



REVIEW OF OPERATIONS

Quarter Ended 30 June 2006

During the quarter Capitol Health Limited continued the development of its dental healthcare business. The Company entered the next stage of its development with a successful listing on the ASX in June 2006. Since listing the Company's shares have traded at a premium to its issue price of \$0.20. The listing on the ASX has provided the platform needed to further grow the business through the acquisition of additional dental surgeries and facilities.

To date the Company has acquired 2 dental surgeries in suburban Perth, Western Australia, Banksia Dental Care ("Banksia") and Booragoon Dental Clinic ("Booragoon"). The acquisition of Banksia in January 2006 has seen that operation develop in-line with expectations and modest growth is expected from this centre in the new financial year. The Company acquired Booragoon during June 2006 immediately prior to its ASX listing. The size of the Booragoon operation, with historical annual revenue in excess of \$1.3 million, and the implementation of the business model of the vendor contracting to the Company as the principal dentist, represented a significant milestone in the Company's brief history.

Importantly the Company entered into bank financing that provided more than 70% of the capital for the acquisition of these surgeries. The achievement of this leverage provides potential for more efficient deployment of the Company's capital.

It should be noted that cash receipts from the Company's activities for the quarter ended 30 June only include receipts from Booragoon from 7 June 2006, being the date the surgery was acquired by Capitol Health Limited. The overall cashflow performance was largely in-line with management's expectations.

The focus of the Company is currently on 2 fronts: **the refinement of the operational model** focussed on generating operating earnings from current surgeries, and **the acquisition of additional surgeries**. The Company is currently in various stages of discussion with a number of potential acquisitions, and expects to announce these to the market as final contracts are executed. Progress with these acquisitions is in line with the Company's expectations.

Operationally, the Company is committed to a high standard of clinical practice and care in its surgeries and facilities. Patients' welfare is a key priority to both the Company and its contracted dentists. Accordingly, patient satisfaction forms a key plank in our growth strategy in acquiring additional surgeries and expanding the patient base of surgeries already owned. Better patient experiences along with professional practice management, and realising early benefits from economies in procurement and other scale benefits, are key drivers of generating earnings.

Authorised by:

Andrew Harrison
Managing Director

About Capitol Health Limited

Capitol Health Limited is an Australian listed company (ASX:CAJ) providing excellence in services and facilities to dentists. The Company's objective is to build a leading dental healthcare business generating sustainable growth and profitability for our shareholders and delivering superior patient experiences at our dental centres. Visit our website www.capitolhealth.com.au

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

CAPITOL HEALTH LIMITED

ABN

84 117 391 812

Quarter ended ("current quarter")

30 JUNE 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers*	128	161
1.2 Payments for		
(a) staff costs	(43)	(65)
(b) advertising and marketing	(3)	(3)
(c) research and development	-	-
(d) leased assets	-	-
(e) other working capital	(100)	(329)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	7	7
1.5 Interest and other costs of finance paid	(6)	(9)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net operating cash flows	(17)	(238)

*Receipts from Booragoon Dental Clinic only commenced from 7 June 2006 (being the date that centre was acquired).

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	(17)	(238)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	(463)	(554)
(d) physical non-current assets	(324)	(413)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
Net investing cash flows	(787)	(967)
1.14 Total operating and investing cash flows	(804)	(1,205)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	1,800	2,373
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	845	1,095
1.18 Repayment of borrowings and costs	(250)	(250)
1.19 Dividends paid	-	-
1.20 Other (share issue costs)	(64)	(183)
Net financing cash flows	2,331	3,035
Net increase (decrease) in cash held	1,527	1,830
1.21 Cash at beginning of quarter/year to date	303	-
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	1,830	1,830

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	(7)
1.25	Aggregate amount of loans to the parties included in item 1.11	-
1.26	Explanation necessary for an understanding of the transactions	
	Fees paid to director related entities for administrative and secretarial services	(7)

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

- 2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	845,000	845,000
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
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Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter \$A'000	Previous quarter \$A'000
4.1	Cash on hand and at bank	1,330	303
4.2	Deposits	500	-
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		1,830	303

Acquisitions and disposals of business entities

		Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity	N/A	N/A
5.2	Place of incorporation or registration		
5.3	Consideration for acquisition or disposal		
5.4	Total net assets		
5.5	Nature of business		

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: **28 July 2006**
(Managing Director)

Print name: **Andrew Harrison**

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.