



HALF-YEAR FINANCIAL RESULTS

In accordance with Listing Rule 4.2A, the Interim Financial Report for the six months ended 31 December 2008 and ASX Appendix 4D – Half Year Report of Capitol Health Limited (ASX: CAJ) follow this announcement. This information is to be read in conjunction with the annual report for the year ended 30 June 2008.

Authorised by:

John Conidi
Managing Director
27 February 2009

CAPITOL HEALTH LIMITED - ACN 117 391 812

Appendix 4D - Half Year Report - 6 Month Period Ended 31 December 2008

The following information is provided to the ASX under listing rule 4.2A.3.

1. Details of the reporting period and the previous corresponding period.

Reporting Period	6 Months ending 31 December 2008
Previous Corresponding Period	6 Months ending 31 December 2007

2. Results for announcement to the Market

- 2.1 The amount and percentage change up or down from the previous corresponding period of revenue from ordinary activities.

Amount increase/(decrease) \$'000

11,361

Percentage increase/(decrease)

352.9%

- 2.2 The amount and percentage change up or down from the previous corresponding period of profit (loss) from ordinary activities after tax attributable to members.

Amount increase/(decrease) \$'000

(683)

Percentage increase/(decrease)

(365.9)%

- 2.3 The amount and percentage change up or down from the previous corresponding period of net profit (loss) for the period attributable to members.

Amount increase/(decrease) \$'000

(683)

Percentage increase/(decrease)

(365.9)%

- 2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay dividends.

No dividends are proposed

- 2.5 The record date for determining entitlements to the dividends (if any).

Not applicable

- 2.6 A brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.

Please refer to the attached Interim Report for the Period ending 31 December 2008

3. Net tangible assets per security with the comparative figure for the previous corresponding period.

As at 31 December 2008	<table border="1"><tr><td>(0.84)</td></tr></table>	(0.84)	cents per security +/-
(0.84)			
As at 31 December 2007	<table border="1"><tr><td>0.55</td></tr></table>	0.55	cents per security +/-
0.55			

4. Details of entities over which control has been gained or lost during the period, including the following.

Nil

- 4.1 Name of the entity.

Not applicable

- 4.2 The date of the gain or loss of control.

Not applicable

- 4.3 Where material to an understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.

Not applicable

5. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable, and (if known) the amount per security of foreign sourced dividend or distribution.

Not applicable

CAPITOL HEALTH LIMITED - ACN 117 391 812

Appendix 4D - Half Year Report - 6 Month Period Ended 31 December 2008

The following information is provided to the ASX under listing rule 4.2A.3.

6. Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.

Not applicable

7. Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and – where material to an understanding of the report - aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.

Not applicable

8. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).

Not applicable

9. For all entities, if the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.

None reported



ABN 84 117 391 812

INTERIM REPORT

31 DECEMBER 2008

CAPITOL HEALTH LIMITED**ABN 84 117 391 812****INTERIM REPORT – 31 DECEMBER 2008**

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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 2008 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 2008 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>Non-Executive Director</i>	Director since 1 December 2005
Mr John Conidi <i>Managing Director</i>	Director since 30 August 2007
Mr Steven Sewell <i>Non-Executive Director</i>	Director since 6 February 2008
Mr Dominik Kucera <i>Executive Director</i>	Director since 31 July 2008

2. Results

The loss for the consolidated entity for the half-year was \$869,509 (2007: loss \$186,628) after income tax expense of \$77,100 (2007: \$98,491).

3. Review of Activities

First half financial year 2008/9

Overview

The Group's financial performance has met expectations of revenue and EBITDA profit for the period. It is expected that the performance of the business will be heavily weighted toward second half of the financial year 2008/9, as it was in the prior year.

The single factor in the company not meeting its target of \$1m+ net profit before tax for the first half of the financial year 2008/9 was the non-cash write down (or impairment) of the carrying value of Goodwill for one of the business units in the group. This is explained in greater detail below.

Cash flow reflects the same relative slowdown in the December quarter that was mirrored in the same quarter's performance in the prior year. If anything the December month was a slower month than expected for the group in cash collection and an increased cash outflow as a greater number of referrers shut down for the holiday period leading to an increase in the payout of annual leave for employees.

The first half of financial year 2008/9 was a period of review of the acquisitions made in financial year 2007/8 for potential improvements in the consolidation of activities.

3.1 Dental Operations

The final dental practice in Perth was exited. A gain was recognized on the final clearance of the related Balance Sheet items pertaining to this discontinued business.

