The Company's corporate governance framework was completed in light of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in August 2007. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

The relationship between the board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the Managing Director and/or Chief Executive Officer and senior executives as set out in the Group's delegations policy. These delegations are reviewed on an annual basis.

A description of the Company's main corporate governance practices is set out below.

The board of directors

The board operates in accordance with the broad principles set out below.

Board composition

The composition of the board is based upon:

- The board is to be comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a fresh perspective to the board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management;
- in recognition of the importance of independent views and the board's role in supervising the activities of management, the Chairman must be an independent non-executive director, the majority of the board must be independent of management and all directors are required to bring independent judgement to bear in their board decision making;
- the Chairman is elected by the full board and is required to meet regularly with the Managing Director and/or Chief Executive Officer;
- the Company is to maintain a mix of directors on the board from different backgrounds with complementary skills and experience;
- The board is required to undertake an annual board performance review and consider the appropriate mix of skills required by the board to maximise its effectiveness and its contribution to the Group.

The Board composition presently comprises of an independent non-executive Chairman (Mr James), two non-executive directors (Mr Gregory and Mr Coleman) and an executive Managing Director (Dr Kadish). The Board composition at 30 June 2010 prior to recent changes comprised an independent non-executive Chairman (Mr James) and three non-executive directors (Mr Gregory, Mr Coleman and Dr Landa).

Responsibilities

The responsibilities of the board include:

- providing strategic guidance to the Company including contributing to the development of and approving the corporate strategy;

- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
  - The group's capital structure;
  - organisational performance and the achievement of the Group's strategic goals and objectives;
  - compliance with the Company's Code of Conduct;
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Group's auditors;
- appointment, performance assessment and, if necessary, removal of the Managing Director;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the CFO and the Company Secretary;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the organisation;
- Overseeing the operation of the Group's system for compliance and risk management reporting to shareholders.

Board members

Details of the members of the board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "Directors' Details". As at the date of this report, there are four directors, three of whom are non-executive directors, and are deemed independent under the principles set out below.

The board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective; and
- the size of the board is conducive to effective discussion and efficient decision-making.

Directors' independence

The board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment;
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided;
- not be a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group;
- not have been on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

Non-executive directors

The non-executive directors met during the 2010 financial year, in scheduled sessions without the presence of management, to discuss the operation of the board and a range of other matters. Relevant matters arising from these meetings were shared with the full board.

Term of office

The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election.

Chairman and Chief Executive Officer (CEO)

The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the Company's senior executives.

The CEO is responsible for implementing Group strategies and policies.

The board charter has specified that these are separate roles to be undertaken by separate people.

Commitment

The board held 25 board meetings during the 2010 year.

Non-executive directors are expected to spend at least 40 days a year preparing for and attending board and committee meetings and associated activities.

The number of meetings of the Company's board of directors and of each board committee held during the year ended 30th June 2010, and the number of meetings attended by each director is disclosed in the Directors' Report.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior written approval of the board. No appointments of this nature were accepted during the year ended 30 June 2010.

The commitments of non-executive directors are considered by the nomination committee prior to the directors' appointment to the board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests

Entities connected with Mr James had business dealings with the Group during the 2010 year, as described in the 2010 Financial Report. In accordance with the board charter, the directors concerned declared their interests in those dealings to the Company and took no part in decisions relating to them or the preceding discussions.

Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Performance assessment

The board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. Management are invited to contribute to this appraisal process which may be facilitated by an independent third party. The results and any action plans are documented together with specific performance goals which are agreed for the coming year.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

Corporate reporting

The board considers that in respect of the 2010 Financial Report:

- the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards; and
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the nomination/remuneration and audit/finance committees. The committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies.

Each committee has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by committees are submitted to the full board as recommendations for board decisions.

Minutes of committee meetings are tabled at the subsequent board meeting. Additional requirements for specific reporting by the committees to the board are addressed in the charter of the individual committees.

In addition, the function of the Risk Committee are carried out at a full board level.

Nomination and Remuneration committee

The nomination and remuneration committee at 30 June 2010 and at date of this report comprised Mr Andrew Gregory, Mr Craig Coleman (Chairman) and Mr Stuart James.

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report in the 2010 Financial Report.

The nomination and remuneration committee operates in accordance with its charter. The main responsibilities of the committee are to:

- conduct an annual review of the membership of the board having regard to present and future needs of the Company and to make recommendations on board composition and appointments;
- conduct an annual review of and conclude on the independence of each director;
- propose candidates for board vacancies;
- oversee the annual performance assessment program;
- oversee board succession including the succession of the Chairman; and
- assess the effectiveness of the induction process.

When a new director is to be appointed, the committee reviews the range of skills, experience and expertise on the board, identifies its needs and prepares a short-list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants.

The full board appoints the most suitable candidate who must stand for election at the next annual general meeting of the Company. The committee's nomination of existing directors for reappointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the board and Company.

Notices of meetings for the election of directors comply with the ASX Corporate Governance Council's best practice recommendations.

New directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their employment. All new directors participate in a formal induction program which covers the operation of the board and its committees and financial, strategic, operations and risk management issues.

The nomination and remuneration committee operates in accordance with its charter. The nomination and remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. Senior executives are reviewed through a formal process of evaluation through the remuneration committee.

Further information on directors' and executives' remuneration is set out in the directors' report under the heading Remuneration Report in the Directors' Report.

The nomination and remuneration committee's terms of reference include responsibility for reviewing any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction is in compliance with the Corporations Act 2001 and is appropriately disclosed.

The committee also assumes responsibility for management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

Audit and finance committee

The audit and finance committee at 30 June 2010 and at date of this report comprised Mr Andrew Gregory (Chairman), Mr Craig Coleman and Mr Stuart James.

Details of these directors' qualifications are set in the directors' report in the 2010 Financial Report and attendance at audit and finance committee meetings are set out in the directors' report in the 2010 Financial Report.

The audit and finance committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The audit and finance committee operates in accordance with a charter. The main responsibilities of the committee are to:

- review, assess and approve the annual full and concise reports, the half-year financial report and all other financial information published by the Company or released to the market;
- assist the board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations;
  - reliability of financial reporting;
  - compliance with applicable laws and regulations;
- determine the scope of the internal audit function and ensure that its resources are adequate and used effectively, and assess its performance, including independence;
- oversee the effective operation of the risk management framework;
- recommend to the board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit and finance committee:

- receives regular reports from management, the internal and external auditors;
- meets with the internal and external auditors at least twice a year, or more frequently if necessary;
- reviews the processes the CEO and CFO have in place to support their certifications to the board;
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors at least twice a year without the presence of management; and
- provides the internal and external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the board.

The audit and finance committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and Notes to the 2010 Financial Report. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Risk management committee

The risk management committee is presently carried out at the full board level.

The risk management committee is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the Company's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the board actively promotes a culture of quality and integrity.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues.

In addition, the board requires that each major proposal submitted to the board for decision is accompanied by a comprehensive risk assessment and, where required, management's proposed mitigation strategies.

The environment, health and safety

The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. The Company:

- monitors its compliance with all relevant legislation;
- continually assesses and improves the impact of its operations on the environment;
- encourages employees to actively participate in the management of environmental and OH&S issues;
- works with trade associations representing the Group's businesses to raise standards;
- uses energy and other resources efficiently, and
- encourages the adoption of similar standards by the Group's principal suppliers, contractors and distributors.

Information on compliance with significant environmental regulations is set out in the directors' report in the 2010 Financial Report.

Communication and Disclosure

The Company has a Disclosure and Communication Policy and a Disclosure and Materiality Guideline. These policies ensure timely and balanced disclosure of material matters concerning the Company. The policy provides that the Company must immediately disclose to the market any information concerning the company that a reasonable person would expect to have a material effect on the price or value of the Company's securities. Disclosure of any such price sensitive information is not required where:

- a reasonable person would not expect the information to be disclosed;
- the information is confidential and the ASX has not taken a contrary view;
- one or more of the following applies:
- it would be a breach of law to disclose the information;
- the information concerns an incomplete proposal or negotiation;
- the information comprises matters of supposition or is insufficiently definite;
- the information is generated for internal management purposes;
- the information is a trade secret.

Senior Management is responsible for monitoring all information regarding the Company's day to day activities and if a potential disclosure obligation arises, senior management is to report to the Chairman and/or CEO who will determine whether disclosure to the ASX is required.

The Company's Policy outlines the procedures in place to ensure effective communication with Shareholders. The Company seeks to ensure that shareholders are well informed of the Company's activities. The Company communicates with shareholders through annual, half yearly and quarterly reports, ASX releases, general meetings and the Company's website. The Company encourages shareholder participation at general meetings.

Code of Conduct

The Group has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

In summary, the Code requires that at all times all Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Group policies.

The purchase and sale of Company securities by directors and employees is only permitted as outlined in the Share Trading Policy.

The Code requires employees who are aware of unethical practices within the Group or breaches of the Group's trading policy to report these. This can be done anonymously.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

A copy of the Share Trading Policy is available on the Group's website.

