CAPITOL HEALTH LIMITED

ABN 84 117 391 812

2007 ANNUAL REPORT

CORPORATE DIRECTORY

Directors

Mr Andrew Harrison – Managing Director
Mr John Conidi – Executive Director
Mr Anthony Ho – Non-Executive Director

Company Secretary

Mr Kim Hogg

Principal and Registered Office

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Auditor

Stantons International
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Solicitors

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Dear Shareholder,

It is my pleasure to recount Capitol Health's ("Capitol") major achievements for its first full year of trading since joining the official list of the ASX in June 2006, and outline the Board's exciting plans for the future.

The 2007 financial year saw a number of milestones reached by the Company.

- Subsequent to year end Capitol entered into an agreement to acquire a group of Radiology practices in Melbourne. Post acquisition revenues are expected to grow to at least $12 million on an annual basis. This acquisition was completed on 30 August 2007 being approved by a general meeting of shareholders.

- The acquisition of the Radiology Group saw the Capitol Board strengthened with the appointment as Executive Director the former head and founder of the Radiology group, Mr. John Conidi. As a result of the acquisition a number of new clinicians joined the group.

- During the year Capitol acquired its third dental surgery and facility, with the completion of the Kalamunda Dental Centre acquisition in October 2006. This took the surgeries operated by Capitol to 3, including Banksia Dental Care, and Booragoon Dental Centre. Capitol continued to achieve growth in revenues from the 3 dental surgeries.

- Major investments were made in systems and infrastructure to operate the group more efficiently. Notably a major investment was made in accounting and information technology to better manage back of house activities for future increases in scale.

Dental Operations

The dental operations continue to perform adequately generating revenue of $1.512 million and EBITDA of $0.363 million, or 24% return on sales (ROS) (excluding $250,000 impairment loss on goodwill). This includes only a 9 month contribution from the Kalamunda clinic.

Radiology Group Acquisition

Shareholders ratified the acquisition of the Melbourne based Radiology Group at a general meeting on the 30th August 2007. 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 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 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.

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.

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.

Benefits of the Acquisition

a) The Radiology Group has experienced consistent and substantial growth in the past three years, and will provide Capitol the opportunity to participate in future rapid growth in the radiology industry.
b) The Radiology Group has a highly experienced management and specialist clinical team, the input from which will benefit future revenue and earnings potential.
c) 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.
d) The corporate and administrative cost overheads of Capitol will be spread over a greater number of business units, hence improving costs efficiencies.
e) The Acquisition represents a significant increase in the scale of activities and operations of Capitol. In the absence of this Acquisition, Capitol would have continued to invest in dental practices and with this more gradual approach would have been likely to require significant fresh capital.

Board Changes

Mr John Conidi, a current Director, major shareholder, and one of the founders of the Radiology Group, joined the Board of Capitol as an Executive Director as part of the transaction on 30 August 2007. 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.

Dr Russell Fine retired from the board on 30 August 2007. 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.

Financials

The consolidated entity's financial performance was in-line with management expectations generating a loss before tax of $966,327. While the business operations achieved a reasonable EBITDA result of $0.363 million, or 24% ROS (excluding $250,000 impairment loss on goodwill), significant investment in infrastructure, Information Technology, and management personnel was made to underpin future growth through acquisition. Also contributing to the loss was an impairment expense against the carrying value of goodwill of $250,000.

As detailed earlier it is expected that the acquisition of the Radiology group will generate positive cashflow and strong earnings for the group.

Conclusion

In the next financial year the Company plans to bed down the acquisition of the Radiology Group, and significantly expand its operations through organic growth of its existing clinics, establishment of new clinics, and aggressive acquisition of strategically appropriate businesses, predominantly focused on the Radiology industry. The Board is currently in negotiation with a number of acquisition targets, the progress of which will be announced when they are formalized.

The board believes that the acquisition of the Radiology Group, and subsequent growth plans are a positive step towards generating sustainable growth in revenue and earnings in the future. The strategy will contribute significant working capital generated from its operations, and produce a much expanded geographic and revenue base.

On behalf of the Directors, I thank our management team and staff for their effort during the year, and look forward to an exciting future with our new staff, management and Board.

Andrew Harrison
Managing Director

Perth, Western Australia

14 September 2007

The directors present their report together with the financial report of Capitol Health Limited (the "Company") and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2007 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Mr Andrew Harrison, BCom (Hons), MAICD
Managing Director - Appointed 1 December 2005

Mr Harrison has significant experience in both senior management and board positions in publicly listed companies. He has held senior positions in a number of major organisations including Brambles Industries Limited, and has played leading roles in strategy, management, and business development across a number of sectors.

Prior to forming Capitol Health Limited, Mr Harrison was Managing Director of Neptune Marine Services Limited, and played an integral role in the initial public offering of that company in April 2004, and the subsequent global commercialisation of its unique technology. He was a non-executive director of ASX listed Neptune Marine Services Limited until February 2006, and is currently a Non Executive Director of C @ Limited, an ASX listed optical marketer.

Previously he has worked as a management consultant for such clients as Chubb Australasia and has been CEO of a Melbourne based marketing consultancy. Mr Harrison also holds a Bachelor of Commerce (Honours) in Marketing and Commercial Law from Curtin University in Western Australia, and is a member of the Australian Institute of Company Directors.

Mr John Conidi, BBus, CPA
Executive Director – Appointed 30 August 2007

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.

Mr Anthony Ho, BCom, CA
Non-Executive Director – Appointed 1 December 2005

Mr Ho graduated in 1980 with a Bachelor of Commerce from the University of Western Australia. He qualified as a Chartered Accountant in 1983 with Deloittes. Mr Ho is presently the principal of a public practice, specialising in providing corporate and financial services to ASX-listed companies.

Prior to establishing his practice in 1991, he spent 7 years in a senior corporate role with a major investment and resource consolidated entity in Western Australia. He is currently a director of Redisland Australia Limited and Brumby Resources Limited, companies listed on ASX.

Mr Ho will be seeking re-election by shareholders at the 2007 Annual General Meeting.

Dr Russell Fine, BSc, BDSc
Non- Executive Director - Appointed 1 December 2005, Resigned 30 August 2007

Dr Fine is a founding member of Capitol Health and a Board Certified Dentist, having obtained his dental qualifications at the University of Western Australia in 1996. During the last 6 years Dr Fine has owned and operated a successful private practice focusing on high-end cosmetic and implant dentistry.

Dr Fine has extensive industry involvement being a member of the Australian Dental Association (WA and Federal), Treasurer and Secretary of the Australian Osseointegration Society (WA), Executive Council of the Australian Society for Implant Dentistry (WA), and a member of the International College of Oral Implantologists.

Company Secretary

Mr Kim Hogg, BCom
Company Secretary – Appointed 1 December 2005

Mr Hogg is a principal of a public practice providing specialist services to clients seeking to raise capital and list on the ASX. He has predominantly been involved in the preparation of prospectuses and in compliance work as company secretary for both listed and unlisted entities. Mr Hogg completed a Bachelor of Commerce degree in 1984 at the University of Western Australia. He is currently the company secretary of a number of companies listed on ASX.

Directorships in other listed entities

Directorships of other listed entities held by directors of the Company during the last 3 years immediately before the end of the financial year are as follows:

Director	Company	Period of directorship From	To
Mr A Harrison	C @ Limited	2005	Present
	Neptune Marine Services Limited	2003	21 February 2006
Mr J Conidi	Nil	-	-
Mr A Ho	Redisland Australia Limited	2003	Present
	Brumby Resources Limited	2006	Present
	Vmoto Limited	2002	30 June 2006
Dr R Fine	Nil	-	-

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
Director	Held	Attended	Held	Attended	Held	Attended
Mr A Harrison	5	5	2	2	1	1
Dr R Fine	5	5	-	-	-	-
Mr A Ho	5	5	2	2	1	1

Principal Activity

The principal activity of the consolidated entity during the financial year was the acquisition of dental surgeries and facilities and the provision of administration and management services to those surgeries.

Operating and Financial Review

Operating review

The 2007 financial year saw a number of milestones reached by the Company.

- Subsequent to year end Capitol entered into an agreement to acquire a group of Radiology practices in Melbourne. Post acquisition revenues are expected to grow to at least $12 million on an annual basis. This acquisition was completed on 30 August 2007 being approved by a general meeting of shareholders.
- The acquisition of the Radiology Group saw the Capitol Board strengthened with the appointment as Executive Director the former head and founder of the Radiology group, Mr. John Conidi. As a result of the acquisition a number of new clinicians joined the group.
- During the year Capitol acquired its third dental surgery and facility, with the completion of the Kalamunda Dental Centre acquisition in October 2006. This took the surgeries operated by Capitol to 3, including Banksia Dental Care, and Booragoon Dental Centre.
- Capitol continued to achieve growth in revenues from the 3 dental surgeries.
- Major investments were made in systems and infrastructure to operate the group more efficiently. Notably a major investment was made in accounting and information technology to better manage back of house activities for future increases in scale.

