



29 February 2008

Company Announcements Office
Australian Stock Exchange
PO Box H224
Australia Square
Sydney NSW 2000

Dear Sir or Madam

Please find attached the Company's ASX Appendix 4D and the Half Yearly Report for the period to 31 December 2007.

Yours faithfully

John Conidi
Executive Director

att.

ACN 117 391 812

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Appendix 4D

Half Year Report Period Ended 31 December 2007

Results for announcement to the Market

	<u>Percentage Change</u>		<u>\$'000</u>
Revenue from ordinary activities	538.8%	to	4,210
Loss from ordinary activities after tax attributable to members	(32.1%)	to	(187)
Net loss for the period attributable to members	(32.1%)	to	(187)

Dividends

	Amount per security	Percentage Franked
Current period:		
Interim Dividend	Nil	N/A
Date the Dividend is Payable:		N/A
Record Date for determining entitlements to the Dividend:		N/A
Prior corresponding period:		
Interim Dividend	Nil	N/A

Net Tangible Assets per Security

As at 31 December 2007	0.55 cents
As at 31 December 2006	0.88 cents

Details of Subsidiaries

Controlled Gained Over Entities During the Period

Name of the entity	Radiology entities (refer Note 6 in the Half Yearly Report for details)
Date control acquired	30/08/2007
Profit after income tax of the subsidiary during the current period since the date on which control was acquired	\$191,012

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CAPITOLHEALTH
LIMITED

ABN 84 117 391 812

INTERIM REPORT

31 DECEMBER 2007

CAPITOL HEALTH LIMITED**ABN 84 117 391 812****INTERIM REPORT - 31 DECEMBER 2007**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by Capitol Health Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report for the half-year ended 31 December 2007 and the auditor's review report thereon:

1. Directors

The Directors of the Company during the half-year and up to the date of this report are:

Name	Period of Directorship
Mr Andrew Harrison <i>Managing Director</i>	Director since 1 December 2005
Mr John Conidi <i>Executive Director</i>	Director since 30 August 2007
Mr Anthony Ho <i>Non-Executive Director</i>	Director since 1 December 2005
Mr Steven Sewell <i>Non-Executive Director</i>	Director since 6 February 2008
Dr Russell Fine <i>Non-Executive Director</i>	Appointed 1 December 2005; resigned 30 August 2007

2. Results

The loss of the consolidated entity for the half-year was \$186,628 (2006: \$274,773) after income tax expense of \$98,491 (2006: nil).

3. Review of Activities

The first half of FY08 saw a transformation of the Company, both in terms of scale and financial performance. During the period the Company acquired or contracted to acquire businesses for \$22 million in total consideration, making it a major regional player in the diagnostic imaging market with 21 clinics in Victoria. A number of major milestones were reached during the period:

- Acquisition of 5 entities containing 7 radiology clinics in August 2007 for \$14.64 million
- Entered into agreements to acquire Bell Imaging and South East Medical Imaging (SEMI) for a total consideration of \$7.99 million. The SEMI acquisition was completed on 2 January 2008.
- Completion of \$2.5 million placement to professional and sophisticated clients of Patersons Securities Limited
- Revenue increased by 540% to \$4.1 million compared to the first half of FY07
- Generated cashflow surplus from operations for the period of \$663,000 (with only 4 months contribution from the radiology entities)

Financials

The Group's financial performance for the period reflected the transformation of the business generating a maiden EBITDA profit of \$165,000 on sales of \$4.1 million. Consequently the financial strength of the Company has also increased with Net Assets of \$17.5 million (up from \$664,000 in the first half of FY07) and total debt to total assets ratio down to 12% (down from 46% 30 June 2007).

The performance of the overall business was in line with management expectations. A number of factors drove a slightly lower than expected result:

- There was a number of one off costs relating to sign-on payments to engage additional radiologists during the 2nd quarter, the recruitment of staff to cater for growth in existing clinics and to drive the integration of acquisitions in the third quarter.
- Settlement delays in completion of the SEMI acquisition meant that SEMI did not contribute to the operation during the period. A later than expected completion of the Bell Imaging acquisition will also result in a timing difference in contribution to the 2HFY08 result.
- A higher than expected drop in revenues in December resulting from the holiday period. Despite this December impact, 3rd quarter trading results were very strong.
- Investment in 2 new Greenfield clinic openings while negatively contributing towards the results in the current period, are expected to break even and contribute to earnings in the second half.

DIRECTORS' REPORT

3. Review of Activities (cont'd)

The performance of the business will be heavily weighted toward 2HFY08 with revenue from radiology operations having a traditional seasonal skew towards the second half of the year, the settlement of the SEMI acquisition on 2 January 2008, and the expected completion of the Bell Imaging acquisition will all contribute to earnings in 2HFY08.