ASX CGC's Best Practice Recommendations		
Principle 1	**Lay Solid Foundations for Management and Oversight**	
1.1	Formalise the functions reserved to the Board and those delegated to senior executives and disclose those functions	Comply
1.2	Disclose the process for evaluating the performance of senior executives.	Comply
1.3	Provide the information indicated in the Guide to reporting on Principle 1.	Partially comply. Formal evaluations not completed for senior executives in year.
Principle 2	**Structure the Board to Add Value**	
2.1	A majority of the board should be independent directors	Comply
2.2	The chair should be an independent director	Comply
2.3	The role of the chair and chief executive officer should not be exercised by the same individual	Comply
2.4	The Board should establish a nomination committee	Comply
2.5	Disclose the process for evaluating the performance of the board, its committees and individual directors.	Comply
2.6	Provide the information indicated in the Guide to reporting on Principle 2.	Comply
Principle 3	**Promote Ethical and Responsible Decision-Making**	
3.1	Establish a code of conduct and disclose the code or a summary as to: The practices necessary to maintain confidence in the Company's integrity. The practices necessary to take into account the legal obligation and the expectations of their stakeholders. The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Comply
3.2	Disclose the policy concerning trading in Company securities by directors, officers and employees	Comply
3.3	Provide the information indicated in the Guide to reporting on Principle 3.	Comply

Principle 4	Safeguard Integrity In Financial Reporting	
4.1	The Board should establish an audit committee	Comply
4.2	Structure the audit committee so that it consists of; • Only non-executive directors • A majority of independent directors • An independent chair, who is not chair of the Board • At lease three members	 Comply Comply Comply Comply
4.3	The audit committee should have a formal charter	Comply
4.4	Provide the information indicated in the Guide to reporting on Principle 4	Comply
Principle 5	**Make Timely and Balanced Disclosure**	
5.1	Establish written policies designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary	Comply
5.2	Provide the information indicated in the Guide to reporting on Principle 5	Comply
Principle 6	**Respect the Rights of Shareholders**	
6.1	Design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose a summary of the policy	Comply
6.2	Provide the information indicated in the Guide to reporting on Principle 6	Comply

Principle 7	Recognise and Manage Risk	
7.1	Establish policies on risk oversight and management and disclose a summary of those policies	Comply
7.2	The Board should require management to design, assess, monitor and review the risk management and internal control framework in place to manage the company's material business risks. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks and whether the board is satisfied that those risks are being managed in accordance with the company's risk appetite.	Comply
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound framework of risk management and internal compliance and control and that the framework is operating effectively in all material respects.	Comply
7.4	Provide the information indicated in the Guide to reporting on Principle 7	Comply
Principle 8	**Remunerate Fairly and Responsibility**	
8.1	The Board should establish a remuneration committee	Comply
8.2	Clearly distinguish the structure of non-executive directors remuneration from that of executive directors and senior executives	Comply
8.3	Provide the information indicated in the Guide to reporting on Principle 8	Comply

PULSE HEALTH LIMITED
ABN 69 104 113 760

Annual financial report

30 June 2010

Contents

This financial report covers the consolidated financial statements for the consolidated entity consisting of Pulse Health Limited and its subsidiaries. The financial report is presented in the Australian currency.

Pulse Health Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Pulse Health Limited
Suite 4, Level 5, Airport Central Tower
241 O'Riordan Street
Mascot NSW 2020

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on page 3, which are not part of this financial report.

The financial report was authorised for issue by the directors on 28 September 2010. The directors have the power to amend and reissue the financial report.

Through the use of the internet, the Company has ensured that the corporate reporting is timely and complete. All press releases, financial reports and other information are available at the Investors section on the Company's website: www.pulsehealth.net.au.

pulsehealth
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STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2010

	Notes	Consolidated 2010 $000's	2009 $000's
Revenue from continuing operations	3	**34,543**	**31,115**
Employee benefits expense		(20,908)	(19,624)
Rent and outgoings	4	(2,423)	(1,484)
Medical consumables and supplies	4	(4,372)	(4,049)
Repairs and maintenance		(589)	(595)
Professional fees		(114)	(364)
Other expenses		(3,980)	(3,728)
Profit before tax, impairment charges, convertible note expense, finance costs, amortisation and depreciation		2,157	1,271
Impairment charges	4	(971)	(2,915)
Convertible notes expense		(261)	-
Finance costs	4	(2,735)	(2,638)
Depreciation and amortisation expense	4	(1,093)	(677)
Loss from continuing operations before income tax		(2,903)	(4,959)
Income tax credit/(expense)	6	1,508	(898)
Loss from continuing operations after income tax		(1,395)	(5,857)
Profit / Loss from discontinued operations after income tax	12	84	(304)
Loss for the year		(1,311)	(6,161)
Other Comprehensive Income			
Other Comprehensive Income net of tax		-	-
Total Comprehensive income for the year		(1,311)	(6,161)
Loss and total comprehensive income attributable to owners of the company		(1,311)	(6,161)

The above Statement of Comprehensive Income is to be read in conjunction with the accompanying notes.

Earnings/(loss) per share for loss attributable to the ordinary equity holders of the company

		2010	2009
		$	$
Overall operations			
Basic and diluted loss per share (cents per share)	26	(0.64)	(4.50)
Continuing operations			
Basic and diluted loss per share (cents per share)	26	(0.68)	(4.30)
Discontinued operations			
Basic and diluted earnings/(loss) per share (cents per share)	26	0.04	(0.20)

The above Statement of Comprehensive Income is to be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

	Notes	Consolidated 2010 $000's	2009 $000's
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	858	29
Trade and other receivables	8	4,624	4,595
Inventories	9	585	469
Current tax assets		-	119
Other current assets	11	51	28
		6,118	5,240
Assets classified as held for sale	12	4,919	682
Total Current Assets		11,037	5,922
NON CURRENT ASSETS			
Property, plant and equipment	13	5,621	11,412
Deferred tax assets	6	1,600	-
Intangible assets	14	26,590	27,499
Total Non Current Assets		33,811	38,911
TOTAL ASSETS		44,848	44,833
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	4,285	4,849
Borrowings	17	12,828	17,652
Derivative financial instrument	10	-	198
Provisions	16	1,591	1,680
Other liabilities	18	183	408
		18,887	24,787
Liabilities of disposal group classified as held for sale	12	-	30
Total Current Liabilities		18,887	24,817

The above Statement of Financial Position is to be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION
as at 30 June 2010 (continued)

	Note	Consolidated 2010 $000's	2009 $000's
NON CURRENT LIABILITIES			
Borrowings	20	12,081	11,885
Deferred tax liabilities	6	8	-
Provisions	19	318	278
Other liabilities	21	2,983	3,066
Total Non Current Liabilities		15,390	15,229
TOTAL LIABILITIES		34,277	40,046
NET ASSETS		**10,571**	**4,787**
EQUITY			
Contributed equity	22(b)	19,917	12,881
Share based payment reserve	22(c)	117	171
Accumulated losses		(9,463)	(8,265)
TOTAL EQUITY		**10,571**	**4,787**

The above Statement of Financial Position is to be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2010

CONSOLIDATED	Notes	Contributed capital $000's	Share based reserve $000's	Accumulated losses $000's	Total Equity $000's
Balance as at 1 July 2009		12,881	171	(8,265)	4,787
Total Comprehensive Income for the year		**-**	**-**	**(1,311)**	**(1,311)**
Transactions with owners in their capacity as owners :					
Issue of shares during capital raising		6,453	-	-	6,453
Issue of shares on conversion of Convertible Notes		560	-	-	560
Capital raising costs during the year		(435)	-	-	(435)
Fair value adjustment due to early conversion					-
of convertible notes		261	-	-	261
Options lapsed		-	(113)	113	-
Share based payments		-	59	-	59
Deferred tax asset on capital raising costs		197	-	-	197
Balance at 30 June 2010		**19,917**	**117**	**(9,463)**	**10,571**
Balance as at 1 July 2008		13,353	686	(2,732)	11,307
Total Comprehensive Income for the year as reported in the 2009 financial statements		**-**	**-**	**(6,161)**	**(6,161)**
Transactions with owners in their capacity as owners:					
De-recognition of deferred tax assets previously credited to equity		(222)	-	-	(222)
Expiry of options issued		-	(628)	628	-
De-recognition of financial asset on recognition of share based payment		(250)	-	-	(250)
Share based payment for options issued in March 2008		-	113	-	113
Balance at 30 June 2009		**12,881**	**171**	**(8,265)**	**4,787**

The above Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2010

	Notes	Consolidated 2010 $000's	2009 $000's
Cash flows from operating activities			
Receipts from customers (incl GST)		35,542	34,181
Payment to suppliers and employees (incl GST)		(33,992)	(32,182)
		1,550	1,999
Income tax received (paid)		152	(38)
Interest paid		(1,448)	(1,417)
Government grants		149	433
Net cash inflow (outflow) from operating activities	31(b)	403	977
Cashflow from investing activities			
Receipts/payments for sale/purchase of businesses (net of selling costs)		818	(75)
Payments for plant and equipment		(734)	(547)
Interest received		30	17
Net cash (outflow) inflow from investing activities		114	(605)
Cash flows from financing activities			
Proceeds from the issue of shares		6,453	-
Share issue costs		(436)	-
Westmead finance lease interest payments		(1,281)	(848)
Proceeds from borrowings		250	-
Repayment of borrowings		(3,693)	(480)
Payments for borrowing cost		(122)	-
Net cash (outflow) inflow from financing activities		1,171	(1,328)
Net increase/(decrease) in cash and cash equivalents		1,688	(956)
Cash and cash equivalents beginning of the financial year		(830)	126
Cash and cash equivalents at end of year	7(a)	858	(830)

The above Statement of Cash Flows is to be read in conjunction with the accompanying notes.

1. Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, other pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated group of Pulse Health Limited and controlled entities. Pulse Health Limited is a listed public company, incorporated and domiciled in Australia.

Basis of preparation

The financial report has been prepared on an accrual basis and is based on historical cost modified by the revaluation of financial assets and financial liabilities for which fair value basis of accounting has been applied. The financial report has been presented in Australian dollars which is the reporting currency of the Group.

<u>Compliance with IFRS</u>

The financial report of Pulse Health Limited Group complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

<u>Going Concern Basis</u>

The consolidated entity recorded losses for the year after tax of $1,311,449 (2009: $6,160,482). As at year end, the current liabilities of the consolidated entity exceeded current assets by $7,849,850 (2009 $18,895,095). In addition, the Group was in technical breach of its Interest Cover Ratio for the quarter ended 30 June 2010.

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. The directors believe this basis to be appropriate based on a number of initiatives that have been put in place including refinancing of all existing facilities and a proposal that has been received from its primary bankers for a new three year banking agreement which includes the waiver of any existing covenant breaches under the current facility. In addition, the Company is advancing the sale of Gympie Private Hospital land and buildings in a sale and leaseback transaction, the proceeds of which will be used to retire debt.

The Company is also conducting due diligence on earnings enhancing acquisitions. These initiatives are part of an overall plan undertaken by the Company to enable it to expand to a sustainable size, whilst allowing significant repayment of debt.

<u>Financial statements and presentation</u>

The Group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(a) New Accounting Standards and Interpretation

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2009.

1. Statement of significant accounting policies (continued)

(a) New Accounting Standards and Interpretation (continued)

(i) AASB 3 Business Combinations (revised 2008) and AASB 127 Consolidated and Separate Financial Statements (revised 2008)

AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously "minority interests"), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised Standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on the financial results and earnings per share as the group did not undertake any acquisitions during the year.

