



# Resonance Health

11 November 2008

Mr Wade Baggott  
Adviser, Issuers (Perth)  
ASX Markets Supervision Pty Ltd  
Level 8, Exchange Plaza  
2 The Esplanade  
Perth WA 6000

By: Facsimile: 08 9221 2020

Dear Mr Baggott,

## RHT: Compliance with ASX Listing Rule 12.3

I refer to your letter dated 6 November regarding ASX Listing Rule 12.3. At 30 June 2008 Resonance Health Ltd (ASX: RHT) held 81.3% of its total assets in cash and cash equivalents. As you are aware, ASX Listing Rule 12.3 states:

"If half or more of an entity's total assets is cash or in a form readily convertible to cash, ASX may suspend quotation of the entity's securities until it invests those assets or uses them for the entity's business..."

The note to this ASX Listing Rule states that it is aimed at preventing the continued listing of "cash box" entities. I would like to emphasize that Resonance Health Ltd is not a "cash box" entity and make the following points.

### 1. Business Risks

Most of Resonance Health's revenue is associated with performing FerriScan<sup>®</sup> services for pharmaceutical companies conducting clinical trials. While this revenue provides a positive cash flow for the company it is intrinsically risky as clinical trials can be cancelled at short notice due to adverse events. Cash reserves are required to ensure the company can continue to operate in such a circumstance. Resonance Health is actively progressing a strategy to gain reimbursement for patients having a FerriScan<sup>®</sup> which will significantly improve sales results and reduce our reliance on clinical trial revenue.

It would not be prudent to dramatically reduce cash reserves until we have achieved reimbursement for FerriScan<sup>®</sup> (particularly given that we are currently experiencing the worst financial climate for raising equity and debt finance in the last 50 years).

### 2. Asset Valuation

Resonance Health's core technology, FerriScan<sup>®</sup>, was not assigned a value on the balance sheet in the 30 June 2008 Annual Report. At 30 June 2005 RHT's Balance Sheet included Intangible Assets of Goodwill on Consolidation totalling \$12,837,843. Due to the inherently difficult nature of determining the value of technology, it was decided that it was prudent to write-down the value of goodwill on consolidation to zero. In doing this, RHT's primary asset is no longer reflected on the Balance Sheet.

The Board, in conjunction with the company's auditors, will continue to review the value of the company's assets.

### 3. Corporate activities

FerriScan<sup>®</sup> Reimbursement - The company has committed funds to activities associated with gaining reimbursement for FerriScan<sup>®</sup>, which is paramount in achieving its long term commercial success. A submission for FerriScan<sup>®</sup> reimbursement in Australia has been lodged, and consultants have been engaged in the UK, Italy

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# Resonance Health

and Germany to review barriers to entry to those markets and specifically issues with gaining public and private insurance reimbursement for FerriScan<sup>®</sup>. The company has also commenced reimbursement initiative in the USA for FerriScan<sup>®</sup>. Following some limited reimbursement now available in parts of the UK, we are engaging a UK based marketing representative to grow this market. Additional marketing expenditure will be made to support reimbursement activities in different geographies.

FibroScreen<sup>™</sup> - Resonance Health holds the patent to FibroScreen<sup>™</sup> and has committed funds to further develop this technology. Based on results expected in late 2009, further investment may be made to bring this technology to market which presents a significant opportunity for Resonance Health and our shareholders.

FerriScan<sup>®</sup> Upgrade - In Qtr 3, 2008, Resonance Health engaged external resources to assist with a project to upgrade the core software used in the FerriScan<sup>®</sup> service to gain operational efficiencies and ensure it operates in an environment that is current and maintainable.

Advisory Services - Resonance Health has significant carried forward losses and has engaged advisory services to assist with taxation related matters. The existence of these losses results in any profit contributing directly to cash reserves (because the company is not in a position where it currently pays any tax) and, as a result, exaggerates the cash vs assets position now that the company's operations have become profitable.

Business Development - Resonance Health is assessing opportunities to leverage our technology, skills and infrastructure to provide additional image analysis and core laboratory services in other markets. Consultants have been engaged to review these opportunities and ongoing funds have been committed to this.

#### 4. Summary

The operating expenses for Resonance Health are approximate \$1.6m pa. This will be increased by approximately \$210,000 pa due to the recent employment of additional staff in the areas of clinical management, marketing, quality and regulatory affairs.