3.2 Group Headquarters

The group's headquarters were moved to Melbourne.

3. Review of Activities (cont'd)

First half financial year 2008/9 (cont'd)

3.3 Integration of acquisitions and Organic growth

The integration of the acquisitions into a common operating environment has proceeded at a much reduced pace than initially expected in order to fully understand the extent of differences in policies, procedures and infrastructure between each of the acquired operations – many of which are subtle but nonetheless important. As the major asset of the group is its human resources, it was considered that rushed integration would be more costly to the group in the long term through dislocation and uncertainty within the workforce. Therefore the acquisitions have been effectively run as separate units to maintain continuity of service whilst integration studies are made. As a consequence it is recognized that the group may not be operating as efficiently as possible in its current structure.

The relatively modest pace of integration has not stopped the movement of personnel, equipment and the location or amalgamation of individual operations between clinics from the various acquisitions.

The results include the start-up costs of two new, organic-growth, clinics in Mildura (effective start of operations in November 2008) and at the Western Private Hospital in Footscray (effective start of operations in January 2009). The group will merge a nearby clinic at Footscray into the operations at the new facility at Western Private – this facility will introduce MRI technology and related services into the group.

3.4 New banking arrangements

The group has entered into a new, long term banking arrangement with the Commonwealth Bank that has enabled the reduction of banking providers from three to one. The current difficulties in the financial markets have not impacted significantly on the group's direct operations, however in line with the general risk-averse nature of financing in today's environment our new banking facility requires that a general charge over the assets of the group be given to the bank for the period of the Commercial Bill repayment schedule.

3.5 Impairment of Intangible Assets

The indirect impact of the current economic situation has seen a review of the carrying value of the Goodwill of the group. The requirement of the company is to review its Goodwill carrying value for any "Indication of Impairment". Although there are generic indicators of impairment that seem apparent, the degree as to whether they are realistic or specifically applicable to the group is questionable.

Regardless, under the accounting standards we are required to review the goodwill as it applies to the individual acquisitions made in their pure form and as they (may) exist today - not the whole of the business as it is currently structured. The acquisitions to which this refers are the Radiology Group, Bell Imaging and South East Medical Imaging (SEMI). This approach does not cater for the changes and adjustments that would normally occur in a dynamic environment such as that which exists in radiology.

In analysing the value of Goodwill, factors used were aggressive in nature to accommodate the general business view of the value of such assets that is prevalent in the broader business community. For example the cash discount factor used was nearly double that used six months prior at 30 June 2008.

Using these aggressive factors, the carrying value of Goodwill for the Bell and SEMI acquisitions was not impaired.

However the transaction surrounding the Radiology Group acquisition is the one that has changed considerably. This is due to the movement of personnel, equipment and the location or amalgamation of its original clinics into those of the other acquisitions. Overall this activity has strengthened the group, but on an individual basis the original components have contracted when compared to the initial acquisition. Therefore, as the operational base has declined, there is an indicated impairment under current accounting standards of \$1,894,632.

It is the Directors' opinion that if the operations were viewed as a whole and the Goodwill attributed to this unified operation then there would be no impairment.

Given the accounting standards, it is likely that the asset base of the Radiology Group may contract further or lose parts of its identity under moves made to improve the efficiency of the total group operations. Further impairment charges could then be expected purely as an administrative exercise rather than reflecting the true value of the business.

3. Review of Activities (cont'd)

Second half financial year 2008/9

The second half of financial year 2008/9 will see the results of the integration studies be put into practice. The rollout of the following programs will occur over the next 12 - 18 months.

- The group has been progressively replacing equipment to that which is capable of producing digital images rather than relying on hard film. The group has now selected a new digital imaging system (PACS) to be installed into all clinics, to integrate into this new equipment to provide a flexible and efficient environment for the transfer and analysis of images across the entire clinic network and directly to our referrers.
- To support the new PACS, the group has selected Telstra to provide a fully integrated fibre-optic network to all clinics within the group and a centrally managed co-location data centre to house all associated computer equipment for the PACS and ancillary group systems.
- The installation of the fibre-optic network will then enable the introduction of a common Radiology Information System (RIS) to all locations. Currently the group utilizes 3 separate and unlinked RIS applications.
- The installation of the fibre-optic network will further enable the introduction of other unified applications to all locations. These applications include a single new Microsoft GP accounting system (currently 8 separate legacy systems), Payroll and Human Resources Management (currently 2 legacy systems), common domain & email (currently none), etc, to all locations.
- The installation of the fibre-optic network will also allow for the introduction of a group VOIP telephone solution and the possibility of a unified call-centre to direct bookings more effectively through the group booking module in the new RIS.
- The common communications system will further enable the group to then implement common employment, practice and OH&S policies and procedures across all sites through a secure employee intranet.
- The common network will finally enable the results of the marketing studies into the "brand" perceptions of the current 8 operating names within the group to be put into place, which will include a revised web-site amongst other initiatives.