(ii) AASB 7 Financial Instruments: Disclosures

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements relating to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 2. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 2.

(iii) AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 23, including the related revised comparative information.

(iv) AASB 101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

(v) AASB 123 Borrowing Costs

The revised AASB 123 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended AASB 123, the Group has adopted the Standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. The Group did not capitalise any borrowing costs in the current year.

1. Statement of significant accounting policies (continued)

(vi) AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments delete the reference to the "cost method" making the distinction between pre and post acquisition profits no longer relevant. All dividends received are now recognised in profit or loss rather than having to be split between a reduction in the investment and profit and loss. However the receipt of such dividends requires an entity to consider whether there is an indicator of impairment of the investment in that subsidiary.

The amendments further clarify cases or reorganisations where a new parent is inserted above an existing parent of the group. It states that the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. The adoption of these amendments did not have any impact on the financial position or the performance of the Group.

Other new and amended Australian Accounting Standards and AASB interpretations are applicable to the Group but did not have any impact on the accounting policies, financial position or performance of the Group.

(b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pulse Health Ltd Group as at 30 June 2010 and the results of all subsidiaries for the year then ended. Pulse Health Ltd and its subsidiaries together are referred to in this financial report as the group or the consolidated entity. Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

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

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

The acquisition method of accounting is used for the acquisition of subsidiaries by the Group (refer to note 1(k).

Non-controlling interest in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position.

(c) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

1. Statement of significant accounting policies (continued)

(c) Income Tax (continued)

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences and unused tax loss benefits can be utilised.

Tax Consolidation

Pulse Health Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation with effect from 1 July 2007. 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 tax 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 tax consolidated group have entered tax funding arrangements whereby each company in the group contributes to the income tax payable by the group in proportion to the group's taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value using the FIFO method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Items opened, ready for use in the ordinary course of business are expensed.

Inventories include medical and food supplies to be consumed in providing future patient services.

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief financial officer who is responsible for allocating resources and assessing performance of the operating segments. The new standard AASB 8 requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

(f) Property, Plant and Equipment

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

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

1. Statement of significant accounting policies (continued)

(f) Property, Plant and Equipment (continued)

Plant and Equipment

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 assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts. The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the economic entity 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:

Class of Fixed Asset	Depreciation Rate
Buildings	2.50%
Leasehold improvements	Based on leasehold period
Plant and equipment	5-33%
Leased assets	5-33%

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

(g) Intangible assets

Goodwill

Goodwill and goodwill on consolidation are initially recoded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 23).

Other intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

1. Statement of significant accounting policies (continued)

(g) Intangible assets (continued)

Right to operate hospital

The intangible asset, 'right to operate hospitals', has been acquired through business combinations. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over 30 years. If an impairment indicator arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying value.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the income statement.

(h) Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(i) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Pulse Health Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

(j) 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 are transferred to the 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 their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease.

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.

1. Statement of significant accounting policies (continued)

(k) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a gain.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(l) 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 it recoverable amount is expensed to the profit and loss.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives, or more frequently if events or changes in circumstances indicate that they might be impaired.

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.

(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 balance sheet.

(n) Trade receivables

Trade receivable are recorded at their fair value at the time of a sale and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off directly to the profit and loss. An allowance account is used when there is objective evidence that the Group will not be able collect all amounts due according to the original terms of the receivables.

(o) Financial Instruments

Recognition and Initial Measurement

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

1. Statement of significant accounting policies (continued)

(o) Financial Instruments (continued)

(i) Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB 139: Recognition and Measurement of Financial Instruments. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

(iii) Held-to-maturity investments

These investments have fixed maturities, and it is the Group's intention to hold these investments to maturity. Any held-to-maturity investments held by the Group are stated at amortised cost using the effective interest rate method.

(iv) Available-for-sale financial assets

Available for sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

(v) Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair values are taken to the income statement unless they are designated as hedges.

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 an impairment has arisen. Impairment losses are recognised in the income statement.

(p) Earnings per Share (EPS)

Basic earnings per share is calculated by dividing the profit attributable to owners of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year. Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

1. Statement of significant accounting policies (continued)

(q) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance sheet 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. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(r) 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 resources will be required to settle the obligation and that outflow can be reliably measured.

(s) Share Based Payments

Share-based compensation benefits are provided under the Pulse Health Limited Employee Option Plan.

The fair value of options granted under the Pulse Health Limited Employee Option Plan is recognised as employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employee becomes unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to the original estimates, if any, is recognised in the profit and loss with a corresponding adjustment to equity.

(t) Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must be met before revenue is recognised:

(i) Patient/Client Revenues

Revenue from services provided is recognised on the date the service was provided to the patient or client.

(ii) Interest

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

(u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit and loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance costs.

1. Statement of significant accounting policies (continued)

(u) Borrowings (continued)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(v) Borrowing costs

Borrowing cost 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 borrowing costs are recognised in income in the period in which they are incurred.

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(x) 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.

(y) Government grants

Government Grants are recognised at fair value where there is a reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(z) Comparative figures

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

(aa) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

1. Statement of significant accounting policies (continued)

(ab) Disclosure of New Accounting Standards

Certain new accounting standards and interpretation have been published that are not mandatory for 30 June 20010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments

AASB 9 was issued in December 2009 and is applicable for annual reporting periods beginning on or after 1 January 2013. AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The Group has not yet decided when to adopt AASB 9. The changes are however not expected to impact the classification and measurement of the Group's financial assets in any material way.

(ii) AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Projects [AASB 5,8,101,117,118,136 and 139]

AASB 2009-5 was issued in May 2009 and is effective for annual reporting periods beginning on or after 1 January 2010. It results from the International Accounting Standards Board's annual improvements project. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to accounting standards.

The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.

(iii) AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]

AASB 2010- 3 was issued in June 2010 and is effective for annual reporting periods beginning on or after 1 July 2010. The main amendment is to AASB 3 Business Combinations in relation to measurement of non-controlling interests and unreplaced and voluntarily replaced share-based payment awards. These amendments do not affect the Group in any material way.

(iv) 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]. The subjects of the principal amendments to the Standards are set out below:

- AASB 1 First-time Adoption of Australian Accounting Standards : accounting policy changes in the year of adoption, revaluation basis as deemed cost and use of deemed cost for operations subject to rate regulation
- AASB 7 Financial Instruments: Disclosures is amended on clarification of disclosures
- AASB 101 Presentation of Financial Statements is amended on clarification of statement of changes in equity
- AASB 134 Interim Financial Reporting is amended on Significant events and transactions
- Interpretation 13 Customer Loyalty Programmes is amended on Fair value of award credits

The above amendments are only expected to affect presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.

1. Statement of significant accounting policies (continued)

Disclosure of New Accounting Standards (continued)

(v) AASB Interpretation 19 Extinguishing financial liabilities with equity instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretations 19

AASB Interpretation 19, effective from 1 July 2010, clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

(ac) 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 entity.

Key estimates — Estimated impairment of Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(l). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 14 for details of these assumptions and the potential impact of changes to the assumptions.

Key estimates — Unbilled Receivables

At the end of the period, the Group had performed services for which the billing had not been completed. The Group estimates the revenues relating to unbilled services.

Key estimates — Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise these temporary differences.

2 Financial risk management

The Group's activities expose it to a variety of financial risk: interest rate risk (market risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are used for hedging purposes exclusively. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk.

The Group's financial instruments consist mainly of deposits and loans with banks, accounts receivable and payable, loans to and from subsidiaries and leases.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value.

Interest rate risk is managed with a mixture of fixed and floating rate debt. At 30 June 2010 the Group's bank debt is variable and its leasing debt is fixed. It is the policy of the Group to assess each circumstance when taking on debt.

2 Financial risk management (continued)

As at the reporting date, the Group had the following variable rate borrowings outstanding:

	30 June 2010		30 June 2009	
	Weighted Average Interest Rate	Balance $000's	Weighted Average Interest Rate	Balance $000's
Bank overdrafts and bank loans	7.45%	11,250	6.782 %	14,359
Interest rate swaps (notional principal amount)	-	-	2.60%	6,450

An analysis by maturities is provided below.

The Group's fixed rate borrowings and receivables are carried at amortised cost. They are therefore not subject to interest rate risk as defined in AASB 7.

Interest rate sensitivities

The Group's interest rate sensitivity exposure relates to its variable rate bank borrowings. Had the interest rate been +/- 100 basis points, with all other things being equal, post-tax loss would have been approximately $119,470 higher/lower (2009 – $79,294) taking note of the timeframe for which the borrowings were outstanding.

Credit risk

Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted. Credit risk is managed on a Group basis.

The Group has policies in place to ensure that sales of rendering services are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any one entity. The compliance with credit limits is regulatory monitored by line management.

The average credit period on sale of rendering services is approximately 30 days, but is variable depending on the category of services provided. No interest is charged on overdue debtors. An allowance is made for any estimated irrecoverable trade receivable arising from past sale of rendering of services. At 30 June 2010, there were no amounts estimated irrecoverable in the Group.

The credit risk on financial assets and liabilities which have been recognised on the balance sheet is the carrying amount, net of any provision for doubtful debts. 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.

2 Financial risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast cashflows and matching the maturity profiles of financial assets and liabilities. It also ensures that adequate unutilised borrowing facilities are maintained.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The current banking agreement expires in December 2010, and the Company has received a proposal for a three year banking agreement from its current primary debt provider which is under consideration.

