Rule 4.2A

Appendix 4E

Preliminary Final Report

1. Company details

Name of entity

Pro Medicus Limited

ABN or equivalent company reference	Financial year ended ('current period')	Financial year ended ('previous period')
25 006 194 752	**30 June 2005**	**30 June 2004**

2. Results for announcement to the market

ASX Listing Rules Ref		**2005 A$'000**
2.1	**Revenue from ordinary activities**	10,816
	% change up/(down) of revenue from ordinary activities from the previous corresponding period.	Up 28.7%
2.2	**Profit/(Loss) from ordinary activities after tax attributable to members**	5,493
	% change up/(down) of Profit/(Loss) from ordinary activities after tax attributable to members from the previous corresponding period	Up 53.6%
2.3	**Net Profit/(Loss) for the period attributable to members**	5,493
	% change up/(down) of Net Profit/(Loss) for the period attributable to members from the previous corresponding period.	Up 53.6%

2.4	**Dividends (distributions)**	Amount per security	Franked amount per security
	Franked dividend amount per security		
	Final Dividend	2.75¢	2.75¢
	Special Dividend	0.50¢	0.50¢
	Interim dividend	1.50¢	1.50¢
2.5	**Record date for Final & Special dividends**	20 September, 2005	
	Payment date for Final & Special dividends	4 October, 2005	

2.6	**Operating Results for the Period** Pro Medicus reported an after tax profit of $5.493 million which is the most profitable year in Pro Medicus history. Profit after tax was calculated after capitalising some development costs in line with current Australian Accounting Standards. If these development costs were expensed, profit after tax would still be a record $5.06 million, up 14.4% on the previous year. The company continued its focus on higher margin software sales, e-health and services. Gross margin as defined by profit before tax to revenue from operating activities increased to 74.9% (2004: 63.5% as reported or 68.4% restated). Promedicus.net, the company's e-health offering, continued its growth in both the number of doctors registered as well as transaction volumes, which have now exceeded 8.8 million, making promedicus.net the leading e-health provider in Australia. The network carried 2.7 million transactions for the year, a 13.2% increase on the previous year and is now used by over 19,000 doctors Australia wide. The company continued to maximise the value of promedicus.net by extending its use to non-radiology providers, a trend it anticipates will accelerate in the 2006 financial year. The company intends to leverage its relationship with the 19,000 doctors on the network to promote its other products and services, including the recently launched ProMed Clinical software. Building on the success of the first digital imaging installation at Lake Imaging, the company has now installed the technology at 16 Australian sites, importantly covering private, large corporate and public radiology providers. Increased levels of market interest reinforce the company's confidence that the efficiency and clinical benefits the technology offers will inevitably drive the radiology industry towards a fully digital environment. In addition, the company has made its first significant inroads into the Canadian market having successfully installed its radiology information system and digital integration products in 22 sites in Calgary Canada for the AltaPACS group. The company has also targeted the US Imaging centre market and has completed the first installation of its US based software at a multi site radiology practice on the US East Coast. The software is currently progressing through the clinical validation process under the Agfa contract arrangements.
3.	**Statement of financial performance** Please refer to the Statement of Financial Performance in the Annual Financial Report.
4.	**Statement of financial position** Please refer to the Statement of Financial Position in the Annual Financial Report.
5.	**Statement of cash flows** Please refer to the Statement of Cash Flows in the Annual Financial Report.

6.	**Details of Dividends**	**2005 $'000**	2004 $'000
	Final Dividend		
	A Final Dividend of 2.75 cents (2004: 2.25) per share fully franked will be paid on 4 October 2005.	$2,750	$2,250
	A Special Dividend of 0.50 cents (2004: nil) per share fully franked will be paid on 4 October 2005.	$500	-
	Current Year Interim		
	An interim dividend of 1.5 cents (2004: 1.25 per share fully franked was paid on 5 April 2005.	$1,500	$1,250
	No foreign sourced dividend or distribution is included in either the interim or final dividends.		
7.	**Dividend or Distribution reinvestment plans** There are no dividend or distribution reinvestment plans in operation.		
8.	**Statement of Retained Earnings** Please refer Note 16 of Annual Financial Report attached		
9.	**Net Tangible Assets per security**	**2005**	2004
	Net Tangible Assets per security	**$0.119**	$0.107
10.	**Details of entities over which control has been gained or lost during the period** There are no entities over which control has been gained or lost during the period.		
11.	**Associates and joint venture entities** There are no associates or relevant joint ventures.		
12.	**Other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.** Please refer to section 2.6		
13.	**Foreign Entity accounting standards** Not applicable		
14.	**Commentary on results for the period.** **The earnings per security and the nature of any dilution aspects**. Please refer Note 21 of the Annual Financial Report attached. **Returns to shareholders including distributions and buy backs.** Please refer to Note 5 of the Annual Financial Report attached. **Significant features of operating performance**. Please refer to section 2.6		

	The results of segments that are significant to an understanding of the business. Please refer to Note 25 of the Annual Financial Report attached. **Discussion of trends in performance.** Please refer to section 2.6
15.	**Audit Statement** This report is based on accounts to which one of the following applies. *(Tick one)* ☒ The +accounts have been audited. ☐ The +accounts have been subject to review. ☐ The +accounts are in the process of being audited or subject to review. ☐ The +accounts have *not* yet been audited or reviewed.