Future growth, either organically or through acquisition in the imaging space will therefore immediately adopt the new standards, processes and market placement that will be the logical outcome of the above program.

The group has another "organic-growth" clinic planned to open in the March quarter of financial year 2008/9 in the Dandenong region.

The impact of the above activities is expected to have an impact on the cash flow of the group as services may be duplicated over the course of the program as current contracts expire but run in parallel to new services installed and new infrastructure replaces old. Savings in areas such as film are expected to be long term, as we anticipate that the medical community will take up to 5 years to move to digital imaging as the normal or preferred method of delivery.

The company will pay out a further \$1.4m from cash reserves in the second half of the financial year 2008/9 to fully liquidate all vendor liabilities currently outstanding from the 3 acquisitions. These payments are contractually due in this period. The market can expect that with this plus the capital and operating expenditure program outlined above that cash reserves will be fully utilized at the financial year end.

The radiology industry association, to which the group belongs, has been pressing the federal government for a review and increase in the Medicare rebate structure. This review is well overdue as rebates have not altered for some 10 years. A rebate increase was factored into the group's budget for this period, however in the current economic circumstances it may be prudent to accept that this will now not occur in the current financial year.

Taking all of the above in and allied with the Goodwill impairment, it is now expected that the net profit before tax for the group for the full year will be in the region of break-even to \$500,000 positive.

Revenue figures are still expected to meet the forecasts as provided to the market at the group's AGM in November of 2008.

DIRECTORS' REPORT

4. Events subsequent to reporting date

Other than any matters described in this report and in Note 14 to 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 7 and forms part of the Directors' report for the half-year ended 31 December 2008.

This report is presented in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



John Conidi
Managing Director
MELBOURNE
27 February 2009

**DECLARATION OF INDEPENDENCE BY NICHOLAS E. BURNE
TO THE DIRECTORS OF CAPITOL HEALTH LIMITED**

As lead auditor for the review of Capitol Health Limited for the half-year ended 31st December 2008, 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.

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



Nicholas E. Burne
Director
Dated the 27th day of February, 2009
Melbourne

CONSOLIDATED INTERIM INCOME STATEMENT
 for the half-year ended 31 December 2008

Note	Consolidated 6 Months to 31 December 2008 \$	Consolidated 6 Months to 31 December 2007 - Restated \$
Revenue	13,328,715	3,188,577
Other income	1,251,278	30,481
Employee benefits expense	(8,494,499)	(1,973,049)
Depreciation expense	(583,328)	(149,181)
Impairment of intangible asset (Goodwill)	(1,894,632)	-
Consumables	(743,400)	(259,809)
Marketing expenses	(64,962)	(78,528)
Occupancy expenses	(840,803)	(162,262)
Borrowing costs	(242,733)	(20,475)
Corporate and administrative expenses	(1,550,197)	(12,804)
Equipment-related costs	(1,206,994)	(373,800)
Other expenses	(55,596)	(69,711)
(Loss)/Profit before income tax	(1,097,151)	119,439
Income tax	(77,100)	(98,491)
(Loss)/ Profit from continuing operations	(1,174,251)	20,948
<i>Discontinued operations</i>		
Profit/(loss) from discontinued operations, net of income tax	304,742	(207,576)
Loss for the period attributable to equity holders of the parent	<u>(869,509)</u>	<u>(186,628)</u>
Earnings per share		
Basic and diluted loss per share (cents)	<u>(0.31)</u>	<u>(0.07)</u>
Continuing operations		
Basic and diluted (loss)/earnings per share (cents)	<u>(0.42)</u>	<u>0.01</u>

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.