Group – At 30 June 2010	Less than 6 months $000's	6 – 12 months $000's	1-2 years $000's	2-5 years $000's	Over 5 years $000's	Total Contractual cashflows $000's	Carrying Amount of liabilities $000's
Non-derivatives							
Non-interest bearing	4,285	-	-	-	-	4,285	4,285
Variable interest	11,734	-	-	-	-	11,734	11,250
Finance leases	653	660	1,353	4,244	46,474	53,384	13,394
Convertible notes	272	-	-	-	-	272	265
	16,944	660	1,353	4,244	46,474	69,675	29,194

Group – At 30 June 2009	Less than 6 months $000's	6 – 12 months $000's	1-2 years $000's	2-5 years $000's	Over 5 years $000's	Total Contractual cashflows $000's	Carrying Amount of liabilities $000's
Non-derivatives							
Non-interest bearing	4,849	-	-	-	-	4,849	4,849
Variable interest	14,862	-	-	-	-	14,862	14,359
Finance leases	637	656	1,320	4,146	47,923	54,682	13,178
Convertible notes	2,045	-	-	-	-	2,045	2,000
	22,393	656	1,320	4,146	47,923	76,438	34,386

Fair Value Estimation and measurement hierarchy

The financial assets and liabilities included in the current assets and liabilities in the balance sheet are carried at amounts that approximate net fair values. As at reporting date there were no financial assets and liabilities recognised in the Balance Sheet using fair value measurements.

3. Revenue

	Consolidated 2010 $000's	Consolidated 2009 $000's
Continuing operations		
Operating income	34,520	31,115
Interest income	23	-
	34,543	31,115
Discontinued operations (note 12)	509	3,702
Total revenue	35,052	34,817

4. Loss from continuing operations before income tax expense

The loss from continuing operations before income tax has been determined after charging the following items:

	Consolidated 2010 $000's	Consolidated 2009 $000's
Depreciation of buildings, plant and equipment	643	418
Amortisation of intangible assets	450	260
Direct medical expenses	4,372	4,049
Rent and outgoings	2,423	1,484
Interest expense and other finance costs	1,212	1,273
Interest expense relating to lease of hospital operations	1,536	990
Hedging of interest expense	(13)	375
Impairment charges:		
Impairment of land and buildings	507	-
Impairment of goodwill:		
Continuing operations	464	2,915
Discontinuing operations	-	687
Total impairment charges	971	3,602

5. Auditors' remuneration

	Consolidated 2010 $000's	Consolidated 2009 $000's
Audit and review of the Financial Report	179	170
Other services	18	17
Total	197	187
Current auditor	197	187
Total	197	187

6. Income tax expense

(a) Reconciliation of income tax expense to prima facie tax payable

	Consolidated 2010 $000's	Consolidated 2009 $000's
Loss from continuing operations before tax	(2,903)	(4,959)
Loss from discontinued operations before tax	119	(488)
	(2,784)	(5,447)
Income tax calculated at 30% (2009: 30%)	(835)	(1,634)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Impairment of intangible assets	139	1,081
Impairment of non-current asset	152	-
Director option expense	18	34
Entertainment	6	3
Convertible notes expense	78	-
Benefit of tax losses not brought to account	442	515
Recognition of changes in temporary differences	(1,395)	-
De-recognition of previously recognised deferred tax balances	-	701
Prior year income tax (credits)/expenses adjustments	(78)	14
Income tax attributable to loss	(1,473)	714
Income tax attributable to continuing operations	(1,508)	898
Income tax attributable to discontinuing operations	35	(184)
Income tax attributable to loss	(1,473)	714

(b) Unrecognised deferred tax assets

	Consolidated 2010 $000's	Consolidated 2009 $000's
Unrecognised tax losses		
The deferred tax assets not brought to account relating to revenue tax losses are as follows:	6,946	5,472
Potential tax benefit at 30% (2009: 30%)	2,084	1,642

6. Income tax expense (continued)

(b) Unrecognised deferred tax assets (continued)

	Consolidated	
	2010	**2009**
	$000's	**$000's**
Unrecognised temporary differences		
The deferred tax assets not brought to account relating to temporary differences are as follows:	1,572	1,490
Potential tax benefit at 30% (2009: 30%)	471	447

The deferred tax assets on account of tax losses not brought to account represents amounts subject to factoring in accordance with tax consolidation legislation, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(c) occur.

The Group has recognised $1,600,000 in deferred tax assets based on forecasts prepared which show the Group achieving taxable income from the year ending 30 June 2011 onwards.

(c) Amounts recognised directly in equity

	Consolidated	
	2010	**2009**
	$000's	**$000's**
Aggregate current and deferred tax arising in the reporting period and not recognised in net loss but directly credited to equity		
Current tax – credited directly to equity	-	1
Net deferred tax – credited/(debited) directly to equity	(197)	(222)
Total	(197)	(221)

(d) Income Tax Components

	Consolidated	
	2010	**2009**
	$000's	**$000's**
Current tax	-	14
Deferred tax assets	(1,600)	990
Deferred tax liability	8	(67)
Adjustment for amounts recognised directly in equity	197	(222)
Adjustments for tax of prior periods	(78)	(1)
Income tax expense/(credit)	(1,473)	714
Income tax expense/(credit) is attributable to:		
Continuing operations	(1,508)	898
Discontinuing operations	35	(184)
Aggregate income tax expense/(credit)	(1,473)	714

6. Income tax expense (continued)

(e) Deferred Tax Assets

	Consolidated 2010 $000's	Consolidated 2009 $000's
The balances comprises temporary differences attributable to:		
Tax losses	-	-
Provisions	494	-
Deferred income	765	-
Others	144	-
Items charged directly to equity	197	-
Total	1,600	-

(f) Deferred Tax Liabilities

	Consolidated 2010 $000's	Consolidated 2009 $000's
The balances comprises temporary differences attributable to:		
Prepayments	8	-
Total	8	-

(g) Movements in Deferred Tax Assets-Consolidated

	Tax losses $000's	Provisions $000's	Deferred Income $000's	Other $000's	Total $000's
As at 1 July 2008	306	377	-	307	990
(Charged)/credited to the income statement	(306)	(377)	-	(85)	(768)
(Charged)/ credited to equity	-	-	-	(222)	(222)
As at 30 June 2009	-	-	-	-	-
(Charged)/ credited to the income statement	-	494	765	144	1,403
(Charged)/ credited to equity	-	-	-	197	197
As at 30 June 2010	-	494	765	341	1,600

(h) Movements in Deferred Tax Liabilities-Consolidated

	Prepayments $000's	Borrowing costs $000's	Other $000's	Total $000's
As at 1 July 2008	46	5	16	67
(Charged)/ credited to the income statement	(46)	(5)	(16)	(67)
As at 30 June 2009	-	-	-	-
(Charged)/ credited to the income statement	8	-	-	8
As at 30 June 2010	8	-	-	8

7. Cash and cash equivalents

	Consolidated	
	2010	2009
	$000's	$000's
Cash at bank and in hand	858	29
Total cash and cash equivalents	858	29

(a) Reconciliation to cash at bank and in hand

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Balances as above	858	29
Bank overdraft (note 17)	-	(859)
Balance as per statement of cash flows	858	(830)

(b) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 2.

8. Trade and other receivables

	Consolidated	
	2010	2009
	$000's	$000's
Current		
Trade debtors	3,172	4,239
Sundry debtors	116	15
Prepayments	1,336	341
Total current trade and other receivables	4,624	4,595

(a) Impaired trade receivables

As at 30 June 2010, there were no current trade receivables of the Group that were impaired.

(b) Past due but not impaired

As at 30 June 2010, trade receivables of $497,713 (2009: $820,405) were past due but not impaired. These relate to a number of independent customers for whom there is no history of default. The ageing analysis of the trade receivables is as follows:

	Consolidated	
	2010	2009
	$000's	$000's
30 to 60 days	305	623
60 to 90 days	96	123
Greater than 90 days	97	74
	498	820

(c) Other receivables

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be recovered when due. The Group does not hold any collateral in relation to these receivables.

(d) Fair value and credit risk

Due to the short-term nature of the receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at reporting date is the carrying amount of each class of receivable mentioned above. Also refer to note 2 for more information on the credit quality of the Group's trade receivables.

9. Inventories

	Consolidated	
	2010	2009
	$000's	$000's
Current		
On hand, available for use	585	469
Total current inventories	585	469

10. Derivative financial instruments

	Consolidated 2010 $000's	Consolidated 2009 $000's
Current liability		
Interest rate swap contract (a)	-	198
Total current liability derivative financial instrument	-	198

(a) Instruments used by the Group

The group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest in accordance with the Group's financial risk management policies (refer note 2).

(i) Interest rate swap contracts

Bank loans of the Group at year end had an weighted average variable interest rate of 7.45%.

Currently there are no interest rate swap contracts in place. During 2009, the swap covered $6,450,000 or approximately 48% of the variable loan principal outstanding and expired in March 2010.

The contract required settlement of net interest receivable or payable each 30 days. The contract is settled on a net basis.

The gain or loss from resetting the interest rate swap instrument at fair value is taken to profit and loss at the balance date. In the year ended 30 June 2010 a loss of $184,771 (2009: loss of $141,340) was recognised in operating the interest rate swap and a gain of $197,993 (2009: gain of $233,691) was realised as the change in the fair value of the interest rate swap.

(b) Risk exposure

Information about the Group's exposure to credit risk and interest rate risk is provided in note 2.

11. Other current assets

	Consolidated 2010 $000's	Consolidated 2009 $000's
Current		
Security deposit	16	-
Borrowing cost	35	28
Total other current assets	51	28

12. Discontinued operations and assets classified as held for sale

(a) Description

Asset held for sale

The asset held for sale at 30 June 2010 relates to a land and building which is being held for sale at Gympie.

Discontinued operations

On 31 July 2009 the Care on Call business based in Canberra was sold to an external party and the business disposed of is reported in this financial report as a discontinued operation. On 30 November 2009 the Northside Nursing business based in Gordon, N.S.W. was sold to an external party and the business disposed of is reported in this financial report as a discontinued operation.

Financial information relating to the discontinued operations for the period to the date of disposal is set out below.