Further details of the operating activities of the consolidated entity are set out in the Managing Director's Review.

Financial review

The consolidated entity's financial performance was in-line with management expectations generating a loss before tax of $966,327. While the business operations achieved a reasonable EBITDA result of $0.363 million, or 24% ROS (excluding $250,000 impairment loss on goodwill), significant investment in infrastructure, Information Technology, and management personnel was made to underpin future growth through acquisition. Also contributing to the loss was an impairment expense against the carrying value of goodwill of $250,000.

As detailed earlier it is expected that the acquisition of the Radiology group will generate positive cashflow and strong earnings for the group.

Environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the consolidated entity has adequate systems in place for the management of its environmental regulations and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

Significant Changes in the State of Affairs

The consolidated entity's total assets decreased by $786,510 to $2,038,543 (2006: $2,825,053) during the financial year. The net decrease in total assets principally comprised:

(a) a decrease in cash and cash equivalents of $1,639,081 due to the investment in corporate and management infrastructure and support for its dental operations since the Company's listing on 7 June 2006. Such costs included once off cost of establishing a corporate office and recruitment costs of operational staff;

(b) an increase in intangibles of $148,370 (after write off of goodwill of $250,000) and property, plant and equipment of $192,374 as a result of the acquisition of Kalamunda Dental Care and the associated facilities and equipment.

Results

The consolidated entity incurred a loss of $966,327 (2006: $391,153) after income tax for the financial year.

Dividends

No dividend has been declared or paid by the Company to the date of this Report.

Events Subsequent to Balance Date

Other than any matters described in these financial statements, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Likely Developments

The consolidated entity will continue to operate in the healthcare sector. The Operating and Financial Review above and the Managing Director's Review set out more details about likely developments in the operations of the consolidated entity in future financial years.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years have not been included in this report because disclosure of such information would likely result in unreasonable prejudice to the consolidated entity.

Directors' Interests

The relevant interest of each director in the shares and options issued by the companies within the consolidated entity at the date of this report is as follows:

Director	Ordinary shares	Unlisted Options
Mr A Harrison[1]	13,400,001	5,000,000
Mr J Conidi[2]	55,618,464	10,000,000
Mr A Ho[3]	1,000,000	1,000,000

1. includes 13,400,000 shares and 5,000,000 options held indirectly by Relentless Corporation Pty Ltd as trustee for the Sun Tzu Trust. Mr Harrison is a director and a beneficiary of that trust.
2. includes 24,054,672 shares held indirectly by Idinoc Pty Ltd as trustee for the J&R Conidi Family Account, of which Mr Conidi is a director, joint trustee and beneficiary. 24,809, 232 shares are held indirectly by Nick Conidi Pty Ltd as trustee for the Conidi Family Account, of which Mr Conidi is a shareholder and beneficiary. 2,254, 560 shares are held indirectly by Monteleone Melbourne Pty Ltd, of which Mr Conidi is a director and shareholder. 4,500,000 shares and 10,000,000 options are held indirectly by Worldwide Pty Ltd, of which Mr Conidi's wife is a director and shareholder.
3. includes 1,000,000 shares and 1,000,000 options held indirectly by Hox5 Pty Ltd, the trustee for the A & K Ho Superannuation Fund. Mr Ho is a director of Hox5 Pty Ltd and a member of that superannuation fund.

Options

Options granted

During or since the end of the financial year, the Company granted the following options over unissued ordinary shares:

Class	Expiry Date	Exercise Price	Number of Options
Incentive Options	26 September 2010	$0.25	250,000
Unlisted Options	31 March 2010	$0.20	10,000,000

The Incentive Options were granted during the financial year. 10,000,000 options exercisable at $0.20 each on or before 31 March 2010 were granted on 30 August 2007.

Unissued shares under option

At the date of this report, unissued ordinary shares of the Company under option are:

Class	Expiry Date	Exercise Price	Number of Options
Unlisted Options	31 March 2010	$0.20	20,000,000
Incentive Options	26 September 2010	$0.25	250,000

None of these options were exercised during the financial year. These options do not entitle the holder to participate in any share issue of the Company or any other entity.

Indemnification and Insurance of Officers

Indemnification

The Company has agreed to indemnify the current directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

Insurance Premiums

As at the date of this report no insurance policies have been entered into.

Non-audit services

During the previous financial period, Stanton Partners Corporate Pty Ltd a related practice of Stantons International, the Company's auditor, performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the previous financial period by the auditor and is satisfied that the provision of these non-audit services during the financial period by the auditor is compatible with, and did not compromise, the audit independence requirements of the Corporations Act 2001 for the following reasons:

(a) all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact the integrity and objectivity of the auditor.

(b) the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, Stantons International, and its related practices for audit and non-audit services provided during the year are set out below:

	Consolidated 2007 $	Consolidated 2006 $
Statutory audit:		
- audit and review of financial reports	34,606	8,000
Services other than statutory audit:		
Other services		
- independent accountant's report for inclusion in a prospectus	-	7,979

Remuneration Report

The remuneration report is set out on pages 9 to 13 and forms part of the Directors' Report.

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 45 of the financial report.

Dated at Perth, Western Australia this 14th day of September 2007.

Signed in accordance with a resolution of the directors:

Andrew Harrison
Managing Director

The remuneration report is set out under the following main headings:

A: Principles used to determine the nature and amount of remuneration
B: Service agreements
C: Details of remuneration
D: Share-based compensation
E: Additional information

The information provided in Sections A to D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

A: Principles used to determine the nature and amount of remuneration (unaudited)

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and executives for the Company and the consolidated entity.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for its key management personnel. The Corporate Governance Statement provides further information on the role of this committee.

Compensation levels for key management personnel of the Company and the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segments performance
- the consolidated entity's performance including:
  - the consolidated entity's earnings
  - the growth in share price and delivering constant returns on shareholder wealth
  - the amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed and variable compensation and short-term and long-term performance-based incentives designed to reward key management personnel for meeting or exceeding their financial and personal objectives. In addition to their salaries, the consolidated entity also provides non-cash benefits to its key management personnel. The consolidated entity does not have any scheme relating to retirement benefits for its key management personnel.

Fixed compensation

Fixed compensation consists of base compensation, as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of the consolidated entity.

Benefits

Key management personnel may receive benefits such as car allowances, and the Company pays fringe benefits tax on these benefits.

Short-term incentives

Certain key management personnel receive short-term incentives (STI) in the form of cash. Each year, the remuneration committee considers the appropriate targets and key performance indicators (KPIs). The committee is also responsible for assessing whether the KPIs are met. The remuneration committee recommends the cash incentive to be paid to the individuals for approval by the Board.

Long-term incentives

Long-term incentives are provided to key management personnel via the Capitol Health Limited Incentive Option Scheme (refer to Note 16 to the financial statements).

Non-executive directors' fees

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2005 General Meeting, is not to exceed $150,000 per annum. Non-executive directors do not receive performance related compensation. Directors' fees cover all main board activities and membership of committees.

B: Service agreements (audited)

The consolidated entity has entered into service agreements with each key management person. The service contracts outline the components of compensation paid to the key management personnel and are reviewed on an annual basis.

Mr Andrew Harrison, Managing Director, has a contract of employment effective from 7 June 2006 with the Company. The contract specifies the duties and obligations to be fulfilled by the Managing Director. The contract is for a term of 3 years, unless terminated earlier in accordance with the contract of employment. The Company must pay to Mr Harrison $100,000 per annum plus statutory superannuation in consideration for Mr Harrison's services. The Managing Director has no entitlement to termination payment in the event of removal for misconduct.

Ms Nicole Smith, Operations Manager, has a contract of employment effective from 26 September 2006 with the Company. The contract specifies the duties and obligations to be fulfilled by the Operations Manager. The contract has no term and may be terminated with 12 weeks notice, in accordance with the contract of employment. The Company must pay to Ms Smith $100,000 per annum plus statutory superannuation in consideration for Ms Smith's services. Ms Smith has no entitlement to termination payment in the event of removal for misconduct.

Refer to Note 21 for details on the financial impact in future periods resulting from firm commitments arising from non-cancellable contracts for services with directors.