The existing FerriScan<sup>®</sup> operation is sound and operates at a small profit. Resonance Health plans to invest \$660,000 this financial year in the areas outlined above to enhance the future of the business. Some of this expenditure will be capitalised and some expensed which will clearly impact the ability of the company to return a profit this financial year. Any additional expenditure on FibroScreen<sup>™</sup> will be based on the results of work in progress due to be completed in late 2009 and thus made in subsequent financial years. Such an investment may be significant.

Until patients can receive reimbursement for the cost of a FerriScan<sup>®</sup>, commercial use of the service will be limited. The company believes it prudent to continue to hold comparatively significant cash reserves due to the risks associated with its current revenue source and the uncertainty in equity/debt markets with respect to raising other funds. In fact, it may be negligent of the Board to consider reducing its cash position at this time (by way of dividend or capital return) given the underlying fundamentals of the world economy.

It is clear from the information set out above that Resonance Health is not a "cash box" and, as such, we submit that ASX should not seek to impose the application of Listing Rule 12.3 to the company.

Yours sincerely,

Liza Dunne  
Managing Director  
Resonance Health Limited



**ASX**

AUSTRALIAN SECURITIES EXCHANGE

**FAXED**  
6 November 2008

Ms Eva O'Malley  
Company Secretary  
Resonance Health Limited  
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216 Stirling Hwy  
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Dear Eva

**Resonance Health Limited – Annual Financial Report**

I refer to Resonance Health Limited's ("Company") Annual Financial Report ("Annual Report") for the period ended 30 June 2008, released to ASX Limited ("ASX") on 27 October 2008.

ASX notes that the Annual Report has reported the following:

1. Total cash assets and cash equivalents of \$ 2,381,870 (on a consolidated basis).
2. Total assets of \$ 2,928,446 (on a consolidated basis).
3. The Company's cash assets and cash equivalents are 81.33% of the Company's total assets.

Further, the Company's Appendix 4C lodged on 15 October 2008 indicated that the cash at the end of the quarter was \$2,498,000.

**Listing Rule 12.3**

ASX listing rule 12.3 provides, that if half or more to an entity's total assets is cash or in a form readily convertible to cash, ASX may suspend quotation of the entity's securities until it invests those assets or uses them for the entity's business. The Company is also required to give shareholders details, in writing, of the investment or use of the cash assets.

Although the note to the listing rule states that the ASX generally will not apply this rule provided that the entity has adequately disclosed the time within which it proposes to invest its funds and updates that disclosure if the proposal is revised or altered.

The policy behind the listing rule is to prevent the continued quotation of "cash box" entities.

ASX also notes from the Company's Annual report that:

1. *Cash reserves were \$2.4m at 30th June enabling the company to invest in further research and product development and to fund reimbursement initiatives.*

- 2. Whilst the company has good cash reserves we are conscious of the need to expand our product range and customer base and are investing in the future of the company and the FerriScan® technology. We are currently investing in the FerriScan® platform with an upgrade to the technology to enable it to operate more efficiently and are investing in reimbursement for FerriScan® which is essential for the broader uptake of the test and the creation of shareholder value.*

Whilst the annual report provides general information on what the Company proposes to use its cash assets on, this is insufficient for the purposes of listing rule 12.3.

Further, the Company's Appendix 4C lodged on 15 October 2008 indicates no investing or financing activities.

In light of above, please respond to each of the following questions.

1. What steps the Company has taken, or what steps it proposes to take, so that it is in compliance with the requirements of listing rule 12.3? In this regard please confirm what projects the Company will be investing or using its cash assets on, the amounts to be spent on each of those projects and the timeframe for the expenditure.
2. Details of the date when the Company expects it will be in compliance with listing rule 12.3.

Please note the ASX will afford the Company a period of six months from the date of this letter to demonstrate to the ASX that it is compliant with listing rule 12.3. If the Company does not demonstrate compliance with the rule to the ASX's satisfaction by 6 May 2009, ASX may suspend the Company's securities from official quotation.

Your response should be sent to me on facsimile number (08) 9221 2020. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than 5.00pm W DST on Monday 10 November 2008.

The response must be in a form suitable for release to the market. If you have any concern about release of a response, please contact me immediately.

### **Listing rule 3.1**

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

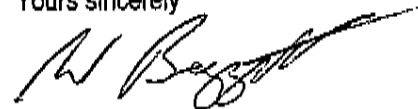
In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

If you have any queries regarding any of the above, please contact me on (08) 9224 0023.

Yours sincerely



Wade Baggott  
Adviser, Issuers (Perth)