CAPITOLHEALTH LIMITED

Capitol Health Limited
ACN 117 391 812

FINANCIAL REPORT

for the 7-month period from 1 December 2005 to 30 June 2006

CAPITOLHEALTH LIMITED

CORPORATE DIRECTORY

Directors

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

Auditor

Stantons International
Level 1, 1 Havelock Street
West Perth, Western Australia 6005

Company Secretary

Mr Kim Hogg

Bankers

Bank of Western Australia Limited
Level 30, Bankwest Tower
108 St George's Terrace
Perth, Western Australia 6000

Principal and Registered Office

Level 1
189 Hay Street
Subiaco, Western Australia 6008

Telephone: (61-8) 9388 0909
Facsimile: (61-8) 9441 6299

Solicitors

Steinepreis Paganin
Level 4
16 Milligan Street
Perth, Western Australia 6000

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
Perth, Western Australia 6000

Telephone: (61-8) 9323 2000
Facsimile: (61-8) 9323 2033

Stock Exchange

Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000

ASX Code: CAJ

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Dear Shareholder,

I am pleased to report on the activities and achievements of the Company since its formation in December 2005.

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

In the 7-month period to 30 June 2006, the Company had acquired 2 dental surgeries in suburban Perth, Western Australia: Banksia Dental Care ("Banksia") and Booragoon Dental Clinic ("Booragoon"). The acquisition of Banksia in January 2006 has involved certain operational changes being implemented to that surgery. These changes are expected to contribute to improvements in revenue and earnings from Banksia. The Company acquired Booragoon in June 2006. The scale of the Booragoon operation, with historical annual revenue in excess of $1.3m and the implementation of the business model of the vendor contracting to the Company as the principal dentist represented a significant milestone in the Company's brief history.

Importantly the Company entered into financing arrangements with a bank that provided more than 70% of the capital for the acquisition of these surgeries. The achievement of this leverage provides potential for more efficient deployment of the Company's capital.

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

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

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

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

Operationally, the Company is committed to a high standard of clinical practice and care in its surgeries and facilities. Patients' welfare and satisfaction is a key priority to both the Company and its contracted dentists and therefore forms a key factor in the Company's growth strategy in acquiring additional surgeries and expanding the patient base of surgeries already owned. Better patient experiences along with professional practice management, and realising early benefits from economies in procurement and other scale benefits, are key drivers of generating earnings.

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

Andrew Harrison
Managing Director

Perth, Western Australia

31 August 2006

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 period since incorporation on 1 December 2005 to 30 June 2006 (the "Period") and the auditor's report thereon.

Directors

The directors of the Company at any time during the Period and to the date of this report 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 March 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 Harrison will be seeking re-election by shareholders at the 2006 Annual General Meeting.

Dr Russell Fine, BSc, BDSc
Non- Executive Director - Appointed 1 December 2005

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.

Dr Fine will be seeking re-election by shareholders at the 2006 Annual General Meeting.

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 Piquant Blue Limited, a company listed on ASX.

Mr Ho will be seeking re-election by shareholders at the 2006 Annual General Meeting.

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 Period 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
Dr R Fine	Nil	-	-
Mr A Ho	Piquant Blue Limited	2003	Present
	Optima Corporation Limited	2002	30 June 2006

Directors' Meetings

The number of directors' meetings and the number of meetings attended by each of the directors of the Company during the Period are:

Director	Board Meetings Held	Attended
Mr A Harrison	9	9
Dr R Fine	9	9
Mr A Ho	9	9

Principal Activity

The principal activity of the consolidated entity during the Period 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 Company was successfully admitted to the Official List of ASX during the Period. This listing was preceded by capital raisings aggregating $2,373,211.

In the 7-month period to 30 June 2006, the Company acquired two dental surgeries and a significant proportion of the acquisition consideration was debt-financed. The results for the Period reflect the operations of Banksia Dental Care since its acquisition in January 2006 and the Booragoon Dental Clinic acquired in June 2006.

The investment by the Group in these two businesses represents the launch of its business operations and will underpin the future performance of the Group.