(b) Financial performance and cash flow information

	2010			2009	
	Care on Call	Northside Nursing	Total	Care on Call	Total
	$ 000's	$ 000's	$ 000's	$ 000's	$ 000's
Revenue	335	174	509	3,702	3,702
Expenses	(325)	(185)	(510)	(3,503)	(3,503)
Impairment charge on goodwill	-	-	-	(687)	(687)
Profit / (Loss) before income tax	10	(11)	(1)	(488)	(488)
Income tax (expense) credit	(35)	-	(35)	184	184
Profit / (Loss) after income tax of discontinued operations	(25)	(11)	(36)	(304)	(304)
Gain / (Loss) on sale of division before income tax	48	72	120	-	-
Income tax expense	-	-	-	-	-
Gain / (Loss) on sale of division after income tax	48	72	120	-	-
Profit / (Loss) from discontinued operation	**23**	**61**	**84**	**(304)**	**(304)**
Net Cash inflow / (outflow) from operating activities	128	51	179	663	663
Net Cash inflow / (outflow) from investing activities	739	79	818	-	-
Net Cash inflow / (outflow) from financing activities	-	-	-	-	-
Net increase in cash generated by the division	**867**	**130**	**997**	**663**	**663**

12. Discontinued operation (continued)

(c) Carrying amounts of Assets and Liabilities

31 July 2009 (Care on Call) and 30 November 2009 (Northside Nursing) were :	31 July 2009 Care on Call $ 000's	30 November 2009 Northside Nursing $ 000's	Total $ 000's	30 June 2009 Care on Call held for sale $ 000's
Cash and cash equivalents	1	-	1	-
Property Plant and Equipment (net of depreciation)	71	11	82	29
Trade Receivables	13	-	13	17
Intangibles	635	9	644	635
Total Assets	**720**	**20**	**740**	**681**
Employee entitlements	(29)	(13)	(42)	(30)
Total Liabilities	**(29)**	**(13)**	**(42)**	**(30)**
Net assets	**691**	**7**	**698**	**651**

(d) Details of the sale of the divisions

Year ended 30 June 2010	Care on Call $ 000's	Northside Nursing $ 000's	Total $ 000's
Consideration received :			
Cash	840	79	919
Total disposal consideration	840	79	919
Sale of business expenses	(101)	-	(101)
Carrying amount of net assets sold	(691)	(7)	(698)
Gain / (Loss) on sale before income tax	**48**	**72**	**120**
Income tax expense	-	-	-
Gain / (Loss) on sale after income tax	**48**	**72**	**120**

13. Property, plant and equipment	**Land and Buildings $000's**	**Leasehold Improvement $000's**	**Leased Assets $000's**	**Plant and Equipment $000's**	**Total $000's**
Consolidated					
Year ended 30 June 2010					
Opening net book amount	5,446	76	49	5,841	11,412
Additions	42	14	-	678	734
Disposal on transfer to discontinued operations	-	-	-	(70)	(70)
Depreciation charge	(62)	(10)	(8)	(949)	(1,029)
Impairment of fixed assets	(507)	-	-	-	(507)
Transfer to asset held for sale	(4,919)	-	-	-	(4,919)
Closing net book amount	-	80	41	5,500	5,621
At 30 June 2010					
Cost	-	102	73	7,302	7,478
Accumulated depreciation	-	(22)	(32)	(1,802)	(1,857)
Net book amount	-	80	41	5,500	5,621
Year ended 30 June 2009					
Opening net book amount	5,486	80	105	5,189	10,860
Additions	21	4	6	664	695
Additions – on Westmead leasehold	-	-	-	357	357
Disposal on transfer to discontinued operations	-	-	-	(29)	(29)
Disposals	-	-	(43)	(10)	(53)
Depreciation charge	(61)	(8)	(19)	(330)	(418)
Closing net book amount	5,446	76	49	5,841	11,412
At 30 June 2009					
Cost	5,521	88	74	6,694	12,377
Accumulated depreciation	(75)	(12)	(25)	(853)	(965)
Net book amount	5,446	76	49	5,841	11,412

Non-current assets pledged as security

Refer to note 20 for information on non-current assets pledged as security by the consolidated entity.

14. Intangible assets

	Borrowing Costs $000's	Goodwill $000's	Right to Operate Hospital $000's	Total $000's
Consolidated				
Year ended 30 June 2010				
Opening net book amount	-	14,522	12,977	27,499
Additions	-	-	-	-
Amortisation charge	-	-	(445)	(445)
Impairment charge	-	(464)	-	(464)
Closing net book amount	-	14,058	12,532	26,590
At 30 June 2010				
Cost	-	17,437	13,237	30,674
Accumulated amortisation	-	-	(705)	(705)
Accumulated Impairments	-	(3,379)	-	(3,379)
Net book amount	-	14,058	12,532	26,590
Year ended 30 June 2009				
Opening net book amount	17	18,789	-	18,806
Additions – Westmead leasehold (note 30)	-	-	13,237	13,237
Amortisation charge	-	-	(260)	(260)
Assets classified as held for sale	-	(635)	-	(635)
Other disposals	(17)	(30)	-	(47)
Impairment charge	-	(3,602)	-	(3,602)
Closing net book amount	-	14,522	12,977	27,499
At 30 June 2009				
Cost	-	17,437	13,237	30,674
Accumulated amortisation	-	-	(260)	(260)
Accumulated Impairments	-	(2,915)	-	(2,915)
Net book amount	-	14,522	12,977	27,499

14. Intangible assets (continued)

Impairment Disclosures

Goodwill is allocated to the Group's Cash Generating Units (CGUs) identified according to business segments as given below. The "Right to Operate Hospital" intangible asset is included in the Hospital Division CGU.

	2010 $000s
Hospital Division	23,989
Community Care Division	2,061
Recruitment Division	540
Total	26,590

In the previous year, each individual business was treated as a separate CGU which included the goodwill/intangible amount acquired as follows:

	2009 $000s
Bega Valley Private Hospital	360
Forster Private Hospital	5,372
Gympie Private Hospital	3,135
KPH Private Hospital	2,589
Northside Nursing	9
North Coast Community Care	2,061
Recruitment Specialist Group	995
Westmead Rehabilitation Hospital	12,978
Total	27,499

The goodwill acquired through business combinations has been allocated to CGUs determined at a segment level as synergies are achieved from the larger group. In prior periods, goodwill was assigned within the individual acquired businesses, despite the synergies achieved through aggregation. Management have implemented the revised policy to assess goodwill by segment for purposes of impairment testing because management strongly believe that synergies existing within the acquired businesses can be achieved from combining the businesses with the rest of the group.

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. These calculations use 2010/2011 financial budgets approved by management and inherent growth factors consistent with current performance. Cashflows beyond the financial year ending 2015 are extrapolated using long term growth rates as below:

	2010	2009
Hospital Division	4%	0-8%
Community Care Division	3%	4%
Recruitment Division	3%	1%

The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. In performing the value-in-use calculations for each CGU, the Group has applied pre-tax discount rates of 12.5 to13% (2009: 12 to15%)

14. Intangible assets (continued)

Impairment Disclosures (continued)

As at December 2009, the Group determined that the Recruitment Specialist Group did not meet the required forecast discounted cashflows to maintain its carrying value and an impairment charge of $455,313 was required. In addition, a charge for impairment of goodwill of $9,000 in relation to the Northside Nursing business was recognised prior to its sale.

At year ended June 2010, no further impairment was deemed necessary on any of the Group's continuing operations.

15. Trade and other payables

	Consolidated	
	2010	**2009**
	$000's	**$000's**
Current		
Trade creditors and accruals	3,555	3,706
Other creditors	730	1,143
Total current trade and other payables	4,285	4,849

16. Provisions

	Consolidated	
	2010	**2009**
	$000's	**$000's**
Current		
Employee entitlements	1,591	1,680
Total current provisions	1,591	1,680

17. Borrowings

	Consolidated 2010 $000's	Consolidated 2009 $000's
Current		
Secured		
Bank overdraft	-	859
Finance leases	1,313	1,293
Convertible notes (a)	265	2,000
Bank loan (b)	11,250	13,500
Total secured current borrowings	12,828	17,652

(a) Convertible notes

At the beginning of the year, there were 10,000,000 convertible notes on issue at face value of $0.20 each. All convertible notes were repaid on 31 July 2009. During the year, 8,250,000 new convertible notes with a face value of $0.10 each were issued and 5,600,000 of these convertible notes converted to 9,333,333 ordinary shares of Pulse Health Limited.

The notes are convertible at any time exclusively at the option of the note holders or any subsequent holder to ordinary shares of Pulse Health Limited at the conversion price of $0.10 each. The final conversion date is 30 June 2010. The notes pay 10% interest per annum, payable quarterly in arrears on 1st July, October, January and April each year, subject to adjustment in the first quarterly period for date of funds receipt.

These convertible notes are secured by a first fixed and floating charge against Bega Valley Private Hospital Pty Ltd and a secondary fixed and floating charge over the operations of Pulse Health Limited.

Subsequent to year end, all 2,650,000 convertible notes remaining were repaid to note holders on 1 July 2010 and 1,275,000 convertible notes were reissued with face value of $0.10.

(b) Bank loan

On 26 February 2010, Company entered into an agreement for a loan facility with National Australia Bank Limited on the following material terms and conditions:

A 1st ranking fixed and floating charge over all the assets and undertakings including goodwill and uncalled capital of the company and of all subsidiaries with the Group except Westmead Rehabilitation Pty Ltd, and a registered 1st ranking mortgage over the freehold property at Gympie and a registered leasehold mortgage over the leasehold properties at Forster and Kingaroy.

A series of Financial and Reporting Covenants are required, including a minimum interest cover ratio, a maximum property finance loan to value ratio and a minimum tangible net worth. The Group was in breach of its minimum interest cover ratio covenant for the quarter ended 30 June 2010.

The bank loans are a combination of interest only and a term loan. At year end the term loan had $120,000 outstanding and amortises at $40,000 per month. Currently, interest is payable on the Bank and Term loans at a rate of 30 day BBSY + 3.20% (2009: + 3.25%), reset monthly. This rate is subject to quarterly reviews.

The current banking agreement expires in December 2010, and the Company has received a proposal for a three year banking agreement from its current primary debt provider which is under consideration.

17. Borrowings (continued)

The carrying amount of assets pledged as security for current and non-current borrowings are:

	Note	Consolidated 2010 $000's	Consolidated 2009 $000's
Current			
Floating charge			
Cash and cash equivalent	7	858	29
Trade and other receivables	8	4,624	4,595
Inventories	9	585	468
First mortgage			
Freehold land and buildings - held for sale	12	4,919	-
Total current assets pledged as security		10,986	5,092
Non-current			
First mortgage			
Freehold land and buildings	13	-	5,446
Leased assets			
Plant and equipment	13	41	49
Floating charge			
Plant and equipment & leasehold improvements	13	5,580	5,917
Intangible assets	14	14,058	14,522
		19,638	20,439
Total non-current assets pledged as security		19,679	25,934
Total assets pledged as security		30,665	31,026

18. Other liabilities

	Consolidated 2010 $000's	Consolidated 2009 $000's
Current		
Government grants	147	408
Other	36	-
Total other current liabilities	183	408

19. Provisions

	Consolidated 2010 $000's	Consolidated 2009 $000's
Non current		
Employee entitlements	318	278
Total non current provisions	318	278

20. Borrowings

	Consolidated 2010 $000's	Consolidated 2009 $000's
Non current		
Secured		
Finance leases (a)	12,081	11,885
Total non current borrowings	12,081	11,885

(a) Assets pledged as security

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements reverting to the lessor in the event of default.