C: Details of remuneration (audited)

Details of the nature and amount of each major element of the remuneration of each key management person of the consolidated entity for the financial year are:

		SHORT-TERM			POST-EMPLOYMENT	SHARE-BASED PAYMENTS			
		Salary & fees $	STI cash bonus[1] $	Other benefits $	Superannuation benefits $	Options[2] $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors									
Non-executive									
Dr R Fine[1]	2007	23,867	-	-	-	-	23,867	-	-
	2006	1,600	-	-	-	-	1,600	-	-
Mr A Ho	2007	24,000	-	-	-	-	24,000	-	-
	2006	1,600	-	-	-	-	1,600	-	-
Executive									
Mr A Harrison	2007	100,000	-	15,561	9,000	-	124,561	-	-
	2006	6,667	-	-	600	-	7,267	-	-
Total, all directors	**2007**	**147,867**	**-**	**15,561**	**9,000**	**-**	**172,428**	**-**	**-**
	2006	**9,867**	**-**	**-**	**600**	**-**	**10,467**	**-**	**-**
Executives									
Ms N Smith	2007	76,389	12,500	8,245	6,875	3,698	107,707	11.6	3.4
Total, all executives	**2007**	**76,389**	**12,500**	**8,245**	**6,875**	**3,698**	**107,707**	**11.6**	**3.4**
Total, all key management personnel	**2007**	**224,256**	**12,500**	**23,806**	**15,875**	**3,698**	**280,135**	**4.5**	**1.3**
	2006	**9,867**	**-**	**-**	**600**	**-**	**10,467**	**-**	**-**

1. The Company paid fees in relation to dental services provided by Dr Fine as disclosed in Note 24 to the financial statements.

Notes in relation to the table of remuneration

1. The short-term incentive bonus is for performance during the 30 June 2007 financial year using the criteria set out on page 9. The amount was determined based on performance reviews on 26 March 2007, 6 months after Ms Smith's commencement in accordance with her contract of employment effective from 26 September 2006.
2. The fair value of the options is calculated at the date of grant using a Black-Sholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period. In valuing the options, market conditions have been taken into account.

   The following factors and assumptions were used in determining the fair value of options on grant date:

Grant date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield	Non listed status discount
26 Sep 2006	26 Sep 2010	$0.026	$0.25	$0.20	25.00%	5.63%	0.00%	35.00%

D: Share-based compensation (audited)

All options refer to options over ordinary shares of Capitol Health Limited, which are exercisable on a one-for-one basis under the Capitol Health Limited Incentive Option Scheme ("Scheme").

Options and rights over equity instruments granted as compensation

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

	Number of options granted during 2007	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	Number of options vested during 2007
Executives						
Ms N Smith	250,000	26 Sep 2006	$0.026	$0.25	26 Sep 2010	-

No compensation options have been granted since the end of the financial year. The options were provided at no cost to the recipient.

All options expire on the earlier of their expiry date or 30 days after the termination of the individual's employment. The vesting terms of the options are as follows:

Portion	Vesting date
50%	12 months (26 September 2007)
50%	24 months (26 September 2008)

No options have been exercised during the year and up to the date of this report.

Further details, including grant dates regarding options granted to executives under the Scheme are in Note 16 to the financial statements.

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

E: Additional information (unaudited)

Analysis of options and rights over equity instruments granted as compensation

Details of vesting profile of the options granted to each key management person of the Company and the consolidated entity are detailed below:

	Options granted		% vested in year	% forfeited in year[1]	Financial years in which grant vests	Value yet to vest	
	Number	Date				Min[2]	Max
Executives							
Ms N Smith	125,000	26 Sep 2006	-	-	26 Sep 2007	Nil	$3,250
	125,000	26 Sep 2006	-	-	26 Sep 2008	Nil	$3,250

1. The % forfeited in the year represents the reduction from the maximum number of options available to vest due to the service criteria not being achieved.
2. The minimum value of options yet to vest is $nil as the service criteria may not be met and consequently the options may not vest.

Analysis of movements in options granted as compensation

The movement during the reporting period, by value of options over ordinary shares in the Company held by each key management person of the Company and the consolidated entity are detailed below:

	Granted in year[1] $	Exercised in year $	Forfeited in year $	Total option value in year $
Executives				
Ms N Smith	6,500	-	-	6,500

1. The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Sholes model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (ie. in years 26 September 2006 to 26 September 2008).

Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive cash bonuses awarded as remuneration to each key management person of the Company and the consolidated entity are detailed below:

		Short-term incentive bonus	
	Included in remuneration[1]	% vested in year	% forfeited in year[2]
Executives			
Ms N Smith	$12,500	100%	-

1. Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the bonus schemes for the 2007 financial year.
2. The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year.

The Board of Directors is responsible for the overall corporate governance of Capitol Health Limited ("Capitol Health"), and is committed to the principles underpinning best practice in corporate governance, applied in a manner that meets ASX standards and best addresses the Directors' accountability to Shareholders. However, whilst the Company will endeavour to comply with all of the guidelines under the ASX Corporate Governance Recommendations, the Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the additional expense of compliance with all recommendations.

A brief summary of Capitol Health's main corporate governance policies and practices is outlined below. In addition, the following policies and procedures have been adopted and are available for viewing on the Company's website:

- Role of the Board
- Structure of the Board
- Responsible Decision Making and Code of Conduct
- Safeguarding Integrity in Financial Reporting
- Timely and Balance Disclosure
- Risk Recognition and Management
- Board Performance
- Remuneration Responsibility
- Securities Trading Policy.

The Board of Directors

The Board will comprise both executive and non-executive Directors. Presently there are two non-executive Directors and one executive Director. It is Capitol Health's policy to have a majority of non-executive directors on the Board.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include the quality of the individual, experience and achievement, credibility within the Company's scope of activities, intellectual ability to contribute to the Board's duties and ability to undertake Board duties and responsibilities.

Committees of the Board

The Board has established the following committees:

Audit Committee

The Audit Committee comprises two Board members, one non-executive and an executive director and the Company Secretary. The primary responsibility of this Committee is to monitor the integrity of the financial statements of the Company, and to review and monitor the Company's internal financial control system.

Remuneration Committee

The Remuneration Committee comprises two Board members, being one non-executive and an executive director. The primary responsibility of this Committee is to discharge the Board's responsibilities in relation to remuneration of the Company's executives, including securities and benefit plans.

Role of the Board

The management and control of the business is vested in the Board. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of the shareholders.

The Board strives to create Shareholder value and ensure that Shareholders' funds are safeguarded.

The key responsibilities of the Board include:

- the overall corporate governance of the Company including its strategic direction and financial objectives, establishing goals for management and monitoring the attainment of these goals;
- reporting to shareholders and the market (ASX);
- approving strategic plans, key operational and financial matters, as well as major investment and divestment proposals;
- approving the nominations of Directors to the Board and appointment of key executives;
- evaluating and rewarding senior management and ensuring executive succession planning;
- ensuring that Directors have a good understanding of the Company's business;

- ensuring Management maintains a sound system of internal controls to safeguard the assets of the company;
- monitoring the performance of the company;
- appointing and removing the Managing Director (or equivalent);
- ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent) and/ or the company secretary;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance, safety and occupational health policies, community and environmental issues;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available; and
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures, together with any recommendations from management associated with these activities.

Policies and Procedures

Continuous Disclosure Policy

The Company has adopted a continuous disclosure policy so as to comply with its continuous disclosure obligations. The aims of this policy are to:

- report continuous disclosure matters to the Board;
- assess new information and co-ordinate any disclosure or releases to the ASX, or any advice required in relation to that information, in a timely manner;
- provide an audit trail of the decisions regarding disclosure to substantiate compliance with the Company's continuous disclosure obligations; and
- ensure that employees, consultants, associated entities and advisers of the Company understand the obligations to bring material information to the attention of the Board.

Securities Trading Policy

The Company has adopted a policy that imposes certain restrictions on Directors and employees trading in the securities of the Company. The restrictions have been imposed to prevent trading in contravention of the insider trading provisions of the Corporations Act.

Risk Management Policy

The Board has developed and implemented policies and practices which ensure that the material risks facing the Company are adequately identified, assessed, monitored and managed throughout the whole organisation. These include:

- comprehensive Board papers containing relevant operational, strategic, financial and legal information circulated to directors before each meeting;
- actual results for the Company presented to the Board at each Board meeting, compared against budget and forecast, with revised forecasts if required;
- financial authority limits set by the Board; and
- insurance cover appropriate to the size and nature of the Company's operations to reduce the financial impact of any significant insurable losses.