Subsequent to balance date, the Company announced the acquisition of the surgery and facilities of Kalamunda Dental Care ("Kalamunda"). The Kalamunda business had annual revenue in the 2006 financial year of over $930,000. Further details of this acquisition are set out in the financial statements. Kalamunda represents the Company's first acquisition since its ASX listing in June of this year, and the first stage of its growth plans detailed in its recent IPO prospectus.

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

Financial review

During the Period, the Company completed a capital raising program aggregating $2,373,211 and achieved admission to the Official List of the ASX. The Company also acquired two dental surgeries and facilities during the Period and commenced operations providing management, administrative and logistics services to dental practices. The revenue and results of the Period reflects the limited operations of the Banksia Dental Care from January 2006 and the Booragoon Dental Clinic from June 2006. The consideration for the acquisitions of these two clinics was satisfied by the Company's cash resources as well as bank finance.

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 Company was incorporated on 1 December 2005. The Company incorporated CHL Operations Pty Ltd ("CHL") on 2 January 2006 as a wholly owned subsidiary for the purposes of acquiring dental surgeries and facilities and to provide administrative and management services to those surgeries. In January 2006, CHL entered into a Business Sale Agreement to acquire a dental surgery and facilities called Banksia Dental Care at a cost of $271,080. In June 2006, CHL acquired a dental surgery and facilities called Booragoon Dental Clinic at a cost of $883,330.

The Company was admitted to the Official List of the Australian Stock Exchange Limited ("ASX") on 7 June 2006 and official quotation of its shares on ASX commenced on 9 June 2006.

The consolidated entity's total assets increased to $2,825,053 during the Period. The net increase in total assets principally comprised:

(a) an increase in intangibles of $463,042 and property, plant and equipment of $371,907 as a result of the acquisition of dental surgeries and their associated facilities and equipment; and

(b) an increase in cash assets of $1,830,089 principally from capital raisings completed during the Period.

Fully paid ordinary share capital increased during the Period as follows:

(a) the issue of one share at $1.00 on incorporation;

(b) the issue of 32,100,000 shares at $0.0001 to raise $3,210;

(c) the issue of 6,000,000 shares at $0.02 to raise $120,000;

(d) the issue of 9,000,000 shares at $0.05 to raise $450,000; and

(e) the issue of 9,000,000 shares at $0.20 pursuant to a prospectus dated 17 May 2006.

Results

The consolidated entity incurred a loss of $391,153 after income tax for the Period.

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 Period 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 seek to acquire dental surgeries and facilities and provide administration and management services to those surgeries. 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
Dr R Fine[2]	7,550,000	2,500,000
Mr A Ho	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, of which Mr Harrison is a director.
2. includes 7,550,000 shares and 2,500,000 options held indirectly by RJ and JR Fine as trustee for the RJ Services Trust, of which Dr Fine is a trustee and beneficiary.

Options

Options granted

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

Class	Expiry Date	Exercise Price	Number of Options
Unlisted Options	31 March 2010	$0.20	10,000,000

All options were granted during the Period. No options have been granted since the end of the Period.

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	10,000,000

None of these options were exercised during the Period. 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 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 financial period by the auditor and is satisfied that the provision of these non-audit services during the 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 Professional Statement F1 *Professional independence*, 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.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is included on page 37 of the financial report.

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 Period are set out below:

	Consolidated 2006 $
Statutory audit:	
- audit and review of financial reports	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 7 to 8 and forms part of the Directors' Report.

Auditor's Independence Declaration

The auditor's independence declaration is set out on page 37 of the financial report.

Dated at Perth, Western Australia this 31st day of August 2006.

Signed in accordance with a resolution of the directors:

Andrew Harrison
Managing Director

The Board as a whole is responsible for considering remuneration policies and packages applicable both to Board members and executives of the consolidated entity. Broadly, the consolidated entity's remuneration policy is to ensure that any remuneration package properly reflects the person's duties and responsibilities and that it is competitive.