21. Other liabilities

	Consolidated 2010 $000's	Consolidated 2009 $000's
Non current		
Deferred income (a)	2,983	3,066
Total non current other liabilities	2,983	3,066

(a) Represents assets acquired with Government Grant monies. The deferred income is amortised against the useful life of the acquired assets through reduced depreciation charges.

22. Contributed equity and share based reserve

	Consolidated 2010 $000's	2009 $000's
(a) Issued and paid-up capital		
252,333,221 (2009: 138,231,790) fully paid ordinary shares	19,917	12,881
(b) Movement in ordinary share capital		
Balance at beginning of year	12,881	13,353
De-recognition of previously recognised deferred tax assets written back to equity	-	(221)
Recognition of deferred tax asset in equity	197	-
De-recognition of financial asset on recognition of share based payment	-	(251)
3,500,000 shares issued at 10 cents during capital raising	350	-
101,268,098 shares issued at 6 cents during capital raising	6,103	-
9,333,333 shares issued at 6 cents to convertible note holders opting for conversion to shares	560	-
Fair value adjustment due to early conversion of convertible notes	261	-
Capital raising costs during year	(435)	-
Balance at end of year	19,917	12,881
(c) Share based payments reserve		
Balance at beginning of year	171	686
Add / (deduct):		
Options lapsed	(113)	(628)
Share based payment	59	113
Balance at end of year	117	171

22. Issued capital and share based reserve (continued)

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

(e) Share based reserve

The share-based payments reserve is used to recognise:

- The grant date fair value of options issued to directors but not exercised
- The grant date fair value of shares issued to directors
- The grant date fair value of options issued to suppliers but not exercised

(f) Capital management

The Group's debt and capital includes ordinary share capital, options, convertible notes and financial liabilities, supported by financial assets

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

There are externally imposed capital requirements. Under the terms and conditions of the Bank loan facilities, the Group is required to comply with a minimum tangible net worth requirement and a maximum property finance loan to value ratio requirement. In order to maintain or adjust the capital structure to meet these externally imposed capital requirements, management may adjust debt levels, issue new shares or sell assets.

At 30 June 2010 the Company complied with minimum tangible net worth and property finance loan to value ratio covenants.

At 30 June 2010 the consolidated gearing ratios were 72.83% (2009: 86.0%).

23. Segment Reporting

(a) Description of segments

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the Chief Executive Officer.

The Chief Executive Officer has identified 3 reportable segments based on the type of service provided within the group, namely private hospitals, community care and health recruitment. Private hospitals make strategic acquisitions of privately run hospitals and day surgeries around Australia. Community Care provides health services to patients including Nursing Care, Case Management, Respite Care and Allied Health provisions. Health recruitment provides a reliable network of contracted and permanent employment services of nurses, Allied and medical personnel to health care providers in the private, public and aged care sectors.

(b) Segment information provided to the board of directors

The segment information provided to the board of directors for the reportable segments for the year ended 30 June 2010 is as follows :

Year ended 30 June 2010	**Private Hospitals**	**Community Care**	**Health Recruitment**	**Total**
	$ 000's	$ 000's	$ 000's	$ 000's
Segment Revenues				
Total segment revenue	30,409	2,008	1,197	**33,614**
Intersegmental Revenue	61	-	-	**61**
Other revenue	785	15	106	**906**
	31,255	2,023	1,303	**34,581**
Intersegmental eliminations	(61)	-	-	**(61)**
Unallocated revenues				**23**
Consolidated revenue	31,194	2,023	1,303	**34,543**
Adjusted EBITDA	4,222	313	80	**4,615**
Depreciation and amortisation	878	26	10	**914**
Unallocated head office depreciation				**179**
Total depreciation and amortisation				**1,093**
Impairment of goodwill	-	9	455	**464**
Impairment of fixed assets	507	-	-	**507**
Total impairment charge				**971**
Total segment assets	39,241	2,287	752	**42,280**
Additions to non-current assets (other than financial assets and deferred tax)	646	22	9	**677**

23. Segment reporting (continued)

Year ended 30 June 2009	Private Hospitals $ 000's	Community Care $ 000's	Health Recruitment $ 000's	Total $ 000's
Segment Revenues				
Total segment revenue	26,719	2,453	1,712	**30,884**
Intersegmental Revenue	50	-	-	**50**
Other revenue	222	9	-	**231**
	26,991	2,462	1,712	**31,165**
Intersegmental eliminations	(50)	-	-	**(50)**
Consolidated revenue	26,941	2,462	1,712	**31,115**
Adjusted EBITDA	3,457	234	53	**3,744**
Depreciation and amortisation	626	17	10	**653**
Unallocated head office depreciation				**24**
Total depreciation and amortisation				**677**
Impairment of goodwill	2,492	163	260	2,915
Total segment assets	39,111	3,481	1,258	**43,850**
Additions to non-current assets (other than financial assets and deferred tax)	699	57	5	**761**

(c) Other segment information

(i) Adjusted EBITDA

The Chief Executive Officer assesses the performance of the operating segements based on a measure of Adjusted EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, effects of equity-settled share based payments, unrealised gains/(losses) on financial instruments, interest income and expenditure, head office costs and goodwill impairments when the impairment is the result of an isolated, non-recurring event.

A reconciliation of adjusted EBITDA to Loss before income tax from continuing operations is provided as follows:

	Consolidated	
	2010 $000's	**2009 $000's**
Adjusted EBITDA from continuing operations	4,615	3,744
Unallocated head office costs	(2,458)	(2,473)
Finance Costs	(2,735)	(2,638)
Depreciation and amortisation	(1,093)	(677)
Impairment Charges	(971)	(2,915)
Convertible notes expenses	(261)	-
Loss before income tax from continuing operations	**(2,903)**	**(4,959)**

23. Segment reporting (continued)

(ii) Segment assets

Reportable segments' assets are reconciled to total assets as follows:

	Consolidated	
	2010	2009
	$000's	$000's
Segment assets	42,280	43,850
Discontinued operations	-	682
Unallocated assets:		
Cash	783	-
Trade and other receivables	73	31
Other current assets	35	28
Deferred tax asset	1,600	-
Property, plant and equipment	77	242
Total assets as per the balance sheet	**44,848**	**44,833**

(iii) Segment revenue

Sales between segments are carried out at arm's legnth and are eliminated on consolidation. Segment revenues reported to the board of directors is measured in a manner consistent with that in the income statement.

Segment revenues are derived from provision of medical and healthcare services at private hospitals and community care. Segment revenues are also derived from provision of employment services through health recruitment.

The Group is domiciled in Australia. The amount of its revenue from external custromers in Australia is $34,397,000 (2009: $31,017,000), and the total revenue from external customers in other countries is $123,000 (2009: $98,000).

The Group does not have significant reliance on a single external customer.

24. Controlled entities

	Country of incorporation	% owned	
Parent	Australia	-	
Subsidiaries of Pulse Health Limited		**30 June 2010**	**30 June 2009**
- Pulse Health Hospitals Pty Ltd	Australia	100%	100%
- Pulse Health Services Pty Ltd	Australia	100%	100%
- Pulse Health Nursing Pty Ltd	Australia	100%	100%
- Care Call Pty Ltd	Australia	100%	100%
- Bega Valley Private Hospital Pty Ltd	Australia	100%	100%
- Forster Private Hospital Pty Ltd	Australia	100%	100%
- Gympie Private Hospital Pty Ltd	Australia	100%	100%
- KPH Hospital Pty Ltd	Australia	100%	100%
- North Coast Community Care Pty Ltd	Australia	100%	100%
- Recruitment Specialist Group Pty Ltd	Australia	100%	100%
- Westmead Rehabilitation Hospital Pty Ltd	Australia	100%	100%
- Griffith Private Hospital Pty Ltd	Australia	100%	100%
- Pulse Health Aged Care Pty Ltd	Australia	100%	100%
- Freshwater Private Hospital Pty Ltd	Australia	100%	100%
- PCHO Hospital Pty Ltd	Australia	100%	-

25. Commitments

	Consolidated	
	2010	**2009**
Leasing commitments	**$000's**	**$000's**
Non-cancellable leases contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
- not later than 12 months	2,131	1,916
- between 12 months and 5 years	5,712	7,429
- greater than 5 years	39,103	40,502
	46,946	49,847

The Group lease various hospitals and offices under non-cancellable operating leases expiring from within six months to twenty-eight years and four months. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

25. Commitments (continued)	**Consolidated**	
	2010	**2009**
	$000's	**$000's**
Finance leases		
Commitments in relation to finance leases are payable as follows:		
- not later than 12 months	1,313	1,293
- between 12 months and 5 years	5,600	5,466
- greater than 5 years	46,474	47,923
	53,387	54,682
Future finance charges	(39,993)	(41,504)
Recognised as a liability	13,394	13,178
Representing		
- Current (note 17)	1,313	1,293
- Non current (note 20)	12,081	11,885
	13,394	13,178

Included in the Group finance lease commitments is an "Operating Asset Lease" with an unlisted property trust. The lease agreement permits the Group to operate and assume all operating assets and liabilities including the hospital license in relation to the Westmead Rehabilitation Hospital. Under applicable Accounting Standards, the Operating Assets Lease has been deemed a finance lease , which has been used to acquire the acquisition of the hospital management rights (refer Note 14).

The lease agreement is for a period of 30 years, with annual CPI increases in rent. The gross finance lease commitments outstanding as at reporting date relating to the Westmead Operating Asset lease amounted to $53,369,000 (2009: $54,650,000) and the present value of the lease commitments is $13,380,000 (2009: $13,151,000).

