



## MANAGING DIRECTOR'S REVIEW

PRELIMINARY FINAL STATEMENT, YEAR ENDED 30 JUNE 2006

A major achievement during the Period was the Company's successful listing on the ASX in June 2006. The listing on the ASX has provided the platform needed to further grow the business through the acquisition of additional dental surgeries and facilities.

In the 7-month period to 30 June 2006, the Company had 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 involved certain operational changes being implemented to that surgery. These changes are expected to contribute to improvements in revenue and earnings from Banksia. The Company acquired Booragoon in June 2006. The scale of the Booragoon operation, with historical annual revenue in excess of \$1.3m 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 financing arrangements with a bank 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.

The Company has implemented a number of systems and management structures to improve the operational efficacy of these two surgeries. In this regard, Ms Nicole Smith was appointed as the Company's Operations Manager to manage the integration and operations of the Group's dental facilities. Ms Smith has broad operational and management experience in the healthcare sector and was most recently the head of a private hospital with responsibility for day to day operations, acquisition of new locations, and marketing of hospital services to the medical fraternity. She was also a member of the organisation's National Medical Advisory Team, and a regular speaker at AMA, University and industry conferences.

The Company recently announced the acquisition of the surgery and facilities of Kalamunda Dental Care ("Kalamunda"). The Kalamunda business had annual revenue in the 2006 financial year of over \$930,000. Details of the acquisition are set out in the financial statements. A significant aspect of this additional surgery is that the Company has secured the services of another senior dentist. The principal dentist of Kalamunda, Dr Robert Davis B.D.S. (Rand) H.D.D. qualified in 1966 and after acquiring a higher degree in prosthodontics established his Kalamunda practice in 1978. He has been on the teaching staff of two major universities where he provided clinical instruction to final year dental students.

Kalamunda represents the Company's first acquisition since its ASX listing in June of this year, and the first stage of its growth plans detailed in its recent IPO prospectus.

The focus of the Company continues to be on two fronts: the refinement of the operational model focussed on generating operating earnings from current surgeries, and the acquisition of additional surgeries. The Company continues various stages of discussion with a number of potential acquisitions and progress with further acquisitions is in line with the Company's expectations. The directors believe that this focus along with adequate equity and debt funding underscore the future of the Company, and the implementation of its growth strategy.

Operationally, the Company is committed to a high standard of clinical practice and care in its surgeries and facilities. Patients' welfare and satisfaction is a key priority to both the Company and its contracted dentists and therefore forms a key factor in the Company's 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.

I would like to take this opportunity to thank our investors who have so loyally supported the Company in these early days, along with my fellow directors and staff who have dedicated their time, experience and resource to advance the Capitol vision.

**Authorised by:**

**Andrew Harrison**  
**Managing Director**

**1 September 2006**

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# Appendix 4E

## Preliminary Final Report to the Australian Stock Exchange

### Part 1

<b>Name of Entity</b>	Capitol Health Limited
<b>ABN</b>	84 117 391 812
<b>Financial Period</b>	7 month period since its incorporation on 1 December 2005 to 30 June 2006 (the "Period")
<b>Previous Corresponding Reporting Period</b>	N/A

### Part 2 – Results for Announcement to the Market

	<b>\$'000</b>	<b>Percentage increase /(decrease) over previous corresponding period</b>
<b>Revenue from ordinary activities</b>	155	N/A
<b>Loss from ordinary activities after related income tax benefit</b>	391	N/A
<b>Net loss attributable to members of the parent entity</b>	391	N/A

<b>Dividends (distributions)</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
<b>Final Dividend</b>	Nil	Nil
<b>Interim Dividend</b>	Nil	Nil
<b>Record date for determining entitlements to the dividends (if any)</b>	Not Applicable	

**Brief explanation of any of the figures reported above necessary to enable the figures to be understood:**

Refer Part 10 for commentary on the results for the Period.