Directors

Executive Directors and consolidated entity executives are remunerated by way of a salary or consultancy fees, commensurate with their required level of services. Non-executive Directors receive a fixed monthly fee for their services. 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.

The Board has not formally constituted a nomination committee. The whole Board conducts the functions of a nomination committee.

The Company does not have any scheme relating to retirement benefits for non-executive Directors.

Refer to Note 17 for details on the financial impact in future periods resulting from firm commitments arising from non-cancellable contracts for services with directors.

Service contracts

The consolidated entity has entered into service contracts with each key management person. The service contract outlines 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.

Directors' and executives officers' remuneration

Details of the nature and amount of each major element of the remuneration of each director of the Company for the Period are:

	PRIMARY		POST-EMPLOYMENT	SHARE-BASED PAYMENTS			
	Salary & fees $	**Other benefits $**	**Superannuation benefits $**	**Options $**	**Total $**	**Proportion of remuneration performance related %**	**Value of options as proportion of remuneration %**
Directors							
Non-executive							
Dr R Fine	1,600	-	-	-	1,600	-	-
Mr A Ho	1,600	-	-	-	1,600	-	-
Executive							
Mr A Harrison	6,667	-	600	-	7,267	-	-
Total, all directors	**9,867**	**-**	**600**	**-**	**10,467**	**-**	**-**

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, all being Non-executive Directors 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 the non-executive Directors. 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;
- 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 period since incorporation on 1 December 2005 to 30 June 2006

	Note	Consolidated 2006 $	Company 2006 $
Sales revenue		154,551	-
Cost of sales		(19,523)	-
Gross profit		135,028	-
Other revenue	2(a)	7,115	6,793
Operational expenses		(215,350)	-
Marketing and distribution expenses		(6,209)	(2,882)
Corporate and administrative expenses		(88,726)	(80,154)
Occupancy expenses		(23,140)	(4,605)
Borrowing expenses		(8,791)	(8,791)
Provision for diminution in value of investments in controlled entities		-	(1)
Provision against recovery of loans to controlled entities		-	(206,725)
Other expenses	2(b)	(191,080)	-
Loss before income tax		(391,153)	(296,365)
Income tax	4	-	-
Net loss for the Period attributable to equity holders of the parent		(391,153)	(296,365)
Basic loss per share			
Ordinary shares (cents)	18	(1.03)	

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

BALANCE SHEETS
as at 30 June 2006

	Note	Consolidated 2006 $	Company 2006 $
CURRENT ASSETS			
Cash and cash equivalents	5	1,830,089	1,695,581
Trade and other receivables	6	30,790	12,925
Inventories	7	121,225	-
Other financial assets	8	8,000	-
Total Current Assets		1,990,104	1,708,506
NON CURRENT ASSETS			
Receivables	6	-	211,271
Other financial assets	8	-	-
Property, plant & equipment	9	371,907	5,812
Intangibles	10	463,042	-
Total Non Current Assets		834,949	217,083
TOTAL ASSETS		2,825,053	1,925,589
CURRENT LIABILITIES			
Trade and other payables	11	320,747	198,467
Employee benefits	12	27,557	585
Interest-bearing loans	13	63,015	-
Total Current Liabilities		411,319	199,052
NON CURRENT LIABILITIES			
Interest-bearing loans	13	781,985	-
Total Non Current Liabilities		781,985	-
TOTAL LIABILITIES		1,193,304	199,052
NET ASSETS		**1,631,749**	**1,726,537**
EQUITY			
Issued capital	14	2,022,902	2,022,902
Accumulated losses	15	(391,153)	(296,365)
TOTAL EQUITY		**1,631,749**	**1,726,537**