26. Loss per share	**Consolidated**	
	2010	**2009**
	$000's	**$000's**
Earnings used to calculate basic and diluted earnings per share		
Loss from continuing operations	(1,395)	(5,857)
Profit (loss) from discontinued operations	84	(304)
Loss for the year	(1,311)	(6,161)
Weighted average number of shares used as the denominator	**Number**	**Number**
Number for basic and diluted loss per share		
Ordinary shares	205,382,160	136,446,076

13,925,000 options granted are not included in the calculation of diluted loss per share because they are anti-dilutive for the year ended 30 June 2010. These options could potentially dilute basic earnings per share in the future.

27. Employee benefits

Number of employees	Consolidated 2010 Number	Consolidated 2009 Number
Number of employees at the end of the year	538	618

28. Contingent liabilities

In the event that the share options are not exercised, the option premium reserve (or part thereof for those options not exercised) may become a capital gain for capital gains tax purposes.

29. Key management personnel disclosures

(a) Key management personnel compensation

	Consolidated 2010 $	Consolidated 2009 $
Short-term employee benefits	874,470	625,000
Post-employment benefits	65,610	56,250
Long-term benefits	-	-
Termination benefits	-	-
Share-based payments	59,000	113,400
	999,080	794,650

Detailed remuneration disclosures are provided in the remuneration report on pages 6 to 11.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such option

Details of options provided as remuneration and shares issued on exercise of such options, together with terms and conditions of the options, can be found in the remuneration report on page 10.

29. Key management personnel disclosures (continued)

(ii) Option holdings

The movement during the reporting period in the number of options over ordinary shares exercisable between $0.10 to $0.40 on or before 31 May 2011 held, directly, indirectly or beneficially by each specified director and other key management personnel, including their personally-related entities, is as follows:

2010	Opening 30 June 2009	Granted as remuneration	Exercised	Lapsed (b)	Closing 30 June 2010 (e)
Directors					
Executive					
Dr Ian Kadish (c)	-	6,000,000	-	-	6,000,000
Other key management personnel					
Justin Matthews (d)	-	4,800,000	-	-	4,800,000

2009	Opening 30 June 2008 (a)	Granted as remuneration	Exercised	Lapsed (b)	Closing 30 June 2009
Directors					
Non-executive					
Mr Stuart James	2,000,000	-	-	(2,000,000)	-
Dr John Hewson (resigned 31 March 2009)	1,500,000	-	-	(1,500,000)	-
Dr Barry Landa (resigned 30 June 2010)	2,000,000	-	-	(2,000,000)	-
Mr Andrew Gregory	1,500,000	-	-	(1,500,000)	-
Mr Trevor Beazley (resigned 29 August 2009)	1,500,000	-	-	(1,500,000)	-
Executive					
Mr Peter Mangles (resigned 31 August 2009)	2,000,000	-	-	(2,000,000)	-

(a) All the above options were fully vested and exercisable at the beginning of the year.
(b) All options lapsed during the year remain unexercised.
(c) Appointed as Chief Executive Officer on 1 November 2009 and then Managing Director on 6 July 2010. Tendered notice to resign as Chief Executive Officer and Managing Director of Pulse Health Limited on 31 October 2010.
(d) Appointed as Chief Financial Officer on 12 November 2009.
(e) None of these options vested during the year.

29. Key management personnel disclosures (continued)

(iii) Share Holdings

The movement during the reporting period in the number of ordinary shares held, directly, indirectly or beneficially by each specified director and other key management personnel, including their personally-related entities, is as follows:

2010	Opening 30 June 2009	Purchases	Received on exercise of options	Other changes	Closing 30 June 2010 (a)
Directors					
Non-executive					
Mr Stuart James	2,142,857	250,000	-	-	2,392,857
Dr Barry Landa (resigned 30 June 2010)	3,871,250	125,000	-	-	3,996,250
Mr Trevor Beazley (resigned 29 August 2009)	700,000	-	-	-	700,000
Mr Andrew Gregory	2,903,571	4,416,666	-	-	7,320,237
Mr Craig Coleman (appointed 1 January 2010	-	1,785,714	-	-	1,785,714
Executive					
Mr Peter Mangles (resigned 31 August 2009)	1,785,714	-	-	-	1,785,714
Dr Ian Kadish (b)	-	2,666,668*	-	-	2,666,668

* Included are 1,333,333 shares acquired under a non-recourse loan provided by the Company (refer note 34).
(a) As at 30 June 2010 or at date of resignation, if applicable.
(b) Appointed as Chief Executive Officer on 1 November 2009 and then Managing Director on 6 July 2010. Tendered notice to resign as Chief Executive Officer and Managing Director on 31 October 2010.

2009	Opening 30 June 2008	Purchases	Received on exercise of options	Other changes	Closing 30 June 2009
Directors					
Non-executive					
Mr Stuart James	2,142,857	-	-	-	2,142,857
Dr Barry Landa (resigned 30 June 2010)	2,280,000	1,591,250	-	-	3,871,250
Mr Trevor Beazley (resigned 29 August 2009)	700,000	-	-	-	700,000
Mr Andrew Gregory	2,903,571		-	-	2,903,571
Executive					
Mr Peter Mangles (resigned 31 August 2009)	1,785,714	-	-	-	1,785,714

29. Key management personnel disclosures (continued)

(iv) Convertible Note Holdings

The movement during the reporting period in the number of convertible notes held, directly, indirectly or beneficially by each specified director and other key management personnel, including their personally-related entities, is as follows:

2010	Opening 30 June 2009	Purchases	Redeemed	Converted	Closing 30 June 2010
Directors					
Non-executive					
Mr Andrew Gregory	2,500,000	2,000,000	2,500,000	2,000,000	-

2009	Opening 30 June 2008	Purchases	Redeemed	Converted	Closing 30 June 2009
Directors					
Non-executive					
Mr Andrew Gregory	2,500,000	-	-	-	2,500,000

It is noted that David Franks or related parties also purchased during the year and increased their convertible note holdings from 262,500 ($0.20 face value or $52,500) as at 30 June 2009 to 525,000 convertible notes ($0.10 face value or $52,500) as at 30 June 2010.

(c) Other key management personnel transactions

(i) Mr Stuart James is the chairman of Balnave Corporate Limited, which was an advisor to the Company during the year. Currently, the Company and Balnave Corporate Limited has in place a 4 months consulting agreement. The contract was based on normal commercial terms and conditions.

During the year ended 30 June 2010, the Company paid Balnave Corporate Limited a total of $186,446 (excluding GST) for consulting services.

30. Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 24.

(b) Other related parties

(i) During the year the company paid Franks & Associates Pty Ltd, a company associated with Mr David Franks, to perform Company Secretarial and Finance functions at an hourly rate of $150 (excluding GST). The total amount of $78,981 (excluding GST) was incurred during the year. Of this amount, $3,834 (excluding GST) remained unpaid at 30 June 2010.

31. Notes to the Statement of Cash Flows

	Consolidated 2010 $000's	Consolidated 2009 $000's
(a) Reconciliation of cash and cash equivalents		
For the purposes of the statement of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents (Note 7)	858	(830)
(b) Reconciliation of net cash flows from operating activities to loss after income tax		
Loss after income tax	(1,311)	(6,161)
Depreciation and amortisation	1,093	696
Impairment charges	971	3,602
Share based payments to directors	59	113
Interest income	(23)	-
Interest on finance lease	1,516	990
Convertible notes expense	261	-
Accrued interest	-	45
Fair value adjustment to derivative	(198)	234
Profit on sale of business	(120)	-
Other non operating items in loss after income tax	(86)	-
Net cash used in operating activities before changes in assets and liabilities	2,162	(481)
Change in operating assets and liabilities, net of effects from purchase of controlled entities		
(Increase) decrease in trade and other receivables	(23)	(942)
(Increase) in inventories	(116)	(152)
(Increase) decrease in current and deferred tax assets	(1,284)	1,004
(Increase) decrease in other operating assets	204	7
Increase (decrease) in trade and other payables	(565)	2,413
Increase (decrease) in deferred tax liabilities	8	(67)
Increase in provisions	(32)	412
Increase (decrease) in other operating liabilities	49	(1,217)
Net cash and cash equivalents used in operating activities	403	977

32. Parent entity disclosures

Information relating to Pulse Health Limited	2010 $000's	2009 $000's
Current assets	5,899	3,088
Non current assets	23,401	24,887
Total assets	29,300	27,975
Current Liabilities	20,508	23,324
Non current liabilities	7	9
Total Liabilities	20,515	23,333
Issued capital	19,917	12,881
Share based payment reserve	117	171
Accumulated losses	(11,249)	(8,410)
Total shareholders' equity	**8,785**	**4,642**
Loss of the parent entity	(2,953)	(6,405)
Total Comprehensive loss of the parent entity	(2,953)	(6,405)

Refer to note 17 and 24 for information on assets pledged as security by the parent entity and its controlled entities.

33. Events subsequent to balance date

a) Convertible Note Repayment

On 1 July 2010, the Group repaid all convertible notes due on 30 June 2010. No convertible notes were converted.

b) Convertible Notes Issued

As announced on 1 July 2010, 1,275,000 new convertible notes were issued at $0.10 face value each with yield of 10% pa paid quarterly in arrears. The notes are convertible at any time exclusively at the option of the note holders or any subsequent holder to ordinary shares of Pulse Health Limited at the conversion price of $0.10 each. The final conversion date is 30 June 2011.

These convertible notes are secured by a first fixed and floating charge against Bega Valley Private Hospital Pty Ltd and a secondary fixed and floating charge over the operations of Pulse Health Limited.

34. Share based payments

Non-recourse Loan

In accordance with the General Meeting of the Company on 26 November 2009, approval was given to advance Dr Ian Kadish matching funds up to a maximum of $250,000, to acquire shares in the Company in a placement.