### **Part 3 – Contents of ASX Appendix 4E**

<b>Section</b>	<b>Contents</b>
Part 1	Details of entity, reporting period
Part 2	Results for announcement to the market
Part 3	Contents of ASX Appendix 4E
Part 4	Consolidated income statement
Part 5	Accumulated losses
Part 6	Consolidated balance sheet
Part 7	Consolidated statement of cash flows
Part 8	Basis of preparation
Part 9	Loss from ordinary activities
Part 10	Commentary on results
Part 11	Notes to the consolidated statement of cash flows
Part 12	Details relating to dividends
Part 13	Earnings per share
Part 14	Net tangible assets per security
Part 15	Details of entities over which control has been gained or lost
Part 16	Details of associates and joint venture entities
Part 17	Issued securities
Part 18	Segment information
Part 19	Subsequent events
Part 20	Information on audit or review

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**Part 4 – Consolidated Income Statement**

	<b>2006</b> <b>(\$)</b>
Sales revenue	154,551
Cost of sales	(19,523)
Gross Profit	<u>135,028</u>
Other revenue	(7,115)
Operational Expenses	(215,350)
Marketing and distribution expenses	(6,209)
Corporate and administrative expenses	(88,726)
Occupancy expenses	(23,140)
Borrowing expenses	(8,791)
Other expenses	(191,080)
<b>Loss from ordinary activities before related income tax benefit</b>	<u>(391,153)</u>
Income tax	-
<b>Loss from ordinary activities after related income tax benefit</b>	<u>(391,153)</u>
Net loss/(profit) attributable to outside equity interests	-
<b>Net loss attributable to members of the parent entity</b>	<u>(391,153)</u>

**Part 5 – Accumulated losses**

	<b>2006</b> <b>(\$)</b>
Accumulated losses at the beginning of the Period	-
Loss for the Period	(391,153)
Accumulated losses at the end of the Period	<u>(391,153)</u>

**Part 6 – Consolidated Balance Sheet**

	<b>2006</b>
	<b>\$</b>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	1,830,089
Trade and other receivables	30,790
Inventories	121,225
Other	8,000
<b>Total Current Assets</b>	<b>1,990,104</b>
<b>NON CURRENT ASSETS</b>	
Property, plant & equipment	371,907
Intangibles	463,042
<b>Total Non Current Assets</b>	<b>834,949</b>
<b>TOTAL ASSETS</b>	<b>2,825,053</b>
<b>CURRENT LIABILITIES</b>	
Trade and other payables	320,747
Employee benefits	27,557
Interest-bearing loans	63,015
<b>Total Current Liabilities</b>	<b>411,319</b>
<b>NON CURRENT LIABILITIES</b>	
Interest-bearing liabilities	781,985
<b>Total Non Current Liabilities</b>	<b>781,985</b>
<b>TOTAL LIABILITIES</b>	<b>1,193,304</b>
<b>NET ASSETS</b>	<b>1,631,749</b>
<b>EQUITY</b>	
Contributed equity	2,022,902
Accumulated losses	(391,153)
<b>TOTAL EQUITY</b>	<b>1,631,749</b>

**Part 7 – Consolidated Statement of Cash Flows**

	<b>2006</b> <b>(\$)</b>
<b>Cash flows from operating activities</b>	
Cash receipts in the course of operations	144,522
Cash payments in the course of operations	(240,578)
Interest received	7,115
Interest paid	(8,791)
	(97,732)
<b>Cash flows from investing activities</b>	
Payments for property, plant and equipment	(412,809)
Payments for intangible assets	(654,122)
	(1,066,931)
<b>Cash flows from financing activities</b>	
Proceeds from the issue of share capital	2,373,211
Payment of share issue costs	(223,459)
Proceeds from borrowings	1,095,000
Repayment of borrowings	(250,000)
	2,994,752
<b>Net increase in cash held</b>	1,830,089
<b>Cash at the beginning of the Period</b>	-
	1,830,089
<b>CASH AT THE END OF THE PERIOD</b>	1,830,089

## Part 8 – Basis of Preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

## Part 9 – Loss from Ordinary Activities

The loss from ordinary activities before income tax benefit includes the following items of revenue and expense:

	<b>2006</b>
	<b>\$</b>
<b>2. REVENUES AND EXPENSES</b>	
<b>(a) Other income</b>	
Interest income	7,115
	<u>7,115</u>

<b>(b) Other expenses</b>	
Impairment loss on goodwill	191,080
	<u>191,080</u>

<b>(c) Employee benefits expense</b>	
Wages and salaries costs	65,895
Superannuation costs	6,024
Increase in liability for annual leave	27,557
	<u>99,476</u>

## Part 10 – Commentary on Results

Refer to Managing Director's Review attached.

