



REVIEW OF OPERATIONS

Quarter Ended 31 December 2006

During the December quarter Capitol Health successfully integrated the Kalamunda Dental Care acquisition into its operations. It is also pleasing to achieve a positive operating cashflow from operations after just over 6 months as a listed company.

Kalamunda Dental Care commenced operation under the management of Capitol Health in early October, and has generated consistent revenue and earnings to the Group. A new associate dentist has been appointed and commences in February. It is expected that this appointment, in line with the Capitol Health development strategy, will contribute to revenue growth in that centre.

The revenue generated from the Booragoon Dental Centre (acquired in June 2006) for the December Quarter has been affected by scheduled annual leave taken by the principal dentist during the quarter. Allowing for this factor, the revenue generated has been consistent with management expectations.

The December quarterly cashflow report also reflects the investment of \$565,000 in relation to the acquisition of Kalamunda Dental Care. The cashflow report also included a level of once-off costs related to the establishment of the Company's corporate office and recruitment costs of operational staff.

In the half-year since its ASX listing in June 2006, the Company has been focussed on developing and introducing 'best-practice' standards to its existing surgeries and facilities. In the December 2006 quarter, it has commenced negotiation with a number of acquisition targets. Future acquisitions will be implemented with specific parameters which ensure that acquisitions are earnings accretive (after financing costs).

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")

31 DECEMBER 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	406	640
1.2 Payments for		
(a) staff costs	(206)	(352)
(b) advertising and marketing	(41)	(75)
(c) research and development	-	-
(d) leased assets	-	-
(e) other working capital*	(119)	(345)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	6	19
1.5 Interest and other costs of finance paid	(21)	(42)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net operating cash flows	25	(155)

*including once off cost of establishing corporate office and recruitment costs of operational staff since the Company's listing on 7 June 2006.

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

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	25	(155)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	(398)	(398)
(d) physical non-current assets	(167)	(234)
(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	(565)	(632)
1.14 Total operating and investing cash flows	(540)	(787)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	-
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	32
1.18 Repayment of borrowings and costs	(18)	(33)
1.19 Dividends paid	-	-
1.20 Other (share issue costs)	-	(127)
Net financing cash flows	(18)	(128)
Net increase (decrease) in cash held	(558)	(915)
1.21 Cash at beginning of quarter/year to date	1,473	1,830
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	915	915

+ 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	(109)
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Executive Directors' remuneration	(25)
Non-Executive Directors' remuneration	(8)
Fees paid to director related entities for services	(25)
#Fees paid to director related entities for dental services	(51)

Relates to amounts paid to Dr Fine for full time dental services as principal dentist at Booragoon Dental Clinic and part time dental services at Banksia Dental Care.

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	814
3.2	Credit standby arrangements	-	-

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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	415	973
4.2	Deposits	500	500
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)		915	1,473

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: **31 January 2007**
(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.

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