Shareholder Communications Strategy

The Board aims to ensure that Shareholders are kept informed of all major developments affecting the Company.

Information is communicated to Shareholders through:

- continuous disclosure in the form of public announcements on ASX;
- annual and quarterly reports to shareholders;
- investor briefings;
- the Managing Director's address delivered at the Annual General Meeting; and
- notices of all meetings of Shareholders and explanatory notes of proposed resolutions.

INCOME STATEMENTS
for the year ended 30 June 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Revenue	2	1,512,114	154,551	-	-
Cost of sales		(286,027)	(19,523)	-	-
Gross profit		1,226,087	135,028	-	-
Other income	3	50,316	7,115	42,687	6,793
Operational expenses		(811,751)	(215,350)	(2,264)	-
Marketing and distribution expenses		(127,455)	(6,209)	(77,663)	(2,882)
Corporate and administrative expenses		(827,359)	(88,726)	(832,225)	(80,154)
Occupancy expenses		(139,989)	(23,140)	(25,081)	(4,605)
Borrowing expenses		(85,020)	(8,791)	(3,376)	(8,791)
Provision for diminution in value of investments in controlled entities		-	-	-	(1)
Provision against recovery of loans to controlled entities		-	-	(329,976)	(206,725)
Other expenses	4	(251,156)	(191,080)	-	-
Loss before income tax		(966,327)	(391,153)	(1,227,898)	(296,365)
Income tax	7	-	-	-	-
Net loss for the year attributable to equity holders of the parent		(966,327)	(391,153)	(1,227,898)	(296,365)
Basic loss per share					
Ordinary shares (cents)	22	(1.72)	(1.03)		

These income statements are to be read in conjunction with the accompanying notes.

CAPITOLHEALTH LIMITED

BALANCE SHEETS
as at 30 June 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
CURRENT ASSETS					
Cash and cash equivalents	8	191,008	1,830,089	2,638	1,695,581
Trade and other receivables	9	13,025	30,790	4,210	12,925
Inventories	10	125,879	121,225	-	-
Other financial assets	11	8,000	8,000	-	-
Total Current Assets		337,912	1,990,104	6,848	1,708,506
NON CURRENT ASSETS					
Receivables	9	-	-	232,028	211,271
Other financial assets	11	524,938	-	-	-
Property, plant & equipment	12	564,281	371,907	76,115	5,812
Intangibles	13	611,412	463,042	-	-
Total Non Current Assets		1,700,631	834,949	833,081	217,083
TOTAL ASSETS		2,038,543	2,825,053	839,929	1,925,589
CURRENT LIABILITIES					
Trade and other payables	14	387,919	320,747	155,749	198,467
Employee benefits	15	36,547	27,557	17,243	585
Loans and borrowings	17	111,675	63,015	39,251	-
Total Current Liabilities		536,141	411,319	212,243	199,052
NON CURRENT LIABILITIES					
Loans and borrowings	17	833,282	781,985	125,349	-
Total Non Current Liabilities		833,282	781,985	125,349	-
TOTAL LIABILITIES		1,369,423	1,193,304	337,592	199,052
NET ASSETS		**699,120**	**1,631,749**	**502,337**	**1,726,537**
EQUITY					
Issued capital	18	2,022,902	2,022,902	2,022,902	2,022,902
Reserves	18	3,698	-	3,698	-
Accumulated losses	19	(1,357,480)	(391,153)	(1,524,263)	(296,365)
TOTAL EQUITY		**669,120**	**1,631,749**	**502,337**	**1,726,537**

These balance sheets are to be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS
for the year ended 30 June 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Cash flows from operating activities					
Cash receipts in the course of operations		1,512,114	144,522	-	-
Cash payments in the course of operations		(1,754,222)	(240,578)	(711,099)	(28,232)
Interest received		50,316	7,115	42,687	6,793
Interest paid		(85,020)	(8,791)	(3,376)	(8,791)
Net cash used in operating activities	26	(276,812)	(97,732)	(671,788)	(30,230)
Cash flows from investing activities					
Payments for investments in controlled entities		-	-	-	(1)
Proceeds from sale of plant and equipment		2,500	-	-	-
Payments for property, plant and equipment		(414,568)	(412,809)	(183,234)	(5,944)
Payments for intangible assets		(398,370)	(654,122)	-	-
Net cash used in investing activities		(810,438)	(1,066,931)	(183,234)	(5,945)
Cash flows from financing activities					
Proceeds from the issue of share capital	18	-	2,373,211	-	2,373,211
Payment of share issue costs		(126,850)	(223,459)	(126,850)	(223,459)
Payment for security over borrowings		(524,938)	-	(524,938)	-
Payments for loans to controlled entities		-	-	(350,734)	(417,996)
Proceeds from borrowings		177,137	1,095,000	177,137	-
Repayment of borrowings		(77,180)	(250,000)	(12,536)	-
Net cash (used in)/ provided by financing activities		(551,831)	2,994,752	(837,921)	1,731,756
Net (decrease)/increase in cash and cash equivalents		(1,639,081)	1,830,089	(1,692,943)	1,695,581
Cash and cash equivalents at 1 July		1,830,089	-	1,695,581	-
Cash and cash equivalents at 30 June	8	**191,008**	**1,830,089**	**2,638**	**1,695,581**

These statements of cash flows are to be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY
for the year ended 30 June 2007

Consolidated	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Balance as at 1 December 2005	-	-	-	-
Loss for the year	-	-	(391,153)	(391,153)
Issue of share capital	2,373,211	-	-	2,373,211
Share issue costs	(350,309)	-	-	(350,309)
At 30 June 2006	2,022,902	-	(391,153)	1,631,749
Loss for the year	-	-	(966,327)	(966,327)
Equity-settled share-based payment	-	3,698	-	3,698
At 30 June 2007	**2,022,902**	**3,698**	**(1,357,480)**	**669,120**

Company	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Balance as at 1 December 2005	-	-	-	-
Loss for the year	-	-	(296,365)	(296,365)
Issue of share capital	2,373,211	-	-	2,373,211
Share issue costs	(350,309)	-	-	(350,309)
At 30 June 2006	2,022,902	-	(296,365)	1,726,537
Loss for the year	-	-	(1,227,898)	(1,227,898)
Equity-settled share-based payment	-	3,698	-	3,698
At 30 June 2007	**2,022,902**	**3,698**	**(1,524,263)**	**502,337**

These statements of changes in equity are to be read in conjunction with the accompanying notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Capitol Health Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2007 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

Basis of preparation

Statement of compliance

The financial report is a general-purpose financial report, which has been prepared in accordance with the Australian Accounting Standards ("AASBs") (including Australian interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial report of the consolidated entity also complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRSs as the Company has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

The financial statements were approved by the Board of Directors on 14 September 2007.

Basis of measurement

The financial report is prepared on the accruals basis and the historical cost basis.

Going concern basis

The directors have prepared the financial statements on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The directors believe this to be appropriate for the following reasons:

- Subsequent to balance date, the Company acquired a group of radiology practices in Melbourne (the "Radiology Group"). This acquisition is expected to generate positive cashflow and profitable operations for the consolidated entity in the 2008 financial year;
- The Radiology Group has experienced consistent and substantial growth in the past three years, and the Board believes that it is reasonable to expect this to continue and provide Capitol the opportunity to participate in future growth in the radiology industry;
- The corporate and administrative cost overheads of Capitol will be spread over a greater number of business units, hence improving cost efficiencies;
- The Company believes it has the ability to raise additional capital or secure additional debt funding, if required, to fund expansion in the radiology industry.

Based on the above, the directors are confident that the consolidated entity will be able to continue operations into the foreseeable future.

Use of estimates and judgements

The preparation of a financial report in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 13 – measurement of the recoverable amounts of cash-generating units
- Note 16 – measurement of share-based payments
- Note 17 – accounting for an arrangement containing a lease
- Note 21 –lease classification
- Note 23 – business combinations.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all entities in the consolidated entity.

The consolidated entity has elected to apply the following pronouncement to the annual reporting period beginning 1 July 2006:

- revised AASB 101 *Presentation of Financial Statements* (issued October 2006).

This includes applying the pronouncement to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the consolidated entity. Control exists when the consolidated entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

Transactions eliminated on consolidation

Inter-entity balances, and any unrealised income and expenses arising from inter-entity transactions, are eliminated in preparing the consolidated financial statements.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Share capital

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related income tax benefit.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the consolidated entity and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The estimated useful lives are as follows:

Plant and equipment	3 to 5 years
Office furniture and equipment	3 to 5 years
Leasehold improvements	3 to 5 years
Motor vehicles	3 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and the leased assets are not recognised in the consolidated entity's balance sheet.