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

STATEMENTS OF CASH FLOWS

for the period since incorporation on 1 December 2005 to 30 June 2006

	Note	Consolidated 2006 $	Company 2006 $
Cash flows from operating activities			
Cash receipts in the course of operations		144,522	-
Cash payments in the course of operations		(240,578)	(28,232)
Interest received		7,115	6,793
Interest paid		(8,791)	(8,791)
Net cash (used in)/from operating activities	23	(97,732)	(30,230)
Cash flows from investing activities			
Payments for investments in controlled entities		-	(1)
Payments for property, plant and equipment		(412,809)	(5,944)
Payments for intangible assets		(654,122)	-
Net cash used in investing activities		(1,066,931)	(5,945)
Cash flows from financing activities			
Proceeds from the issue of share capital	14	2,373,211	2,373,211
Payment of share issue costs		(223,459)	(223,459)
Payments for loans to controlled entities		-	(417,996)
Proceeds from borrowings		1,095,000	-
Repayment of borrowings		(250,000)	-
Net cash provided by financing activities		2,994,752	1,731,756
Net (decrease)/increase in cash and cash equivalents		1,830,089	1,695,581
Cash and cash equivalents at 1 December 2005		-	-
Cash and cash equivalents at 30 June 2006	5	**1,830,089**	**1,695,581**

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

Consolidated	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Balance as at 1 December 2005	-	-	-	-
Loss for the Period	-	-	(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**

Company	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $
Balance as at 1 December 2005	-	-	-	-
Loss for the Period	-	-	(296,365)	(296,365)
Issue of share capital	2,373,211	-	-	2,373,211
Cost of share based payment	(350,309)	-	-	(350,309)
At 30 June 2006	**2,022,902**	**-**	**(296,365)**	**1,726,537**

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Capitol Health Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the period since incorporation on 1 December 2005 to 30 June 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

The entity has elected to early adopt the following accounting standards and amendments:

- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement,* AASB 132 *Financial Instruments: Disclosure and Presentation,* AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004).
- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004)

Issued standards not early adopted

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of these standards and amendments is not expected to have an impact on the financial results of the Company and the consolidated entity as the standards and the amendments are concerned only with disclosures.

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

The preparation of a financial report in conformity with Australian Accounting Standards 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.

The accounting policies set out below have been applied consistently by all entities in the consolidated entity.

Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Outside interests in equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Revenue recognition

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.

Sale of goods

Revenue from rendering of a service is recognised upon delivery of the service to customers.

Interest income

Interest income is recognised as it accrues.

Acquisition of assets

All assets acquired including plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued at consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Property, plant and equipment

Plant and equipment are carried at cost less accumulated depreciation and impairment losses. All assets are depreciated over their estimated useful lives on a reducing balance basis commencing from the time the asset is ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Property, plant and equipment (cont'd)

The expected 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

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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.

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.

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.

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.

Inventories

Inventories held for resale are stated at the lower of cost and net realisable value.

Recoverable Amount of Non Current Assets

The carrying amounts of non-current assets are reviewed annually by Directors to ensure they are not in excess of the recoverable amounts from those assets. The recoverable amount is assessed on the basis of the expected net cash flows, which will be received from the assets employed and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

Interest bearing loans and borrowings

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

Employee Benefits

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.

Finance and Operating Leases

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis over the period of the incentive.

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

(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.

Date of incorporation

The Company was incorporated on 1 December 2005 and accordingly only current year figures covering the period from incorporation are shown.

	Consolidated 2006 $	Company 2006 $
2. REVENUES AND EXPENSES		
(a) Other income		
Interest income	7,115	6,793
(b) Other expenses		
Impairment loss on goodwill	191,080	-
(c) Employee benefits expense		
Wages and salaries costs	65,895	-
Superannuation costs	6,024	-
Increase in liability for annual leave	27,557	-
	99,476	-

3. AUDITOR'S REMUNERATION

	Consolidated 2006 $	Company 2006 $
Audit services:		
Stantons International		
- audit and review of financial reports	8,000	8,000
Other services:		
Stanton Partners Corporate Pty Ltd		
- independent accountant's report for inclusion in a prospectus	7,979	7,979
	15,979	15,979

