



## REVIEW OF OPERATIONS

Quarter Ended 30 June 2007

On 26 July 2007 the Company announced its intention to acquire the Radiology Group, a business consisting of 7 radiology clinics located in metropolitan Melbourne.

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.

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.

### 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 183m 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 168 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.**

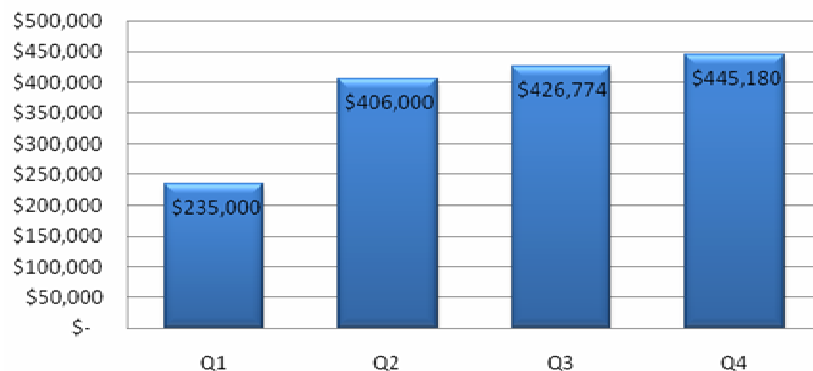
A notice of meeting and independent experts report was sent to shareholders on 30 July 2007. A general meeting will be held on 30 August 2007 to approve the acquisition.

The independent experts report completed by BDO Consultants (WA) Pty Ltd concluded that the transaction was fair and reasonable for the purposes of Section 611 of the Corporations Act.

### Dental Operations

Quarterly receipts from customers grew modestly to \$445,180 for the quarter, as shown below. Revenue is expected to grow substantially upon settlement of the radiology group acquisition.

### Receipts from Customers FY07



### Conclusion

The Company continues to pursue its strategy of expansion through acquisition and organic growth, and is actively reviewing further acquisitions that will be accretive to value. These expansion activities will be announced to the market, as they develop.

### Authorised by:

**Andrew Harrison**  
*Managing Director*

ACN 117 391 812

# 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 2007**

### 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	445	1,512
1.2 Payments for		
(a) staff costs	(235)	(798)
(b) advertising and marketing	(27)	(127)
(c) research and development	-	-
(d) leased assets	-	-
(e) other working capital*	(250)	(829)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	28	50
1.5 Interest and other costs of finance paid	(23)	(85)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net operating cash flows</b>	<b>(62)</b>	<b>(277)</b>

\*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**

	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
1.8 Net operating cash flows (carried forward)	(62)	(277)
<b>Cash flows related to investing activities</b>		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	(398)
(d) physical non-current assets	(145)	(415)
(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	3	3
(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)	-	-
<b>Net investing cash flows</b>	<b>(142)</b>	<b>(810)</b>
<b>1.14 Total operating and investing cash flows</b>	<b>(204)</b>	<b>(1,087)</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	-	-
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	146	177
1.18 Repayment of borrowings and costs	(26)	(77)
1.19 Dividends paid	-	-
1.20 Other (share issue costs)	-	(127)
<b>Net financing cash flows</b>	<b>120</b>	<b>(27)</b>
<b>Net increase (decrease) in cash held</b>	<b>(84)</b>	<b>(1,114)</b>
1.21 Cash at beginning of quarter/year to date	800	1,830
1.22 Exchange rate adjustments to item 1.20	-	-
<b>1.23 Cash at end of quarter</b>	<b>716</b>	<b>716</b>

+ 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**

		<b>Current quarter \$A'000</b>
1.24	Aggregate amount of payments to the parties included in item 1.2	<b>(108)</b>
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

<b>Executive Directors' remuneration</b>	<b>(29)</b>
<b>Fees paid to director related entities for services</b>	<b>(12)</b>
<b>#Fees paid to director related entities for dental services</b>	<b>(67)</b>

# 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
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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
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**Financing facilities available**

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

		<b>Amount available \$A'000</b>	<b>Amount used \$A'000</b>
3.1	Loan facilities	<b>990</b>	<b>919</b>
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

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

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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.		<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
4.1	Cash on hand and at bank	<b>191</b>	<b>300</b>
4.2	Deposits	<b>525</b>	<b>500</b>
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>		<b>716</b>	<b>800</b>

**Acquisitions and disposals of business entities**

		<b>Acquisitions (Item 1.9(a))</b>	<b>Disposals (Item 1.10(a))</b>
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 July 2007**  
**(Managing Director)**

Print name: **Andrew Harrison**

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+ 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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