



ACQUISITION OF RADIOLOGY GROUP

ANNOUNCEMENT

26 JULY 2007

The Board of Capitol Health Limited (**Capitol or Company**) is pleased to announce that it has entered into Share Sale Agreements (**SSA**), under which it will acquire a 100% interest in a group of 7 radiology clinics (**Radiology Group**) located across metropolitan Melbourne, Victoria.

The acquisition signifies a broadening of the Company's focus into the associated healthcare field of radiology. It provides greater opportunities for both organic and acquisitive expansion, and lays a solid foundation for growth of future earnings.

Acquisition Highlights

- **Post acquisition, Capitol group revenue expected to grow to \$12 million in FY08.**
- **Acquisition consideration of \$14.64 million to be satisfied by the issue of 183 million fully paid ordinary shares and 10m unlisted options exercisable at 20 cents each by 31 March 2010. A voluntary escrow period of 12 months will apply to 174 million shares and 10 million options.**
- **Acquisition is expected to generate positive cashflow and profitable operations for the group in FY08.**
- **Capitol gains an operational and corporate presence in eastern Australia.**
- **Group to integrate the radiology business with reduction in overhead costs.**

The Australian Diagnostic Imaging Market

The Australian private sector diagnostic imaging market generates around \$2 billion in annual revenue from over 1,000 clinics across the country. The total market includes both public and private diagnostic imaging services, with the public sector market believed to be equal in size to that of the private sector.

Private clinics provide a broad range of services to patients including X-Ray, Ultrasound, Computerised Tomography (CT), Magnetic Resonance Imaging (MRI), and Nuclear Medicine Radiology. Growth in the overall market is driven largely by the ageing population, and new developments in technology, which in turn drive increased referral for diagnostic imaging services.

Background to the Radiology Group

The Radiology Group provide diagnostic imaging services to the public from private clinics including X-ray, Ultrasound and Computerised Tomography (CT). The Group largely provides Medicare bulk billed services to patients.

The Radiology Group started through the acquisition of its Balaclava clinic in 2001, and has since grown to seven clinics across Melbourne through both acquisitions and the development of new sites, with its most recent acquisitions in Sydenham and Sunbury in April this year. The group's success is based on providing an accurate and timely service to its patients and referrers, and investing in state of the art technology. The majority of patients are bulk billed for services, ensuring no out-of-pocket expenses.

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Financials

The Radiology Group is forecast to generate \$10.33 million in revenue and \$2.1 million in profit before tax for FY08, from its seven clinics. Three of the seven clinics have either been newly acquired or established since October 2006, reflecting a large organic growth opportunity. The group has generated consistent growth in revenue and earnings, while maintaining sound margins. Historical financials for the group are shown below:

\$ 000's	FY05	FY06	FY07 to May (11 months)
Revenue	4,188	5,366	6,645
Earnings before interest and tax	838	1,085	1,488

Further financial information on the Radiology Group will be included in the Notice of Meeting to shareholders and the accompanying Independent Expert's Report.

Consideration for the Acquisition

The consideration for the acquisition is \$14.64 million to be satisfied by the issue of 183 million fully paid ordinary shares in the Company, at a deemed issue price of 8 cents per share, and 10 million unlisted options exercisable at 20 cents on or before 31 March 2010. A voluntary escrow period of 12 months will apply to 174 million shares and 10 million options.

Reasons for the Acquisition

- The Radiology Group has experienced consistent and substantial growth in the past three years. The Acquisition will provide Capitol the opportunity to participate in future rapid growth in the radiology industry.
- The Radiology Group has a highly experienced management and specialist clinical team. Capitol's future revenue and earnings potential will benefit from the input of this team.
- The Acquisition will generate consistent earnings and cashflow from the operations of the Radiology business as well as improve the net assets of Capitol. This advantage will improve Capitol's financing capacity to fund future acquisitions.
- The corporate and administrative cost overheads of Capitol will be spread over a greater number of business units, hence improving costs efficiencies.
- The Acquisition represents a significant increase in the scale of activities and operations of Capitol. In the absence of this Acquisition, Capitol will continue to invest in dental practices and this approach will be more gradual and is likely to require significant fresh capital.

Shareholder Approvals

Completion of the acquisition requires the approval of the Company's shareholders for the following purposes:

- Section 611 Item 7 of the Corporations Act;
- ASX Listing Rule 7.1; and
- ASX Listing Rule 11.1.2.



Approval is required pursuant to Section 611 Item 7 of the Corporations Act because the issue of Capitol Shares to shareholders of the Radiology Group will result in that group having a voting power in the Company of greater than 20%.

Approval is required pursuant to ASX Listing Rule 7.1 because the issue of the Capitol Shares and Options represents equity securities in excess of 15% of its issued capital.

Approval is required pursuant to ASX Listing Rule 11.1.2 because the proposed acquisition will result in a significant change in the scale of the Company's activities.

Proposed Board Changes

Mr John Conidi, a current Director, major shareholder, and one of the founders of the Radiology Group, will join the board of Capitol as an Executive Director as part of the transaction. Mr Conidi, graduated in 1995 with a Bachelor of Business degree from Royal Melbourne Institute of Technology. He is a CPA and currently manages the Radiology Group's operations. Mr Conidi's role in strategy, management and business development has driven the rapid expansion of the group.

On completion of the transaction, it is proposed that Dr Russell Fine will retire from the board. Dr Fine has acted as a non executive director of the Company since its listing on ASX in December 2006. Dr Fine will continue working on contract to the group as a principal dentist at our Booragoon Clinic. We thank Dr Fine for his efforts and look forward to continue working with him as a part of the Group's clinical team in the future.

We also welcome a number of clinicians to the Group, including senior radiologists, and a number of radiographers and sonographers.

Conclusion

The board believes that this transaction is a positive step towards generating sustainable growth in revenue and earnings in the future. The acquisition will contribute significant working capital generated from its operations. The expanded revenue and earnings base will improve the Company's ability to pursue other consolidation opportunities in the Australian healthcare sector.

The Company is in the process of preparing a notice of meeting to seek the shareholder approvals set out above. The notice of meeting will be accompanied by an independent report on the transaction by BDO Consultants (WA) Pty Ltd. This report will include further financial details and analysis of the proposed transaction and provide an opinion on whether the proposed transaction is fair and reasonable. It is anticipated that the notice of meeting will be lodged by shortly for a general meeting to be held in late August 2007.

Listen to an interview with Managing Director Andrew Harrison online at Boardroom Radio – click on the following link to listen

<http://www.brr.com.au/event/CAJ/2003/25264/wmp/vp0ul24pz1>

Authorised by:

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