4. INCOME TAX

	Consolidated 2006 $	Company 2006 $
(a) Income tax benefit	-	-
(b) Numerical reconciliation between tax benefit and pre-tax net loss		
Loss before income tax benefit	(391,153)	(296,365)
Income tax credit calculated at 30%	117,346	88,910
Tax effect on amounts which are not tax deductible:		
- Impairment loss on goodwill	(57,324)	-
- Amounts provided against loans to controlled entity	-	(62,018)
- Sundry amounts	(328)	(178)
Future income tax benefit not brought to account	(59,694)	(26,714)
Income tax credit	-	-

(c) Tax losses

	Consolidated 2006 $	Company 2006 $
Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable)		
Potential at 30%	59,694	26,714

(d) Unrecognised temporary differences

	Consolidated 2006 $	Company 2006 $
Temporary differences for which deferred tax assets have not been recognised:		
Employee benefits provision	8,267	176
Provision for doubtful receivables	-	62,018
Capital raising costs	84,074	84,074
Unrecognised deferred tax assets relating to the above temporary differences	92,341	146,268

(e) Tax Rates

The potential tax benefit at 30 June 2006 in respect of tax losses not brought to account has been calculated at 30% for Australian entities.

5. CASH AND CASH EQUIVALENTS

	Consolidated 2006 $	Company 2006 $
Cash at bank	1,330,089	1,195,581
Term deposit (Note A)	500,000	500,000
	1,830,089	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 13.

6. TRADE AND OTHER RECEIVABLES

	Consolidated 2006 $	Company 2006 $
Current		
Other receivables	30,790	12,925
Non Current		
Unsecured loan to controlled entity	-	417,996
Less: Provision for non-recovery	-	(206,725)
	-	211,271

7. INVENTORIES

	Consolidated 2006 $	Company 2006 $
Surgical inventories	121,225	-

8. OTHER FINANCIAL ASSETS

	Consolidated 2006 $	Company 2006 $
Current		
Other- Bond	8,000	-
Non Current		
Investment in controlled entity:		
Shares in CHL Operations Pty Ltd (100% owned) – at cost	-	1
Less: Provision for diminution in value of investment	-	(1)
	-	-

9. PROPERTY, PLANT & EQUIPMENT

	Consolidated				Company			
	Plant & equipment	Office furniture & equipment	Leasehold improvements	Total	Plant & equipment	Office furniture & equipment	Leasehold improvements	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

10. INTANGIBLES

	Consolidated 2006 $	Company 2006 $
Goodwill arising through business acquisitions:		
Acquisition of Banksia Dental Care – at cost	191,080	-
Less: Impairment loss	(191,080)	-
Acquisition of Booragoon Dental Clinic – at cost	463,042	-
Less: Impairment loss	-	-
	463,042	-

Amortisation and impairment charge

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

Other expenses	191,080	-

Impairment tests

Recoverable amount testing was performed for each of Banksia Dental Care and Booragoon Dental Clinic as at 30 June 2006. The recoverable amount was based on fair value less costs to sell. The impairment loss of $191,080 represents the write-down of intangible assets to recoverable amount in Banksia Dental Care.

11. TRADE AND OTHER PAYABLES

Trade creditors	241,333	148,776
Other creditors and accruals	79,414	49,691
	320,747	198,467

12. EMPLOYEE BENEFITS

Liability for annual leave	27,557	585

Share based payments

Employee Share Option Scheme

The Company operates an incentive scheme known as the Capitol Health Incentive Option Scheme ("Scheme") approved at the general meeting on 30 December 2005. No options have been granted under this Scheme during the Period.

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 termination of the employee's employment. 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.

	Consolidated 2006 $	Company 2006 $
13. INTEREST BEARING LIABILITIES		
Current		
Loan facilities	35,294	-
Equipment finance facilities	27,721	-
	63,015	-
Non-current		
Loan facilities	548,706	-
Equipment finance facilities	233,279	-
	781,985	-

Financing arrangements

The consolidated entity has access to the following lines of credit:

	Consolidated 2006 $	Company 2006 $
Total facilities available:		
Loan facilities	584,000	-
Equipment finance facilities	261,000	-
	845,000	-
Facilities utilised at reporting date:		
Loan facilities	584,000	-
Equipment finance facilities	261,000	-
	845,000	-
Facilities not utilised at reporting date:		
Loan facilities	-	-
Equipment finance facilities	-	-
	-	-

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 7.40% 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.