The consolidated entity adopted Interpretation 4 *Determining whether an Arrangement Contains a Lease*, which is mandatory for annual reports beginning on or after 1 January 2006, in its 2006 consolidated financial statements.

Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Non-financial assets

The carrying amounts of the consolidated entity's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price.

Employee Benefits

Wages and salaries, annual leave, sick leave and long service leave

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave and sick leave expected to be settled within 12 months are measured at their nominal values based on expected rates of pay. The provision for long service leave is measured as at present value of the estimated future cash flows.

Share-based payments

The Group provides benefits to employees (including directors) of the consolidated entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares.

The Company operates an incentive scheme to provide these benefits, known as the Capitol Health Limited Incentive Option Scheme ("Scheme") approved at the general meeting on 30 December 2005.

The cost of these share-based payment transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial or Black-Sholes model.

In valuing share-based payment transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Capitol Health Limited ('market conditions').

The cost of share-based payment transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

Employee Benefits (cont'd)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the consolidated, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Revenue

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchange of goods of services of the same nature with any cash consideration is not recognised as revenue.

Services

Revenue from services is recognised in profit or loss.

Interest income

Interest income is recognised as it accrues.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

(a) except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

(a) except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Income tax (cont'd)

(b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Capitol Health Limited and its subsidiaries have unused tax losses. However, no deferred tax balances have been recognised, as it is considered that asset recognition criteria have not been met at this time.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Loans and borrowings

Loans are recognised at their principal amount, subject to set-off arrangements. Borrowing costs are recognised as an expense when incurred.

Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the consolidated entity. Trade accounts payable are normally settled within 60 days.

Earnings per share

The consolidated entity presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted loss per share does not show an inferior view of the earnings performance of the consolidated entity than is shown by EPS and is not disclosed for this reason.

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

(a) AASB 7 *Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]*. AASB 7 & and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The consolidated entity has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the consolidated entity's and the parent entity's financial instruments.

New standards and interpretations not yet adopted (cont'd)

(b) AASB-I 10 *Interim Financial Reporting and Impairment*. AASB-I 10 is applicable to reporting periods commencing on or after 1 November 2006. The consolidated entity has not recognised an impairment loss in relation to goodwill or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the consolidated entity's or the parent entity's financial statements.

Determination of fair values

A number of the consolidated entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

Intangible assets

The fair value of intangible assets other than patents and trademarks is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions

The fair value of incentive options is measured using the Black-Sholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Comparatives

The Company was incorporated on 1 December 2005 and accordingly the comparative Income Statements, Statements of Cashflow, and Statements of Changes in Equity amounts are for the period from 1 December 2005 to 30 June 2006.

	Consolidated		Company	
	2007	2006	2007	2006
	$	$	$	$
2. REVENUE				
Services	1,512,114	154,551	-	-
3. OTHER INCOME				
Interest income	50,316	7,115	42,687	6,793

	Consolidated		Company	
	2007	2006	2007	2006
4. OTHER EXPENSES	$	$	$	$
Inventory write off	622	-	-	-
Bad debts expense	534	-	-	-
Impairment loss on goodwill	250,000	191,080	-	-
	251,156	191,080	-	-
5. PERSONNEL EXPENSES				
Wages and salaries costs	715,758	65,895	229,760	-
Superannuation costs	55,000	6,024	19,553	-
Increase in liability for annual leave	18,284	27,557	16,657	-
Non-executive directors' fees	47,867	3,200	47,867	-
Equity-settled share based payment transactions	3,698	-	3,698	-
	840,607	102,676	317,535	-
6. AUDITOR'S REMUNERATION				
Audit services:				
Stantons International				
- audit and review of financial reports	34,606	8,000	34,606	8,000
Other services:				
Stanton Partners Corporate Pty Ltd				
- independent accountant's report for inclusion in a prospectus	-	7,979	-	7,979
	34,606	15,979	34,606	15,979
7. INCOME TAX				
(a) Income tax benefit	-	-	-	-
(b) Numerical reconciliation between tax benefit and pre-tax net loss				
Loss before income tax benefit	(966,327)	(391,153)	(1,227,898)	(296,365)
Income tax benefit calculated at 30%	(289,898)	(117,346)	(368,369)	(88,910)
Tax effect on amounts which are not tax deductible:				
- Impairment loss on goodwill	75,000	57,324	-	-
- Amounts provided against loans to controlled entity	-	-	98,993	62,018
- Capital raising costs	(21,154)	-	(21,154)	-
- Cost of equity settled transactions	1,109	-	1,109	-
- Sundry amounts	20,529	328	9,970	178
Future income tax benefit not brought to account	214,414	59,694	279,451	26,714
Income tax credit	-	-	-	-
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)				
Potential at 30%	214,414	59,694	279,451	26,714

7. INCOME TAX (cont'd)	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
(d) Unrecognised temporary differences				
Temporary differences for which deferred tax assets have not been recognised:				
Employee benefits provision	10,964	8,267	5,173	176
Accrued expenses	1,320	-	13,200	-
Impairment loss on goodwill	132,324	57,324	-	-
Provision for doubtful receivables	-	-	161,010	62,018
Capital raising costs	63,533	84,074	63,533	84,074
Unrecognised deferred tax assets relating to the above temporary differences	208,141	149,665	242,916	146,268

(e) Tax Rates

The potential tax benefit at 30 June 2007 in respect of tax losses not brought to account has been calculated at 30% (2006: 30%).

8. CASH AND CASH EQUIVALENTS	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Cash at bank	191,008	1,330,089	2,638	1,195,581
Term deposit (Note A)	-	500,000	-	500,000
	191,008	1,830,089	2,638	1,695,581

Note A: This term deposit is subject to a set-off arrangement in relation to certain financing facilities of the consolidated entity. Further details of this arrangement are set in Note 17.

9. TRADE AND OTHER RECEIVABLES

Current				
Other receivables	13,025	30,790	4,210	12,925
Non Current				
Unsecured loan to subsidiary	-	-	768,729	417,996
Less: Provision for non-recovery	-	-	(536,701)	(206,725)
	-	-	232,028	211,271

10. INVENTORIES

Surgical inventories	125,879	121,225	-	-

11. OTHER FINANCIAL ASSETS

Current				
Other - Bond	8,000	8,000	-	-
Non Current				
Term deposit (Note 8A)	524,938	-	524,938	-
Investment in subsidiary:				
Shares in CHL Operations Pty Ltd (100% owned) – at cost	-	-	1	1
Less: Provision for diminution in value of investment	-	-	(1)	(1)
	524,938	-	524,934	-

12. PROPERTY, PLANT & EQUIPMENT

	Consolidated					Company				
	Plant & equipment	Office furniture & equipment	Leasehold improvements	Motor vehicles	Total	Plant & equipment	Office furniture & equipment	Leasehold improvements	Motor vehicles	Total
At 1 July 2006	286,290	61,075	24,542	-	371,907	-	5,812	-	-	5,812
Additions	207,143	155,634	22,969	28,822	414,568	-	139,759	14,653	28,822	183,234
Disposals	(2,500)	-	-	-	(2,500)	-	-	-	-	-
Depreciation charge for the year	(86,771)	(116,974)	(8,710)	(7,239)	(219,694)	-	(103,292)	(2,400)	(7,239)	(112,931)
At 30 June 2007, net of accumulated depreciation	404,162	99,735	38,801	21,583	564,281	-	42,279	12,253	21,583	76,115
At 30 June 2007										
Cost	499,744	245,267	51,044	28,822	824,877	-	145,703	14,653	28,822	189,178
Accumulated depreciation	(95,582)	(145,532)	(12,243)	(7,239)	(260,596)	-	(103,424)	(2,400)	(7,239)	(113,063)
Net carrying amount	404,162	99,735	38,801	21,583	564,281	-	42,279	12,253	21,583	76,115

	Consolidated					Company				
	Plant & equipment	Office furniture & equipment	Leasehold improvements	Motor vehicles	Total	Plant & equipment	Office furniture & equipment	Leasehold improvements	Motor vehicles	Total
At 1 December 2005	-	-	-	-	-	-	-	-	-	-
Additions	295,101	89,633	28,075	-	412,809	-	5,944	-	-	5,944
Disposals	-	-	-	-	-	-	-	-	-	-
Depreciation charge for the year	(8,811)	(28,558)	(3,533)	-	(40,902)	-	(132)	-	-	(132)
At 30 June 2006, net of accumulated depreciation	286,290	61,075	24,542	-	371,907	-	5,812	-	-	5,812
At 30 June 2006										
Cost	295,101	89,633	28,075	-	412,809	-	5,944	-	-	5,944
Accumulated depreciation	(8,811)	(28,558)	(3,533)	-	(40,902)	-	(132)	-	-	(132)
Net carrying amount	286,290	61,075	24,542	-	371,907	-	5,812	-	-	5,812

13. INTANGIBLES	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Goodwill arising through business acquisitions:				
Acquisition of Banksia Dental Care – at cost	191,080	191,080	-	-
Less: Impairment loss	(191,080)	(191,080)	-	-
Acquisition of Booragoon Dental Clinic – at cost	463,042	463,042	-	-
Less: Impairment loss	(250,000)	-	-	-
Acquisition of Kalamunda Dental Care – at cost	398,370	-	-	-
Less: Impairment loss	-	-	-	-
	611,412	463,042	-	-

Amortisation and impairment charge

The amortisation and impairment charge is recognised in the following line item in the income statement:

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Other expenses	250,000	191,080	-	-

Impairment tests

Recoverable amount testing was performed for each of Booragoon Dental Clinic and Kalamunda Dental Care as at 30 June 2007. The recoverable amount was based on fair value less costs to sell.