Upon completion of the review of dental assets, the Booragoon Dental Clinic was sold during the second quarter. While the sale was made for the holding value of the business, the related staff and overhead reductions resulted in one off expenditure. It is expected that the balance of the dental businesses will be evaluated in the second half of the year.

Growth

The growth of the Company will continue in the second half of FY08 driven by the completion and integration of the SEMI and Bell Imaging acquisitions, organic growth from recently opened clinics as they pass break even, and further acquisitions that complement the existing network and are accretive to earnings per share.

4. Events subsequent to reporting date


Other than any matters described in this report and the financial statements, there has not arisen in the interval between the end of the half year 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 periods.

5. Auditor's independence declaration under Section 307C of the Corporations Act 2001

The auditor's declaration is set out on page 5 and forms part of the Directors' report for the half-year ended 31 December 2007.

Dated at Melbourne, Victoria, this 29th day of February 2008.

Signed in accordance with a resolution of the Directors:



John Conidi
Executive Director

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of Capitol Health Limited for the half-year ended 31st December 2007, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Capitol Health Limited and the entities it controlled during the period.

Dated the 29th day of February 2008



BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
Chartered Accountants



Nicholas E. Burne
Director

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CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
 for the half-year ended 31 December 2007

	Consolidated 2007 \$	Consolidated 2006 \$
Revenue	4,114,082	640,161
Other income	95,929	18,923
Employee benefits expense	(2,308,664)	(333,389)
Depreciation expense	(210,245)	(56,496)
Consumables	(449,093)	(105,745)
Marketing expenses	(73,316)	(75,196)
Occupancy expenses	(218,593)	(58,017)
Borrowing costs	(77,279)	(42,265)
Corporate and administrative expenses	(510,381)	(227,777)
Equipment-related costs	(377,467)	(24,677)
Other expenses	(73,110)	(10,295)
	(88,137)	(274,773)
Loss before income tax		
Income tax	(98,491)	-
	(186,628)	(274,773)
Net loss for the period		
Basic loss per share		
Ordinary shares (cents)	(0.10)	(0.49)

The Company's potential ordinary shares are not considered dilutive and accordingly the basic loss per share is the same as diluted loss per share.

The income statement is to be read in conjunction with the accompanying notes.

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CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
 as at 31 December 2007

	Note	Consolidated 31 December 2007 \$	30 June 2007 \$
CURRENT ASSETS			
Cash and cash equivalents		3,006,304	191,008
Trade and other receivables		590,236	13,025
Inventories		47,797	125,879
Other financial assets		168,274	8,000
Total Current Assets		3,812,611	337,912
NON CURRENT ASSETS			
Property, plant and equipment		1,860,315	564,281
Other finance assets		-	524,938
Deferred tax assets		113,369	-
Intangibles		16,053,006	611,412
Total Non Current Assets		18,026,690	1,700,631
TOTAL ASSETS		21,839,301	2,038,543
CURRENT LIABILITIES			
Trade and other payables		1,294,179	387,919
Income tax liability		177,682	-
Employee benefits		167,483	36,547
Loans and borrowings		1,871,087	111,675
Total Current Liabilities		3,510,431	536,141
NON CURRENT LIABILITIES			
Loans and borrowings		798,852	833,282
Total Non Current Liabilities		798,852	833,282
TOTAL LIABILITIES		4,309,283	1,369,423
NET ASSETS		17,530,018	669,120
EQUITY			
Issued capital	7	18,904,326	2,022,902
Reserves		169,800	3,698
Accumulated losses		(1,544,108)	(1,357,480)
TOTAL EQUITY		17,530,018	669,120

The balance sheet is to be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT
 for the half-year ended 31 December 2007

	Consolidated 2007 \$	Consolidated 2006 \$
Cash flows from operating activities		
Cash receipts in the course of operations	3,806,487	640,161
Cash payments in the course of operations	(3,100,607)	(814,016)
Interest received	33,971	18,923
Interest and other finance costs paid	(76,879)	-
Net cash provided by/(used in) operating activities	662,972	(154,932)
Cash flows used in investing activities		
Proceeds from sale of property, plant and equipment	210,067	-
Payments for property, plant and equipment	(286,414)	(234,170)
Payments for acquisition of subsidiary	(37,856)	-
Investments in a new operating site	(63,692)	-
Proceeds from sale of intangibles	9,000	-
Payments for intangible assets	-	(398,370)
Net cash used in investing activities	(168,895)	(632,540)
Cash flows from financing activities		
Proceeds from issue of shares	2,500,000	-
Transaction costs from issue of shares	(221,780)	(126,850)
Repayment of security over borrowings	524,938	-
Proceeds from borrowings	420,309	31,500
Repayment of borrowings	(902,248)	(32,968)
Net cash provided by/(used in) financing activities	2,321,219	(128,318)
Net increase/ (decrease) in cash and cash equivalents held	2,815,296	(915,790)
Cash and cash equivalents at the beginning of the period	191,008	1,830,089
Cash and cash equivalents at the end of the period	3,006,304	914,299