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.

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

The following movements in issued capital occurred during the Period:

	2006 Number of Shares	2006 $
Balance at beginning of Period	-	-
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 Period	56,100,001	2,022,902

Options

Options granted during the year

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

Class	Expiry Date	Exercise Price	Number of Options
Unlisted Options	31 March 2010	$0.20	10,000,000

All options were granted during the Period. No options have been granted since the end of the Period.

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	10,000,000

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

15. ACCUMULATED LOSSES

	Consolidated 2006 $	Company 2006 $
Accumulated losses at the beginning of the Period	-	-
Loss for the Period	(391,153)	(296,365)
Accumulated losses at the end of the Period	(391,153)	(296,365)

16. 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 period 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 Period, which earned interest at rates ranging between 0% and 5.50%, depending on account balances.

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

Loan facilities	7.80%
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.

16. 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 2006		Company 2006	
	Carrying amount $	Fair Value $	Carrying amount $	Fair Value $
Financial assets				
Cash and cash equivalents	1,830,089	1,830,089	1,695,581	1,695,581
Trade and other receivables	30,791	30,791	224,196	224,196
Total financial assets	1,860,880	1,860,880	1,919,777	1,919,777
Financial liabilities				
Trade and other payables	320,747	320,747	198,467	198,467
Interest bearing loans	845,000	845,000	-	-
Total financial liabilities	1,165,747	1,165,747	198,467	198,467
Net financial assets/ (liabilities)	695,133	695,133	1,721,310	1,721,310

17. COMMITMENTS

	Consolidated 2006 $	Company 2006 $
Operating lease commitments		
Future operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	72,320	-
Later than one year but not later than five years	63,193	-
	135,513	-

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

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. At 30 June 2006, the unexpired portion of the term of agreement amounts to $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 2006, the unexpired portion of the term of agreement amounts to $176,667.

18. EARNINGS PER SHARE

The calculation of basic loss per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of $391,153 and a weighted average number of ordinary shares outstanding during the financial period ended 30 June 2006 of 38,131,370 calculated as follows:	**Number 2006**
Issued ordinary shares at 1 December 2005	-
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
	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.

19. CONTROLLED ENTITY

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

20. ACQUISITION OF SUBSIDIARIES

On 4 January 2006, the consolidated entity acquired 100% of the issued capital of CHL Operations Pty Ltd for $1 satisfied in cash. CHL Operation's principal activity is acquisition of dental surgeries and facilities and the provision of administration and management services to those surgeries. In the five months to 30 June 2006 the subsidiary contributed a net loss of $301,514 to the consolidated net loss for the year. The acquisition had the following effect on the consolidated entity's assets and liabilities.

	Recognised on acquisition	**Carrying value**
Cash and cash equivalents	-	-
Trade payables	-	-
Fair value of net assets	-	-
Goodwill arising on acquisition	-	
Consideration paid, satisfied in cash	1	

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of key management personnel

Directors

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

(b) Remuneration of key management personnel by the consolidated entity

The Board as a whole is responsible for considering remuneration policies and packages applicable both to Board members and executives of the consolidated entity. Broadly, the consolidated entity's remuneration policy is to ensure that any remuneration package properly reflects the person's duties and responsibilities and that it is competitive.

Directors

Executive Directors and consolidated entity executives are remunerated by way of a salary or consultancy fees, commensurate with their required level of services. Non-executive directors receive a fixed monthly fee for their services. 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.

The Board has not formally constituted a nomination committee. The whole Board conducts the functions of a nomination committee.

The Company does not have any scheme relating to retirement benefits for non-executive Directors.

Refer to Note 17 for details on the financial impact in future periods resulting from firm commitments arising from non-cancellable contracts for services with directors.

Service contracts

The consolidated entity has entered into service contracts with each key management person. The service contract outlines 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.

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

The following table provides the details of all key management personnel and the nature and amount of the elements of their remuneration for the Period.