14. TRADE AND OTHER PAYABLES

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Trade creditors	233,063	241,333	58,660	148,776
Other creditors and accruals	154,856	79,414	97,089	49,691
	387,919	320,747	155,749	198,467

15. EMPLOYEE BENEFITS

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Liability for annual leave	36,547	27,557	17,243	585

16. SHARE BASED PAYMENTS

The Company operates an incentive scheme known as the Capitol Health Incentive Option Scheme ("Scheme") approved at the general meeting on 30 December 2005.

The maximum number of options that can be granted under the Scheme is determined by the Board in its discretion and in accordance with the Scheme and applicable law. There is no issue price for any options granted under the Scheme.

Each option is convertible to one ordinary share. The exercise price of the options is determined by the Board in its absolute discretion, subject to any minimum price specified in the Listing Rules of the ASX.

All options expire on the earlier of their expiry date or 30 days after the termination of the individual's employment. The vesting terms of the options are as follows:

Portion	Vesting date
50%	12 months (26 September 2007)
50%	24 months (26 September 2008)

16. SHARE BASED PAYMENTS (cont'd)

There are no voting or dividend rights attaching to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

The fair value of the options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. The following table gives the assumptions made in determining the fair value of options on grant date:

	2007 $	2006 $
Fair value at measurement date	$0.026	-
Share price	$0.20	-
Exercise price	$0.25	-
Expected volatility	25.00%	-
Option life	4 years	-
Expected dividends	0.00%	-
Risk-free interest rate	5.63%	-
Non listed status discount	35.00%	

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

During the year ended 30 June 2007 there were no options exercised (2006: nil).

The number and weighted average exercise prices ("WAEP") of options are as follows:

	2007 Number	2007 WAEP	2006 Number	2006 WAEP
Outstanding at the beginning of the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Granted during the year	250,000	$0.25	-	-
Outstanding at the end of the year	250,000	$0.25	-	-
Exercisable at the end of the year	250,000	$0.25	-	-

	Consolidated		Company	
Employee expenses	**2007 $**	**2006 $**	**2007 $**	**2006 $**
Share options granted in 2007 – equity settled	3,698	-	3,698	-

17. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's and the consolidated entity's interest-bearing loans and borrowings. For more information about the Company's and the consolidated entity's exposure to interest rate risk, see note 20.

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Current				
Finance lease liabilities	7,152	-	7,152	-
Secured loan facilities	39,161	35,294	-	-
Secured equipment finance facilities	65,362	27,721	32,099	-
	111,675	63,015	39,251	-
Non Current				
Finance lease liabilities	19,298	-	19,298	-
Secured loan facilities	505,957	548,706	-	-
Secured equipment finance facilities	308,027	233,279	106,051	-
	833,282	781,985	125,349	-

Terms of loans and borrowings

Secured loan facilities

CHL Operations Pty Ltd ("CHL Operations") entered into a loan facility agreement for the purposes of assisting the purchase of the Booragoon Dental Clinic and Banksia Dental Care. The term of these loan facilities is 10 years and they are secured by:

(a) a registered fixed and floating charge over the assets of CHL Operations;
(b) a registered fixed and floating charge over the assets of the Capitol Health;
(c) a setoff agreement from the Company over a $500,000 term deposit; and
(d) a guarantee and indemnity from the Company.

These facilities bear interest at 8.15% per annum plus a margin of 0.40% per annum.

The set off agreement in note (c) above is subject to review by the lender to reduce, in part or in whole, the set off amount upon the consolidated entity's operation becoming cashflow positive on an operational basis.

Secured equipment finance facilities

CHL Operations entered into a hire purchase agreement on 6 June 2006 for the purchase of assets pertaining to the Booragoon Dental Clinic. The term of these equipment finance facilities is 5 years and they are secured by a guarantee from the Company and by the following securities:

(a) fixed and floating charge over the assets and undertakings of CHL Operations; and
(b) fixed and floating charge over the assets and undertakings of Capitol Health.

These facilities bear interest at 10.78% per annum.

Finance lease liabilities

Finance lease liabilities of the Company and the consolidated entity are payable as follows:

	Consolidated			Company		
	Minimum lease payments 2007 $	Interest 2007 $	Principal 2007 $	Minimum lease payments 2007 $	Interest 2007 $	Principal 2007 $
Less than one year	9,254	2,103	7,152	9,254	2,103	7,152
Between one and five years	21,018	948	19,298	21,018	948	19,298
	30,272	3,051	26,450	30,272	3,051	26,450

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
18. ISSUED CAPITAL AND RESERVES				
Issued capital				
56,100,001 fully paid ordinary shares	2,022,902	2,022,902	2,022,902	2,022,902

The following movements in issued capital occurred during the year:

	2007 Number of Shares	2006 Number of Shares	2007 $	2006 $
Balance at beginning of year	56,100,001	-	2,022,902	-
Issue on incorporation	-	1	-	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
Share issue costs	-	-	-	(350,309)
Balance at end of year	56,100,001	56,100,001	2,022,902	2,022,902

Options

Options granted during the year

During the year, the Company granted the following options over unissued ordinary shares:

Class	Expiry Date	Exercise Price	Number of Options
Incentive Options	26 September 2010	$0.25	250,000

The Incentive Options were granted during the year. 10,000,000 options exercisable at $0.20 each on or before 31 March 2010 have been granted since the end of the year.

Unissued shares under option

At balance date, unissued ordinary shares of the Company under option are:

Class	Expiry Date	Exercise Price	Number of Options
Unlisted Options	31 March 2010	$0.20	10,000,000
Incentive Options	26 September 2010	$0.25	250,000

None of these options were exercised during the year. These options do not entitle the holder to participate in any share issue of the Company or any other entity.

Reserves	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Reserves at the beginning of the year	-	-	-	-
Equity-settled share-based payment	3,698	-	3,698	-
Reserves at the end of the year	3,698	-	3,698	-

This reserve is used to record the value of equity-settled share-based payments provided to employees and directors as part of their remuneration. Refer to note 16 for further details of share-based payments.

19. ACCUMULATED LOSSES

Accumulated losses at the beginning of the year	(391,153)	-	(296,365)	-
Loss for the year	(966,327)	(391,153)	(1,227,898)	(296,365)
Accumulated losses at the end of the year	(1,357,480)	(391,153)	(1,524,263)	(296,365)

20. FINANCIAL INSTRUMENTS DISCLOSURE

The consolidated entity's principal financial instruments comprise bank loans, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the consolidated entity's operations.

The consolidated entity has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the year under review, the consolidated entity's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the consolidated entity's financial instruments are interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The consolidated entity's exposure to market risk for changes in interest rates relates primarily to the consolidated entity's long term debt obligations.

Cash includes funds held in term deposits and cheque accounts during the year, which earned interest at rates ranging between 0% and 6.00%, depending on account balances.

The following annual interest rates apply to the consolidated entity's credit facilities:

Secured loan facilities	8.55%
Secured equipment finance facilities	10.78%

All other financial assets and liabilities are non-interest bearing.

Credit risk

The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet is generally the carrying amount, net of any provision for doubtful debts.

The total credit risk exposure of the consolidated entity could be considered to include the difference between the carrying amount of the receivable and the realisable amount.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity risk

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and finance leases.

Sensitivity analysis

In managing interest rate risks the consolidated entity endeavours to reduce the impact of short-term fluctuations on the consolidated entity's earnings. Over the longer term, however, permanent changes in interest rates will have an impact on consolidated earnings, although the extent of that impact will depend on the level of cash resources held by the consolidated entity. A general increase of one percentage point in interest rates would not be expected to materially impact earnings.