CONSOLIDATED INTERIM BALANCE SHEET
 as at 31 December 2008

	Consolidated	
	As at 31 December 2008 \$	As at 30 June 2008 \$
	Note	
CURRENT ASSETS		
Cash and cash equivalents	921,046	1,925,113
Trade and other receivables	1,548,739	1,058,652
Other financial assets	265,320	201,342
Assets classified as held for Sale	-	303,260
	<hr/>	<hr/>
Total Current Assets	2,735,105	3,488,367
	<hr/>	<hr/>
NON CURRENT ASSETS		
Property, plant and equipment	4,943,016	3,905,625
Deferred tax assets	448,326	448,326
Intangible assets	7 20,161,294	22,055,926
	<hr/>	<hr/>
Total Non Current Assets	25,552,636	26,409,877
	<hr/>	<hr/>
TOTAL ASSETS	28,287,741	29,898,244
	<hr/>	<hr/>
CURRENT LIABILITIES		
Trade and other payables	1,443,925	1,903,074
Income tax liability	346,145	269,045
Provision for employee benefits	968,375	956,930
Loans and borrowings	2,710,201	6,096,810
Liabilities classified as held for sale	-	89,055
	<hr/>	<hr/>
Total Current Liabilities	5,468,646	9,314,914
	<hr/>	<hr/>
NON CURRENT LIABILITIES		
Provision for employee benefits	259,777	199,705
Loans and borrowings	4,746,751	1,701,649
	<hr/>	<hr/>
Total Non Current Liabilities	5,006,528	1,901,354
	<hr/>	<hr/>
TOTAL LIABILITIES	10,475,174	11,216,168
	<hr/>	<hr/>
NET ASSETS	17,812,567	18,681,976
	<hr/>	<hr/>
EQUITY		
Issued capital	8 19,654,326	19,654,326
Reserves	170,609	170,609
Accumulated losses	(2,012,368)	(1,142,959)
	<hr/>	<hr/>
TOTAL EQUITY	17,812,567	18,681,976
	<hr/>	<hr/>

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

CONSOLIDATED INTERIM CASH FLOW STATEMENT
 for the half-year ended 31 December 2008

	Consolidated 2008 \$	Consolidated 2007 \$
Cash flows from operating activities		
Cash receipts in the course of operations	12,838,628	3,806,487
Cash payments in the course of operations	(12,677,719)	(3,100,607)
Interest received	25,046	33,971
Interest and other finance costs paid	(144,128)	(76,879)
Net cash provided by operating activities	41,827	662,972
Cash flows used in investing activities		
Proceeds from sale of business	227,000	-
Proceeds from sale of property, plant and equipment	-	210,067
Payments for property, plant and equipment	(658,021)	(286,414)
Payments for acquisition of subsidiary	(446,031)	(37,856)
Investments in a new operating site	-	(63,692)
Proceeds from sale of intangibles	-	9,000
Net cash used in investing activities	(877,052)	(168,895)
Cash flows from financing activities		
Proceeds from issue of shares	-	2,500,000
Transaction costs from issue of shares	-	(221,780)
Proceeds from security over borrowings	355,477	524,938
Payment for security over borrowings	(1,151,422)	-
Proceeds from borrowings	689,603	420,309
Repayment of borrowings	(62,500)	(902,248)
Net cash (used in)/provided by financing activities	(168,842)	2,321,219
Net (decrease)/increase in cash and cash equivalents held	(1,004,067)	2,815,296
Cash and cash equivalents at the beginning of the period	1,925,113	191,008
Cash and cash equivalents at the end of the period	921,046	3,006,304

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

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
 for the half-year ended 31 December 2008

Consolidated	Issued Capital \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Restated balance as at 30 June 2008	19,654,326	170,609	(1,142,859)	18,682,076
Total recognised gains and losses for the period:				
Loss for the period	-	-	(869,509)	(869,509)
At 31 December 2008	19,654,326	170,609	(2,012,368)	17,812,567

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

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 2008

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 2008 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 2008 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 2008. 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 2008 in accordance with continuous disclosure obligations under the Corporations Act 2001.

The same accounting policies and methods of computation have generally been followed in this interim financial report as compared to the most recent annual financial report.

This consolidated interim financial report was approved by the Board of Directors on the 27th of February 2009.

3. OTHER INCOME

	31 December 2008	31 December 2007
	\$	\$
Debt forgiveness of Vendor Liabilities	916,739	-
Government Grants	296,500	-
Interest Received	27,187	30,481
Miscellaneous Income	10,852	-
	<u>1,251,278</u>	<u>30,481</u>

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 2008.