The statement of cash flows is to be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
 for the half-year ended 31 December 2007

Consolidated	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance as at 30 June 2007	2,022,902	3,698	(1,357,480)	669,120
Total recognised gains and losses for the period:				
Loss for the period	-	-	(186,628)	(186,628)
Transactions with equity holders in their capacity as equity holders:				
Shares issued	17,140,000	-	-	17,140,000
Share issue costs	(258,576)	-	-	(258,576)
Option premium reserve	-	164,500	-	164,500
Equity-settled share-based payments	-	1,602	-	1,602
At 31 December 2007	18,904,326	169,800	(1,544,108)	17,530,018

Consolidated	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance as at 30 June 2006	2,022,902	-	(391,153)	1,631,749
Total recognised gains and losses for the period:				
Loss for the period	-	-	(274,773)	(274,773)
At 31 December 2006	2,022,902	-	(665,926)	1,356,976

The statement of changes in equity is to be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
for the half-year ended 31 December 2007

1. REPORTING ENTITY

Capitol Health Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2007 comprises the Company and its subsidiaries (together referred to as the "consolidated entity"). The consolidated annual financial report of the consolidated entity as at 30 June 2007 is available upon request from the Company's registered office or may be viewed on the Company's website, www.capitolhealth.com.au.

2. BASIS OF PREPARATION

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards AASB 134 Interim Financial Reports and the Corporations Act 2001. The consolidated interim financial report has been prepared on the historical cost basis.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2007. It is also recommended that the consolidated interim financial report be considered together with any public announcements made by the consolidated entity during the six months ended 31 December 2007 in accordance with continuous disclosure obligations under the Corporations Act 2001.

This consolidated interim financial report was approved by the Board of Directors on 29 February 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

Since 1 July 2007, the **Group** has adopted the following Standards and Interpretations mandatory for annual periods beginning on or after 1 January 2007. Adoption of these Standards and Interpretations did not have any effect on the financial performance or position of the **Group**.

- AASB 7 Financial Instruments: Disclosures
- AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132, 101, 114, 117, 133, 139, 1,4, 1023 and 1038)
- AASB 2007-04 Amendments to Australian Accounting Standards arising from ED 151 and other amendments
- AASB 2007-7 Amendments to Australian Accounting Standards (AASB 1, 2, 4, 5, 107 and 108).

Presentation of the consolidated income statement

Capitol Health Limited has revised the presentation of the consolidated income statement so as to provide an analysis of expenses based on their nature. The consolidated entity previously disclosed expenses based on functions within the entity. Capitol Health's management determined that it should apply this policy retrospectively.

4. ESTIMATES

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the consolidated entity's accounting policies and the key sources of estimation uncertainty were those that applied to the consolidated financial report as at and for the year ended 30 June 2007, and the significant judgements around the consideration price of shares issued as detailed in Note 6.

5. SEGMENT REPORTING

Primary reporting: Business segments	Dental \$	Diagnostic Imaging \$	Unallocated \$	Consolidated \$
31 December 2007				
Segment revenue	925,505	3,188,577	95,929	4,210,011
Segment result	(207,576)	191,012	(170,064)	(186,628)
31 December 2006				
Segment revenue	640,161	-	18,923	659,084
Segment result	95,802	-	(370,575)	(274,773)

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NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
for the half-year ended 31 December 2007

6. ACQUISITION OF SUBSIDIARIES

On 30 August 2007, Capitol Health Limited acquired 100% interest in 5 entities containing 7 radiology clinics located across metropolitan Melbourne, Victoria. The consideration for the acquisition was \$14,640,000 satisfied by the issue of 183 million fully paid ordinary shares in Capitol Health Limited, at a deemed price of 8 cents per share, and 10 million unlisted options exercisable at 20 cents each on or before 31 March 2010. The shares have been valued at 8 cents per share based on an independent valuation carried out for the purposes of the acquisition. The published price of the shares at the date of acquisition (10 cents) was not used as these were not reflective of the fair value at that date due to very limited trading in the shares prior to the acquisition. In determining the fair value of the shares, the independent valuers factored in illiquidity to discount the traded share price to obtain a more reflective value of those shares.