20. FINANCIAL INSTRUMENTS DISCLOSURE (cont'd)

Fair values

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The following table details the fair value of financial assets and liabilities:

	Consolidated 2007		Consolidated 2006	
	Carrying amount $	Fair Value $	Carrying amount $	Fair Value $
Financial assets				
Cash and cash equivalents	191,008	191,008	1,830,089	1,830,089
Trade and other receivables	537,963	537,963	30,790	30,790
Other financial assets	8,000	8,000	8,000	8,000
Total financial assets	736,971	736,971	1,868,879	1,868,879
Financial liabilities				
Trade and other payables	387,919	387,919	320,747	320,747
Interest bearing loans	944,957	944,957	845,000	845,000
Total financial liabilities	1,332,876	1,332,876	1,165,747	1,165,747
Net financial assets/ (liabilities)	(595,905)	(595,905)	703,132	703,132

	Company 2007		Company 2006	
	Carrying amount $	Fair Value $	Carrying amount $	Fair Value $
Financial assets				
Cash and cash equivalents	2,638	2,638	1,695,581	1,695,581
Trade and other receivables	761,176	761,176	224,196	224,196
Total financial assets	763,814	763,814	1,919,777	1,919,777
Financial liabilities				
Trade and other payables	155,749	155,749	198,467	198,467
Interest bearing loans	164,600	164,600	-	-
Total financial liabilities	320,349	320,349	198,467	198,467
Net financial assets/ (liabilities)	443,465	443,465	1,721,310	1,721,310

21. COMMITMENTS

Operating lease commitments

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Future operating lease rentals not provided for in the financial statements and payable:				
Not later than one year	96,363	72,320	-	-
Later than one year but not later than five years	147,431	63,193	-	-
	243,794	135,513	-	-

The consolidated entity leases property under non-cancellable operating leases expiring from two to four years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

21. COMMITMENTS (cont'd)

Management contracts

The Company has entered into an employment agreement with Mr Harrison to act as managing director of the Company, under which Mr Harrison is paid $109,000 per annum (inclusive of superannuation). At 30 June 2007, the unexpired portion of the term of agreement amounts to $209,522 (2006: $319,733).

Service contracts

The Company has entered into a service agreement with Townshend York Pty Ltd ("Townshend York"), a company associated with Mr Ho, to provide company secretarial services in connection with the operations of the consolidated entity, under which Townshend York receives $60,000 per annum. At 30 June 2007, the unexpired portion of the term of agreement amounts to $115,333 (2006: $176,167).

22. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share at 30 June 2007 was based on the loss attributable to ordinary shareholders of $966,327 (2006: $391,153) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2007 of 56,100,001 (2006: 38,131,370) calculated as follows:

	Consolidated	
Loss attributable to ordinary shareholders	**2007 $**	**2006 $**
Net (loss) for the year	(966,327)	(391,153)

Weighted average number of ordinary shares	**Number 2007**	**Number 2006**
Issued ordinary shares at 1 July	56,100,001	-
Effect of shares issued on 1 December 2005	-	1
Effect of shares issued on 30 December 2005	-	27,708,962
Effect of shares issued on 19 January 2006	-	4,613,208
Effect of shares issued on 21 February 2006	-	2,655,189
Effect of shares issued on 28 March 2006	-	2,092,689
Effect of shares issued on 6 June 2006	-	1,061,321
	56,100,001	38,131,370

Diluted loss per share does not show an inferior view of the earnings performance of the consolidated entity than is shown by loss per share and is not disclosed for this reason.

23. CONTROLLED ENTITY

	Country of Incorporation	Entity interest 2007	Entity interest 2006
Parent entity			
Capitol Health Limited	Australia	-	-
Controlled entity			
CHL Operations Pty Ltd	Australia	100%	100%

In the financial statements of the Company investments in subsidiaries are measured at cost.

24. RELATED PARTIES

Details of key management personnel

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Directors

Mr Andrew Harrison	Managing Director (Executive)
Dr Russell Fine	Director (Non-Executive)
Mr Anthony Ho	Director (Non-Executive)

Executives

Ms Nicole Smith	Operations Manager (appointed 26 September 2006)

Key management personnel remuneration

The key management personnel remuneration included in "personnel expenses" (see note 5) is as follows:

	Consolidated		Company	
	2007	2006	2007	2006
	$	$	$	$
Short-term employee benefits	257,565	9,867	257,565	9,867
Post-employment benefits	15,875	600	15,875	600
Share-based payments	3,698	-	3,698	-
	277,138	10,467	277,138	10,467

Individual directors and executives compensation disclosures

Information regarding individual directors and executives remuneration and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the Remuneration Report on pages 9 to 13.

Apart from the details disclosed in the Remuneration Report, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year.

Other key management personnel transactions with the Company or its controlled entities

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of those entities transacted with the Company or its subsidiaries during the year. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

	Transaction	Note	Transactions value year ended 30 June 2007	Transactions value year ended 30 June 2006	Balance outstanding as at 30 June 2007	Balance outstanding as at 30 June 2006
Directors						
Mr A Harrison	Consultancy fees	(i)	-	30,000	-	-
Mr A Ho	Secretarial and accounting fees	(ii)	118,883	8,142	40,295	5,185
Mr A Ho	Consultancy fees	(iii)	-	60,592	-	6,965
	Rent and outgoings	(iii)	-	4,605	-	1,605
Mr A Ho	Consultancy fees	(iv)	-	29,993	-	-
Dr R Fine	Sales revenue – service fee	(v)	452,903	26,666	-	-
Dr R Fine	Dental fees	(vi)	198,063	13,232	20,148	13,232

24. RELATED PARTIES (cont'd)

Notes in relation to the table of related party transactions

(i) In the previous period, Mr Harrison provided consultancy services in respect of the Company's capital raisings and IPO. Terms for such services were based on market rates, and amounts were payable on a monthly basis.
(ii) A company associated with Mr Ho, Townshend York Pty Ltd ("Townshend York"), provides company secretarial services in connection with the operations of the consolidated entity. Terms for such services are based on market rates, and amounts are payable on a monthly basis.
(iii) A company associated with Mr Ho, Townshend York, provided consultancy services in respect of the Company's capital raisings, IPO and office accommodation. Terms for such services and accommodation were based on market rates, and amounts were payable on a monthly basis.
(iv) In the previous period, a trust associated with Mr Ho, the Forrest Investment Trust ("FIT"), provided consultancy services in respect of the Company's capital raisings and IPO. Terms for such services were based on market rates, and amounts were payable on a monthly basis.
(v) Pursuant to a Services Agreement and Facilities Licence dated 2 May 2006 ("SAFL"), CHL Operations provides Dr Fine administration and billing services, equipment and serviced premises for the use of dentists to conduct Dr Fine's dental practice from Booragoon Dental Clinic. Terms for such services, administration and accommodation are based on market rates, and amounts are payable on a monthly basis.
(vi) Dr Fine provides dental services in connection with the operations of CHL Operations pursuant to the SAFL dated 2 May 2006. Terms for such services are based on market rates, and amounts are payable on a monthly basis.

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Capitol Health Limited held, directly, indirectly or beneficially by each key management person, including their related entities, is as follows:

	Held at 1 July 2006	Granted as compensation	Exercised	Other changes	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Directors							
Mr A Harrison	5,000,000	-	-	-	5,000,000	-	5,000,000
Dr R Fine	2,500,000	-	-	-	2,500,000	-	2,500,000
Mr A Ho	1,000,000	-	-	-	1,000,000	-	1,000,000
Executives							
Ms N Smith	-	250,000	-	-	250,000	-	-

	Held at 1 December 2005	Issued	Exercised	Other changes	Held at 30 June 2006	Vested during the year	Vested and exercisable at 30 June 2006
Directors							
Mr A Harrison	-	5,000,000	-	-	5,000,000	5,000,000	5,000,000
Dr R Fine	-	2,500,000	-	-	2,500,000	2,500,000	2,500,000
Mr A Ho	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000
Executives							
Ms N Smith	-	-	-	-	-	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2006 or 2007.