## Part 11 – Notes to the Consolidated Statement of Cash Flows

	<b>2006</b>
	<b>(\$)</b>
<b>(a) Reconciliation of cash</b>	
For the purposes of the consolidated 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 financial Period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:	
Cash assets	<u>1,830,089</u>

	<b>2006</b>
	<b>\$</b>
<b>(b) Reconciliation of cash flows from/ (used in) operating activities</b>	
<b>Cash flows from operating activities</b>	
Loss for the period	(391,153)
Adjustments for:	
- Amounts set aside to provisions	27,557
- Depreciation	40,901
- Impairment Loss	<u>191,080</u>
Operating loss before changes in working capital and provisions	(131,615)
(Increase) in receivables	(28,034)
(Increase) in inventories	(121,225)
(Increase) in other assets	(8,000)
Increase in payables	<u>191,142</u>
Net cash used in operating activities	<u>(97,732)</u>

## Part 12 – Details Relating to Dividends

Date the dividend is payable	N/A
Record date to determine entitlement to the dividend	
Amount per security	
Total dividend	
Amount per security of foreign sourced dividend or distribution	
Details of any dividend reinvestment plans in operation	
The last date for receipt of an election notice for participation in any dividend reinvestment plans	

### Part 13 – Earnings per Share

	<b>2006</b>
Basic loss per share	
Ordinary shares	(1.03) cents
The Company's potential ordinary shares are not considered dilutive and accordingly basic loss per share is the same as diluted loss per share.	
	<b>No.</b>
Weighted average number of ordinary shares used as the denominator in the calculation of basic earnings per share	38,131,370

### Part 14 – Net Tangible Assets per Security

	<b>2006</b>
Net tangible asset backing per ordinary security	2.09 cents

### Part 15 – Details of Entities Over Which Control has been Gained or Lost

Name of entity (or group of entities)	<b>CHL Operations Pty Ltd</b>
Date control gained or lost	<b>4 January 2006</b>
Contribution of the controlled entity (or group of entities) to the profit/(loss) from ordinary activities during the period, from the date of gaining or losing control	<b>(301,514)</b>
Profit (loss) from ordinary activities of the controlled entity (or group of entities) for the whole of the previous corresponding period	<b>Not Applicable</b>
Contribution to consolidated profit/(loss) from ordinary activities from sale of interest leading to loss of control	<b>Not Applicable</b>

### Part 16 – Details of Associates and Joint Venture Entities

	Ownership Interest		Contribution to net profit/(loss)	
	2006 %	2005 %	2006 \$A'000	2005 \$A'000
Name of entity	N/A	N/A	N/A	N/A
Associates				
Joint Venture Entities				
Aggregate Share of Losses				

### Part 17 – Issued Securities

	2006 (\$)	2005 (\$)
<b>Share capital</b>		
56,100,001 fully paid ordinary shares	2,022,092	-
<i>The following movements in contributed equity occurred during the Period:</i>		
	Number of Ordinary Fully Paid Shares	Issued Capital (\$)
Balance at beginning of Period	-	-
Issue on incorporation	1	
Issue of shares at \$0.0001 each	32,100,000	3,210
Issue of shares at \$0.02 each	6,000,000	120,000
Issue of shares at \$0.05 each	9,000,000	450,000
Issue of shares at \$0.20 each	9,000,000	1,800,000
Balance 30 June 2006	56,100,001	2,373,210
<b>Options</b>		
The following options to subscribe for ordinary fully paid shares are outstanding at balance date:		
▲ 10,000,000 options exercisable at 20 cents on or before 31 March 2010 (“unlisted options”).		

## Part 18 – Segment Information

The consolidated entity's activities are predominantly located in Perth, Western Australia. The principal activity of the consolidated entity is the acquisition of dental surgeries and facilities and the provision of administration and management services to those surgeries. More than 90% of the Company's revenue from ordinary activities and more than 90% of the Company's assets relate to these operations.

## Part 19 – Subsequent Events

Subsequent to balance date:

Subsequent to balance date, the Company entered into an agreement to acquire the surgery and facilities of Kalamunda Dental Care, subject to a number of conditions, including financing. The consideration of this acquisition of \$550,000 will be satisfied in cash and it is expected a proportion of the consideration will be debt financed. The consideration covers all plant and equipment, inventories, leasehold improvements and goodwill of the business. Further details of the acquisition are set out in the Managing Director's Review.

The financial effect of the above transactions have not been brought to account in the financial statements for the 7-month period ended 30 June 2006.

## Part 20 – Audit/Review Status

<b>This report is based on accounts to which one of the following applies:</b> (Tick one)			
The accounts have been audited	✓	The accounts have been subject to review	
The accounts are in the process of being audited or subject to review		The accounts have not yet been audited or reviewed	

**If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:**

Not Applicable

**If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:**

Not Applicable