The entities and interests acquired are set out below:

	Entity interest
Balaclava Medical Imaging Pty Ltd	100%
Treadwell Medical Imaging Pty Ltd	100%
Carnegie Medical Imaging Pty Ltd	100%
Vermont Medical Imaging Pty Ltd	100%
Radiology One Pty Ltd	100%

The acquisition had the following effect on the consolidated entity's assets and liabilities:

	Recognised values on acquisition	Fair value adjustments	Pre-acquisition carrying amounts
Fair value of assets and liabilities acquired:			
Property, plant and equipment	1,457,743	-	1,457,743
Intangibles	8,227,330	-	8,227,330
Trade and other receivables	131,344	-	131,344
Deferred tax asset	34,178	-	34,178
Loans and borrowings	(2,321,619)	-	(2,321,619)
Employee benefits	(113,928)	-	(113,928)
Net identifiable assets and liabilities	7,415,048	-	7,415,048
Consideration:			
Consideration, satisfied in shares	14,640,000		
Consideration, satisfied in options	164,500		
Other acquisition costs paid, satisfied in cash	37,854		
Total consideration	14,842,354		

The excess of the consideration over the fair value of the assets and liabilities acquired has been recognized as goodwill of \$7,427,306. No other separate intangible assets have been recognised, such as customer relationships, as it has been assessed that the radiology entities have no control over these intangible assets.

From the date of acquisition, the radiology entities have contributed \$191,012 net profit to the net loss of the consolidated entity. If the acquisition had been effected on 1 July 2007, the radiology entities would have contributed \$5,092,698 revenue and \$322,328 profit.

A further acquisition of another 2 radiology clinics in Victoria was completed on 2 January 2008 (refer Note 10). It is impracticable to disclose the nature and financial effect of this acquisition as the fair value analysis has not been audit reviewed. Full disclosure of this acquisition will be made in the consolidated annual report for the year ended 30 June 2008.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
 for the half-year ended 31 December 2007

7. ISSUED CAPITAL	31 December 2007	30 June 2007
	\$	\$
Issued and Paid-Up Capital		
266,877,779 (June 2007: 56,100,001) fully paid ordinary shares	<u>18,904,326</u>	<u>2,022,902</u>

The following movements in issued capital occurred during the half-year:

	31 December 2007		30 June 2007	
	Number of Shares	\$	Number of Shares	\$
Balance at beginning of period	56,100,001	2,022,902	56,100,001	2,022,902
Issue of shares at \$0.09 each	27,777,778	2,500,000	-	-
Issue of shares at \$0.08 each for the acquisition of radiology entities	183,000,000	14,640,000	-	-
Share issue costs	-	(258,576)	-	-
	<u>266,877,779</u>	<u>18,904,326</u>	<u>56,100,001</u>	<u>2,022,902</u>

Options

During 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

The following options to subscribe for ordinary fully paid shares were outstanding at balance date:

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 period and up to the date of this report. These options do not entitle the holder to participate in any share issue of the Company or any other entity.

8. SHARE-BASED PAYMENTS

The Company operates an incentive scheme known as the Capitol Health Incentive Option Scheme ("Scheme"), which was approved by shareholders at a general meeting held on 30 December 2005. The Scheme provides for employees, Directors and others involved in the management of the Company to be offered options for no consideration. Each option is convertible to one ordinary share. Broad terms and conditions of the Scheme are disclosed in the consolidated financial report as at and for the period ended 30 June 2007.

No options were granted during the six months ended 31 December 2007 under the Scheme.

9. CONTINGENT LIABILITIES

The consolidated entity does not have any contingent liabilities at balance date or the date of this report.

10. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to balance date, the consolidated entity settled the acquisition of South East Medical Imaging, an independent radiology group operating in Melbourne, Victoria. The consideration for the acquisition was \$3.79m satisfied by cash, vendor finance and assumption of lease and employee benefits liabilities.

Other than that stated above, there are no events subsequent to balance date that would have a material financial effect on the financial statements for the half year period ended 31 December 2007.

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DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 12 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Capitol Health Limited will be able to pay its debts as and when they become due and payable.

Dated at Melbourne, Victoria, this 29th day of February 2008 in accordance with a resolution of the Board of Directors.

Signed in accordance with a resolution of the Directors:



John Conidi
Executive Director

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Capitol Health Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Capitol Health Limited, which comprises the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, a statement or description of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Capitol Health Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Capitol Health Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

Dated the 29th day of February, 2008



BDO Kendalls Audit & Assurance (NSW-VIC) Pty Ltd
Chartered Accountants



Nicholas E. Burne
Director

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