	PRIMARY		POST-EMPLOYMENT	SHARE-BASED PAYMENTS			
	Salary & fees $	Other benefits $	Superannuation benefits $	Options $	Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors							
Non-executive							
Dr R Fine	1,600	-	-	-	1,600	-	-
Mr A Ho	1,600	-	-	-	1,600	-	-
Executive							
Mr A Harrison	6,667	-	600	-	7,267	-	-
Total, all directors	**9,867**	**-**	**600**	**-**	**10,467**	**-**	**-**

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

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 Period. 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 Period relating to key management personnel and their related parties were as follows:

	Transaction	Note	Consolidated 2006 $	Company 2006 $
Directors				
Mr A Harrison	Consultancy fees	(i)	30,000	30,000
Mr A Ho	Secretarial and accounting fees	(ii)	8,142	8,142
Mr A Ho	Consultancy fees	(iii)	60,592	60,592
	Rent and outgoings	(iii)	4,605	4,605
Mr A Ho	Consultancy fees	(iv)	29,993	29,993
Dr R Fine	Sales revenue – service fee	(v)	26,666	-
Dr R Fine	Dental fees	(vi)	13,232	-

(i) 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) 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.

Liabilities at 30 June 2006 arising from the above transactions	Consolidated 2006 $	Company 2006 $
Current liabilities		
Trade and other payables	26,987	13,755

21. KEY MANAGEMENT PERSONNEL DISCLOSURE (cont'd)

Equity instruments

Option holdings of key management personnel

The movement during the Period in the number of options over ordinary shares exercisable at $0.20 on or before 31 March 2010 held, directly, indirectly or beneficially by each key management person, including their personally-related entities, is as follows:

	Held at 1 December 2005	Issued	Exercised	Other changes	Held at 30 June 2006
Directors					
Mr A Harrison	-	5,000,000	-	-	5,000,000
Dr R Fine	-	2,500,000	-	-	2,500,000
Mr A Ho	-	1,000,000	-	-	1,000,000

All options vested on the date of issue. No options held by key management personnel are vested but not exercisable. No options were granted to key management personnel during the reporting period as compensation.

Equity holdings and transactions of key management personnel

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

	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.

22. 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.

23. RECONCILIATION OF CASH FLOWS USED IN OPERATING ACTIVITIES

	Consolidated 2006 $	Company 2006 $
Cash flows from operating activities		
Loss for the Period	(391,153)	(296,365)
Adjustments for:		
- Amounts set aside to provisions	27,557	207,311
- Depreciation	40,901	133
- Impairment loss	191,080	-
Operating loss before changes in working capital and provisions	(131,615)	(88,921)
(Increase) in receivables	(28,034)	(12,925)
(Increase) in inventories	(121,225)	-
(Increase) in other assets	(8,000)	-
Increase in payables	191,142	71,616
Net cash (used in) operating activities	(97,732)	(30,230)

24. NON-DIRECTOR RELATED PARTIES

Non-director related parties are the Company's controlled entities. Details of the Company's interest in controlled entities are set out in Note 19. Details of dealings with these entities are set out below.

Transactions

The loans to controlled entities are unsecured, interest-free and of no fixed term. The loans are provided primarily for capital purchases and working capital purposes.

Receivables

Aggregate amounts receivable from non-director related parties (Note 6):

	Company 2006 $
Non-current	
Unsecured loans to controlled entity	417,996
Provision for non recovery	(206,725)
	211,271

25. EVENTS SUBSEQUENT TO REPORTING DATE

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

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

In the opinion of the directors of Capitol Health Limited:

(a) the financial statements and notes, set out on pages 11 to 33, are in accordance with the Corporations Act 2001, including:

    (i) giving a true and fair view of the financial position of the consolidated entity and of the Company as at 30 June 2006 and their performance, as represented by the results of their operations and their cashflows, for the period ended on that date; and

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

(b) 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 chief financial officer for the period ended 30 June 2006.

Dated at Perth, Western Australia this 31st day of August 2006.