24. RELATED PARTIES (cont'd)

Movements in shares

The movement during the reporting period in the number of ordinary shares in Capitol Health Limited held, directly, indirectly or beneficially by each key management person, including their personally-related entities, is as follows:

	Held at 1 July 2006	Purchases	Received on exercise of options	Other changes	Held at 30 June 2007
Directors					
Mr A Harrison	13,400,001	-	-	-	13,400,001
Dr R Fine	7,550,000	-	-	-	7,550,000
Mr A Ho	1,000,000	-	-	-	1,000,000

	Held at 1 December 2005	Purchases	Received on exercise of options	Other changes	Held at 30 June 2006
Directors					
Mr A Harrison	-	13,400,001	-	-	13,400,001
Dr R Fine	-	7,550,000	-	-	7,550,000
Mr A Ho	-	1,000,000	-	-	1,000,000

No shares were granted to key management personnel during the reporting period as compensation in 2006 or 2007.

Non-key management personnel disclosures

Loans are made by the Company to its wholly owned subsidiary for capital purchases and working capital purposes. The loans outstanding between the Company and its subsidiary has no fixed date of repayment and is non-interest bearing. Details of the Company's interest in its subsidiary are set out in Note 23.

Aggregate amounts receivable from the subsidiary are as follows (Note 9):

	Company 2007 $	Company 2006 $
Non-current		
Unsecured loans to controlled entity	768,729	417,996
Provision for non recovery	(536,701)	(206,725)
	232,028	211,271

No dividends were received from the subsidiary in the 2007 or 2006 financial year.

25. 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.

26. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Cash flows from operating activities				
Loss for the year	(966,327)	(391,153)	(1,227,898)	(296,365)
Adjustments for:				
Depreciation	219,694	40,901	112,931	133
Impairment losses on goodwill	250,000	191,080	-	-
Operating loss before changes in working capital and provisions	(496,633)	(159,172)	(1,114,967)	(296,232)
Change in trade and other receivables	15,009	(28,034)	8,716	(12,925)
Change in inventories	(4,653)	(121,225)	-	-
Change in other assets	-	(8,000)	-	-
Change in trade and other payables	200,475	191,142	87,830	71,616
Change in provisions and employee benefits	8,990	27,557	346,633	207,311
Net cash (used in) operating activities	(276,812)	(97,732)	(671,788)	(30,230)

27. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to balance date:

1. the Company acquired 100% of the issued capital of Capitol Radiology Pty Ltd ("Capitol Radiology");

2. Capitol Radiology entered into a Share Sale Agreement under which it acquired a 100% interest in a radiology business. The consideration for the acquisition was $14,640,000 to be satisfied by the issue of 183 million fully paid ordinary shares in Capitol Health, at a deemed issue price of 8 cents per share, and 10 million options exercisable at 20 cents on or before 31 March 2010. The acquisition of the business was approved by shareholders on 30 August 2007.

The financial effect of the above transaction has not been brought to account in the financial statements for the year ended 30 June 2007.

In the opinion of the directors of Capitol Health Limited:

(a) the financial statements set out on pages 16 to 41 and notes and the remuneration disclosures that are set out in Sections A to D of the Remuneration Report, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2007 and their performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards;

(c) the remuneration disclosures that are set out in Sections A to D of the Remuneration Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; and

(d) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and company secretary for the financial year ended 30 June 2007.

Signed in accordance with a resolution of the directors:

Dated at Perth, Western Australia this 14th day of September 2007.

Andrew Harrison
Managing Director

Stantons International

ABN 41 103 088 697

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
CAPITOL HEALTH LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Capitol Health Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed the information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration report" on pages 9 to 13 of the Directors' report and not the financial report. We have audited these remuneration disclosures.

Directors' Responsibility for the Financial Report and the AASB 124 remuneration disclosures contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards, but that the financial report of the Company does not comply.

The directors of the Company are also responsible for the remuneration disclosures contained in the Directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is also to express an opinion that the remuneration disclosures contained in the Directors' report comply with Australian Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the Directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the Directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the Directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

(a) the financial report of Capitol Health Limited is in accordance with the *Corporations Act 2001*, including:

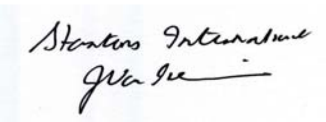
  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 1.

(c) the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of Australian Accounting Standard AASB 124 Related Party Disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

STANTONS INTERNATIONAL
(An Authorised Audit Company)



J P Van Dieren
Director

West Perth, Western Australia
14 September 2007

Stantons International

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14 September 2007

Board of Directors
Capitol Health Limited
Level 3 Mercury House
33 Richardson Street
WEST PERTH, WA 6005

Dear Directors

RE: CAPITOL HEALTH LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Capitol Health Limited.

As Audit Director for the audit of the financial statements of Capitol Health Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely
STANTONS INTERNATIONAL
(Authorised Audit Company)

John Van Dieren
Director

Details of shares and options as at 19 October 2007:

Voting Rights

The voting rights attaching to ordinary shares are:

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options do not carry any voting rights.

Restricted Securities

Fully paid ordinary shares

Number of Shares	Escrow Period
168,000,000	Restricted securities until 31 August 2008

Options exercisable at 20 cents on or before 31 March 2010 ("Unlisted Options")

Number of Options	Escrow Period
10,000,000	Restricted securities until 31 August 2008

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Substantial shareholder	Number of Shares
Kingsley Amber Pty Ltd	34,449,072
Monaco Bond Pty Ltd	25,408,656
Nick Conidi Pty Ltd	24,809,232
Idinoc Pty Ltd	24,054,672
Stella Ha	19,378,464
Gia Chau Pty Ltd	17,734,752
Harry Kaplan Pty Ltd	17,157,000
Relentless Corporation Pty Ltd	13,400,000

On-Market Buy Back

There is no current on-market buy-back.

ASX Admission Statement

During the period, the Company has applied its cash in a way consistent with its business objectives.

Distribution schedules

Distribution of each class of security as at 19 October 2007:

Ordinary fully paid shares

Range	Holders	Units	%
1 - 1,000	2	751	0.00
1,001 - 5,000	18	59,990	0.00
5,001 - 10,000	101	987,800	0.00
10,001 - 100,000	67	3,287,490	0.02
100,001 - Over	60	234,763,970	0.98
Total	248	239,100,001	100.00

Options exercisable at $0.20 each on or before 31 March 2010

Range	Holders	Units	%
1 - 1,000	-	-	0.00
1,001 - 5,000	-	-	0.00
5,001 - 10,000	-	-	0.00
10,001 - 100,000	-	-	0.00
100,001 - Over	5	20,000,000	100.00
Total	5	20,000,000	100.00

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 5,000 as at 19 October 2007):

Holders	Units
16	40,741

Top holders

The 20 largest registered holders of each class of security as at 19 October 2007 were:

Fully paid ordinary shares

	Name	No. of Shares	%
1.	Kingsley Amber Pty Ltd <Hunt Family A/C>	34,449,072	14.41
2.	Monaco Bond Pty Ltd <Mobilio Family A/C>	25,408,656	10.63
3.	Nick Conidi Pty Ltd <Conidi Family A/C>	24,809,232	10.38
4.	Idinoc Pty Ltd <J & R Conidi Family A/C>	24,054,672	10.06
5.	Ms Stella Ha	19,378,464	8.10
6.	Gia Chau Pty Ltd	17,734,752	7.42
7.	Harry Kaplan Pty Ltd <H & C Kaplan Family A/C>	17,157,600	7.18
8.	Relentless Corporation Pty Ltd <Sun Tzu A/C>	13,400,000	5.60
9.	RJ & JR Fine <RJ Fine Services A/C>	7,550,000	3.16
10.	Yarra Braes Pty Ltd <Yarra Braes A/C>	7,109,280	2.97
11.	Mr Nick Conidi <Coup Discretionary A/C>	4,500,000	1.88
12.	Worldwide Pty Ltd	4,500,000	1.88
13.	Ms Tracie Leanne Clark	2,934,191	1.23
14.	Liew Serng Yee	2,731,409	1.14
15.	Profit & Resource Management Pty Ltd <Collins Superannuation A/C>	2,605,000	1.09
16.	Goay Choo Lim	2,300,000	0.96
17.	Monteleone Melbourne Pty Ltd	2,254,560	0.94
18.	Ho Wai	1,920,000	0.80
19.	Taupo Holdings Pty Ltd	1,910,500	0.80
20.	Ho Wai Heng	1,774,945	0.74
		218,482,333	91.37

Options exercisable at $0.20 each on or before 31 March 2010

Name	No. of Options	%
Worldwide Pty Ltd	10,000,000	50.00
Relentless Corporation Pty Ltd <Sun Tzu Trust>	5,000,000	25.00
R J & J R Fine <RJ Fine Services A/C>	2,500,000	12.50
L S Yee	1,500,000	7.50
A Ho	1,000,000	5.00
	20,000,000	100.00