5. SEGMENT REPORTING

	Discontinued Dental Operations	Continuing Operations Diagnostic Imaging	Continuing Operations Unallocated	Continuing Operations Consolidated
Primary reporting: Business segments	\$	\$	\$	\$
31 December 2008				
Segment revenue	23,349	13,328,715	-	13,328,715
Segment result	304,742	(601,364)	(572,887)	(869,509)
31 December 2007				
Segment revenue	925,505	3,188,577	-	3,188,577
Segment result	(207,576)	191,012	(170,064)	(186,628)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
for the half-year ended 31 December 2008

6. RESTATEMENT OF COMPARATIVE PERIOD

Comparative results for the Half-year ending 31 December 2007 have been restated to reflect the exit from Dental operations, as indicated in the Financial Report for the financial year ended 30 June 2008.

Revenues of \$925,505, other income of \$65,448 and operating expenses of \$1,198,529 have been removed from the Income Statement and allocated to "Discontinued Operations" for the 6 months to 31 December 2007. An adjustment of \$100 has been made to the Accumulated losses as previously reported in the Balance Sheet as at 30 June 2008.

7. INTANGIBLE ASSETS

	As at 31 December 2008 \$	As at 30 June 2008 \$
Goodwill arising through business combinations		
Acquisition of Radiology Group – at cost	15,654,636	15,654,636
Acquisition of South East Medical Imaging – at cost	2,784,180	2,784,180
Acquisition of Bell Imaging – at cost	<u>3,617,110</u>	<u>3,617,110</u>
Total cost of intangible assets	22,055,926	22,055,926
Impairment of Goodwill – Radiology Group	<u>(1,894,632)</u>	<u>-</u>
Carrying amount of intangible assets	<u>20,161,294</u>	<u>22,055,926</u>

8. ISSUED CAPITAL

	31 December 2008 \$	30 June 2008 \$
Issued and Paid-Up Capital		
278,416,241 (June 2008: 278,416,241) fully paid ordinary shares	<u>19,654,326</u>	<u>19,654,326</u>

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

	31 December 2008		30 June 2008	
	Number of Shares	\$	Number of Shares	\$
Balance at beginning of period	278,416,241	19,654,326	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
Issue of shares at \$0.065 each for the Acquisition of Bell Imaging	-	-	11,538,462	750,000
Share issue costs	-	-	-	(258,576)
Balance at end of period	<u>278,416,241</u>	<u>19,654,326</u>	<u>278,416,241</u>	<u>19,654,326</u>

Options

During the period, the Company did not grant options over unissued ordinary shares.

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.

9. ACQUISITION OF SUBSIDIARIES

There have been no acquisitions made within the reporting period.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
for the half-year ended 31 December 2008

10. DIVIDENDS PAID

There have been no dividends paid within the reporting period.

11. 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 2008.

No options were granted during the six months ended 31 December 2008 under the Scheme.

12. CONTINGENT LIABILITIES

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

13. NET WORKING CAPITAL DEFICIENCY

Notwithstanding the Group has a net working capital deficiency, the Group is expected to generate sufficient cash flows in the next 12 months to meet their current obligations as they fall due. In addition, there are sufficient facilities in place to draw down on should the Group require cash. The directors believe that the Group will be able to pay their liabilities as they fall due.

14. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to balance date the consolidated entity settled the final vendor finance payment, carried as a Current Liability in the Balance Sheet, due for the acquisition of South East Medical Imaging. The consideration for the vendor finance was \$500,000, satisfied by cash.

The consolidated entity has entered into major service, software and equipment contracts as part of an infrastructure upgrade installation, including; a state-wide WAN within Victoria to all operating sites, digital imaging hardware and software, radiology practice operating systems, accounting hardware and software, human resources software and desktop environment. These investments are anticipated to have a major impact on cash flow and net profit before tax as they are being installed, however this impact cannot be readily quantified at this stage but is expected to be in the order of \$0.5m - \$1m for the 6 month period ending 30 June 2009.

Other than that stated above, there are no events subsequent to balance date that would have a material financial effect on the financial statements as presented for the half year period ended 31 December 2008.

DIRECTORS' DECLARATION

In the directors' opinion:

- (a) the financial statements and notes set out on pages 8 to 14 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 2008 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.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



John Conidi
Managing Director
MELBOURNE
27 February 2009



INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Capitol Health Limited

ABN 17 114 673 540

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Capitol Health Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and 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 (in order for the disclosing entity to lodge the half-year financial report with the Australian Securities and Investments Commission).

Directors' Responsibility for the Half-Year Financial Report

The directors of the disclosing entity 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 establishing 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 Interim and Other Financial Reports 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 disclosing entity's financial position as at 31 December 2008 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.

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*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's review report was made.

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 disclosing entity's financial position as at 31 December 2008 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.



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



Nicholas E. Burne
Director
Melbourne, 27th day of February 2009