Signed in accordance with a resolution of the directors:

Andrew Harrison
Managing Director

ABN 41 103 088 697
LEVEL 1, 1 HAVELOCK STREET
WEST PERTH WA 6005, AUSTRALIA
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INDEPENDENT AUDIT REPORT

**TO THE MEMBERS OF
CAPITOL HEALTH LIMITED**

SCOPE

The financial report and directors' responsibility
The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements, and the director's declaration for Capitol Health Limited (the Company) for the seven month period from 1 December 2005 to 30 June 2006.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach
We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 37 of the financial report has not changed as at the date of providing our audit opinion.

AUDIT OPINION

In our opinion, the financial report of Capitol Health Limited is in accordance with:

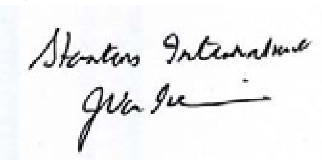
a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2006 and of their performance for the seven month period ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

STANTONS INTERNATIONAL
(Authorised Audit Company)



John Van Dieren
Director

Perth, Western Australia
31 August 2006

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31 August 2006

Board of Directors
Capitol Health Limited
Level 1
189 Hay Street
SUBIACO WA 6008

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 seven month period ended 30 June 2006, 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 29 September 2006:

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
32,100,000	Restricted securities until 9 June 2007
12,150,000	Restricted securities until 9 December 2006

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

Number of Options	Escrow Period
10,000,000	Restricted securities until 9 June 2007

Substantial shareholders

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

Substantial shareholder	Number of Shares
Relentless Corporation Pty Ltd	13,400,000
R J & J R Fine <RJ Fine Services A/C>	7,550,000
Ms Tracie Leanne Clark	2,932,691

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 29 September 2006:

Ordinary fully paid shares

Range			Holders	Units	%
1	-	1,000	2	751	0.00
1,001	-	5,000	21	75,790	0.14
5,001	-	10,000	332	3,301,310	5.88
10,001	-	100,000	48	2,736,650	4.88
100,001	-	Over	52	49,985,500	89.10
Total			455	56,100,001	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	4	10,000,000	100.00
Total			4	10,000,000	100.00

Unmarketable parcels

Holdings less than a marketable parcel of ordinary shares (being 2,500 as at 29 September 2006):

Holders	Units
6	8,941

Top holders

The 20 largest registered holders of each class of security as at 29 September 2006 were:

Fully paid ordinary shares

	Name	No. of Shares	%
1.	Relentless Corporation Pty Ltd <Sun Tzu A/C>	13,400,000	23.89
2.	R J & J R Fine <RJ Fine Services A/C>	7,550,000	13.46
3.	T L Clark	2,547,691	4.54
4.	L S Yee	2,400,909	4.28
5.	G C Lim	2,300,000	4.10
6.	Profit & Resource Management Pty Ltd <Collins Superannuation Fund>	2,005,000	3.57
7.	H Wai	1,920,000	3.42
8.	Marketech Pty Ltd	1,637,900	2.92
9.	Taupo Holdings Pty Ltd	1,120,000	2.00
10.	H W Heng	1,101,500	1.96
11.	C Y Foo	1,100,000	1.96
12.	P C D Harrison	1,000,000	1.78
13.	A Ho	1,000,000	1.78
14.	J R Fine	980,000	1.75
15.	Sirius Venture Consulting Pte Ltd	800,000	1.43
16.	Bushmore Pty Ltd	600,000	1.07
17.	M D Fine	540,000	0.96
18.	S Hogg	500,000	0.89
19.	A & L Konowalous <Darlington A/C>	500,000	0.89
20.	Alari Pty Ltd <Bardsley Superannuation Fund A/C>	440,000	0.78
		43,443,000	77.43

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

Name	No. of Options	%
Relentless Corporation Pty Ltd <Sun Tzu Trust>	5,000,000	50.00
R J & J R Fine <RJ Fine Services A/C>	2,500,000	25.00
L S Yee	1,500,000	15.00
A Ho	1,000,000	10.00
	10,000,000	100.00

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