The material terms of the loan were as follows:

- The purpose of the loan was to fund Dr Kadish's subscription for shares in a Company placement
- To be able to draw on the loan and subscribe for loan shares, Dr Kadish must first invest, using his own financial sources as consideration, in the subscription of new fully paid ordinary shares in the capital of the Company.
- For each dollar of investment made by Dr Kadish, the Company will fund the equivalent amount, up to $250,000 in total, for the subscription of new, fully paid ordinary shares in the capital of the Company (Investment)
- The price paid per share by Dr Kadish for the loan shares utilising the loan will be the equivalent to the price paid per share by Dr Kadish for the Investment.
- The loan will be repayable on or before that date which is five years from the date of appointment by shareholders or if Dr Kadish ceases to be an employee of the Company, whichever occurs earlier.
- The loan will be interest free
- The loan will be unsecured and Dr Kadish's liability will be limited to the value of the loan shares
- The loan shares will be subject to a holding back lock until the loan is repaid; and
- Dividends received on the Loan shares will be treated as follows:
    - All dividends will be paid at the top marginal tax rate less any imputation credits; and
    - The balance will be used to repay the loan

Dr Kadish utilised $80,000 of the loan matched with $80,000 of his own funds to acquire 2,666,668 shares in the Company's November 2009 placement at $0.06 per share.

Under International Financial Reporting Standards, the granting of the loan to an amount of $80,000 was treated as a share option, resulting in the recognition of a share based payment amount of $10,000 and has been included in the remuneration table above. The fair value of the share option granted was determined at grant date (ie. 27 November 2009) using a Black-Scholes option pricing model and is allocated equally from grant date to vesting date.

The model inputs for the above option granted are as follows:

a. Exercise price - $0.06
b. Grant date – 27 November 2009
c. Expiry date – 25 November 2014
d. Share price at grant date - $0.07
e. Expected price volatility of the Company's shares : 100%
f. Expected dividend yield : 0.00%
g. Risk-free interest rate: 3.8%

Options

Options were granted to Dr Ian Kadish (CEO) of the Company on 27 November 2009 under the Company's LTI scheme which was approved by the shareholders at the 2009 AGM. Options were also granted to Mr Justin Matthews (CFO) on 27 November 2009. The options vest on the date upon the 60 day Volume Weighted Average Share Price (VWAP) between 27 November 2009 and 31 May 2011 equalling or exceeding certain performance hurdles outlined in the table below. On vesting the options may be exercisable at any time prior to 31 May 2011. Once exercisable, each option is convertible into one ordinary share. Options not exercised on or before 31 May 2011 will automatically lapse. There will be no participating entitlement inherent in the options to participate in the new issues of capital which may be offered to shareholders during the currency of the options.

The assessed fair value at grant date (ie. 27 November 2009) is allocated equally over the period from grant date to vesting date, and the amount is included I the remuneration table above. Fair values at grant date have been determined independently using a Black-Scholes option pricing model.

34. Share based payments (continued)

The details of options issued to Dr Ian Kadish and Mr Justin Matthews of the Company during the current year as remuneration were as follows:

Name	VWAP equaling or Exceeding Exercise Price	Options Vesting	Exercise Price	Vesting Date	Value Per Option $	Share based Payment $
Dr Ian Kadish						
Tranche 1	$0.10	2,000,000	$0.10	31-May-2011	$0.0240	
Tranche 2	$0.15	1,000,000	$0.15	31-May-2011	$0.0155	
Tranche 3	$0.20	1,000,000	$0.20	31-May-2011	$0.0060	
Tranche 4	$0.30	1,000,000	$0.30	31-May-2011	$0.0011	
Tranche 5	$0.40	1,000,000	$0.40	31-May-2011	$0.0001	
Total options granted		**6,000,000**				$27,000
Mr Justin Matthews						
Tranche 1	$0.10	1,600,000	$0.10	31-May-2011	$0.0240	
Tranche 2	$0.15	800,000	$0.15	31-May-2011	$0.0155	
Tranche 3	$0.20	800,000	$0.20	31-May-2011	$0.0060	
Tranche 4	$0.30	800,000	$0.30	31-May-2011	$0.0011	
Tranche 5	$0.40	800,000	$0.40	31-May-2011	$0.0001	
Total options granted		**4,800,000**				$22,000

The options expire on 31 May 2011. No options vested during the year.

The model inputs for the above options granted are as follows:

h. Exercise price - $0.10 to $0.40 as set out below
i. Grant date – 27 November 2009
j. Expiry date – 31 May 2011
k. Share price at grant date - $0.075
l. Expected price volatility of the Company's shares : 100%
m. Expected dividend yield : 0.00%
n. Risk-free interest rate: 4.27%

35. Litigation matters

No litigation was undertaken in the year and to the Group's knowledge, none are threatened or pending at the date of this report.

DIRECTORS' DECLARATION
30 June 2010

The directors of Pulse Health Limited declare that:

(a) in the directors' opinion the financial statements and notes on pages 26 to 78 and the remuneration disclosures that are contained in the Remuneration report in the Directors Report set out on pages 6 to 11, are 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 2010 and of its performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as disclosed in note 1; and

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the chief executive officer and chief financial officer for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the directors.

Chairman

Sydney, New South Wales
28 September 2010

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Pulse Health Limited

Report on the Financial Report

We have audited the accompanying financial report of Pulse Health Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of Pulse Health Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT (Continued)

Independence

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

Auditor's Opinion

In our opinion:

(a) the financial report of Pulse Health 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 2010 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 11 of the directors' report for the year ended 30 June 2010. 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 Pulse Health Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Acts 2001*.

PKF

Grant Saxon
Partner

Sydney

28 September 2010

Additional information required by the Australian stock exchange Limited listing rules and not disclosed elsewhere in this report is set out below.

SHAREHOLDING

Substantial Holders

The number of shares held by substantial shareholders and their associates as advised by the shareholders in their disclosure notices as at **16 September 2010** were:

Rank	Name	Units	% of Issued Capital	
			Per F604	Recalculated
1.	WYLLIE GROUP PTY LTD	37,428,333	14.83	14.83
2.	TIREE FINANCE LTD	26,994,731	12.51	10.70
3.	THROVENA PTY LTD AND MACQUARIE HEALTH CORPORATION LTD	16,776,470	11.33	6.65

As at **16 September 2010** there were 1,108 holders of ordinary shares of the company.

The voting rights of ordinary shares set out in the Company's constitution are:

> "Subject to any rights or restrictions for the time being attached to any class or class of shares –
>
> a) at meeting of members or classes of members each member is entitled to vote may vote in person or by proxy or attorney; and
> b) On a show of hands every person who is a member has one vote and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held. "

Holders of options do not have any voting rights.

Distribution of Equity Security Holders as at 16 September 2010

Category	Ordinary Shares	Options expiring 1 December 2010	Options expiring 31 July 2012	Options expiring 31 May 2011
1 - 1,000	127	0	0	0
1,001 - 5,000	69	0	0	0
5,001 - 10,000	173	0	0	0
10,001 - 100,000	425	0	0	0
Greater than 100,000	314	1	1	2
Total holders	1,108	1	1	2

The number of shareholders holding less than a marketable parcel at 30 June 2010 was 386 and at **16 September 2010** was 376.

Twenty largest Ordinary Fully Paid Shareholders as at 16 September 2010

Rank	Name	Units	% of Issued Capital
1.	WYLLIE GROUP PTY LTD	37,428,333	14.83
2.	EQUITAS NOMINEES PTY LIMITED <GROUP A A/C>	29,385,531	11.65
3.	THROVENA PTY LTD	16,226,470	6.43
4.	FINANCE ASSOCIATES PTY LTD <SUPER FUND A/C>	7,320,237	2.90
5.	DR PHILIP GORDON WILSON EWART	5,301,667	2.10
6.	SCINTILLA STRATEGIC INVESTMENTS LIMITED	3,500,000	1.39
7.	PEH NOMINEES (NSW) PTY LTD <DUKE CAPITAL DISC A/C>	2,766,667	1.10
8.	DR IAN KADISH	2,666,668	1.06
9.	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	2,642,857	1.05
10.	VERSAILLES HOLDINGS PTY LTD <THE ALMONTE FAMILY A/C>	2,500,000	0.99
11.	KIRISI HOLDINGS PTY LTD <HEPERU EMPLOYEES S/F A/C>	2,225,000	0.88
12.	DR PHILIP GORDON EWART	1,900,000	0.75
13.	MR ADAM GIUNTA	1,808,500	0.72
14.	FATTY HOLDINGS PTY LTD <THE COLEMAN FAMILY A/C>	1,785,714	0.71
15.	THE GENUINE SNAKE OIL COMPANY PTY LTD	1,750,000	0.69
16.	PLANMOOR INVESTMENTS PTY LTD <B & A LEE SUPER FUND A/C>	1,746,953	0.69
17.	DR PHILIP EWART <ZIGGY WILSON EWART A/C>	1,700,000	0.67
18.	KIRISI HOLDINGS PTY LTD <HEPERU EMPLOYEES S/F A/C>	1,683,250	0.67
19.	DR JOHN POULOS	1,659,436	0.66
20.	MR CHRISTOPHER MARTIN BRIEGER	1,645,969	0.65
	Top 20 holders of **ORDINARY SHARES (GROUPED)** as at 16 September 2010	**127,643,252**	**50.56**

Twenty largest Option Holders as at 16 September 2010 – 14 cent exercise price expiring 1 December 2010

Rank	Name	Units	% of Issued Options
1	COLBERN FIDUCIARY NOMINEES PTY LTD	500,000	100.00
	Top 20 holders of OPTS EXP 1/12/10 @ 14C as at 16 September 2010	500,000	100.00

Twenty largest Option Holders as at 16 September 2010 – 10 cent exercise price expiring 31 July 2012

Rank	Name	Units	% of Issued Options
1	EQUITAS NOMINEES PTY LIMITED <GROUP A A/C>	2,625,000	100.00
	Top 20 holders of OPTS EXP 31/07/12 @ 10C as at 16 September 2010	2,625,000	100.00

Twenty largest Option Holders as at 16 September 2010 – 10 cent to 40 cent exercise price expiring 31 May 2011

Rank	Name	Units	% of Issued Options
1	DR IAN KADISH	6,000,000	55.56
2	LIANTIN PTY LTD <J & S MATTHEWS FAMILY A/C>	4,800,000	44.44
	Top 20 holders of OPTS EXP 31/05/11 @ 10C TO 14C as at 16 September 2010	10,800,000	100.00

Stock Exchange
The Company is currently listed on the Australian Stock exchange. The home exchange is Perth.

Other Information
Pulse Health Limited is incorporated and domiciled in Australia is a publicly listed company limited by shares.

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