Sign here: Date: 24 August 2005

Company Secretary

Print name: Geoffrey W. Holden

Pro Medicus Limited

Financial Statements - 30 June 2005

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Directors Report

Your Directors submit their report for the year ended 30 June 2005.

DIRECTORS
The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were all in office for this entire period.

Names, qualifications, experience and special responsibilities.

Melvyn Keith Ward AO B.E.(Hons), M.Eng.Sc., F.I.E(Aust), F.T.S., F.A.I.M., I.V.A. (Chairman)	Mel Ward joined Pro Medicus Limited as a Director on 4 April, 2000. He is a director of a number of companies including Coca-Cola Amatil Ltd, Insurance Manufacturers of Australia Pty Ltd, Macquarie Communications Infrastructure Group, Western Australian Newspapers Holdings Limited and Transfield Services Limited. He was also a director of AXA Asia Pacific Holdings until his retirement in April 2003. After a long career in the communications sector, he retired as Managing Director of Telecom Australia (Telstra) in 1992.
Dr Peter David Jonson B.Comm(Hons), M.A.(Hons), PhD, F.A.I.C.D, F.A.A.S.S. (Deputy Chairman)	Peter Jonson joined Pro Medicus as a Director on 4th April 2000. He is Chairman of the Australian Institute for Commercialisation, Australian Aerospace and Defence Innovations Ltd and Bionomics Ltd. Post balance date, Dr Jonson was appointed as Chair of CRC Committee and retired from the position of Chair of the Cooperative Research Centre for microTechnology. He is a director of Village Roadshow Ltd and of Sequoia Capital Management Ltd. He is Chair Emeritus of the Melbourne Institute, having served as the Chair of its Advisory Board from 1992 to 2002. In his previous career, Peter was an economist at the Reserve Bank of Australia for 17 years, including 7 years in its most senior economics post, then called Head of Research. He subsequently worked in the private finance industry for 12 years including CEO of Norwich Financial Services Ltd and Managing Director and then Chairman of ANZ Funds Management. Peter is a fellow of the Australian Institute of Company Directors and of the Academy of the Social Sciences in Australia.
Dr Sam Aaron Hupert M.B.B.S. (Managing Director and Chief Executive Officer)	Co-founder of Pro Medicus Limited in 1983, Sam Hupert is a Monash University Medical School graduate who commenced General Practice in 1980. Realising the significant potential for computers in medicine he left general practice in late 1984 to devote himself full time to managing the Company.
Anthony Barry Hall B.Sc.(Hons), M.Sc. (Executive Director and Technology Director)	Co-founder of Pro Medicus Limited in 1983, Anthony Hall has been principal architect and developer of the core software systems. His current role is to oversee all product development and plan the future technical direction of the Company.
Philip Gregory Molyneux B.Econ, F.C.A. (Non-Executive Director)	Philip Molyneux joined Pro Medicus Limited as a Director on 4 April, 2000. He is Chairman of Anadis Limited, and Equity Trustees Limited, a director of Centre for Eye Research Australia Limited and Australian National Academy of Music. He was also a director of Corps of Commissionaires (Victoria) Limited until April 2005 and a director of Sundowner Motor Inns Limited from July 2003 to June 2004. He is also a trustee of Monash University Accident Research Foundation.

Company Secretary

Geoffrey William Holden CA	Geoffrey Holden has been company secretary for 5 years. Prior to holding this position he was Manager Finance and Administration of Victorian Imaging Group for 9 years and held various roles within other organisations including 6 years at Dunlop and 10 years with Touche Ross & Co Chartered Accountants. Geoffrey has been a registered Chartered Accountant for 31 years.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the directors in the shares and options of the Company were:

	Ordinary Shares	Options over Ordinary Shares
A. B. Hall	40,068,500	425,000
S. A. Hupert	40,072,660	425,000
M. K. Ward	50,000	400,000
P. D. Jonson	50,000	200,000
P. G. Molyneux	25,000	200,000

EARNINGS PER SHARE

	Cents
Basic earnings per share	5.5
Diluted earnings per share	5.5

DIVIDENDS

	Cents	$'000
Final dividends recommended:		
Normal dividend plan		
• on ordinary shares	2.75	2,750
Special Dividend		
• on ordinary shares	0.50	500
Dividends paid in the year:		
Interim for the year		
• on ordinary shares	1.50	1,500
Final dividend for 2004 shown as recommended in the 2004 report:		
• on ordinary shares	2.25	2,250

CORPORATE INFORMATION

Corporate Structure

Pro Medicus Limited is a company limited by shares that is incorporated and domiciled in Australia.

Nature of operations and principal activities

The principal activities of the Company during the year were the supply to diagnostic imaging groups and a broad range of groups within the private medical market in the following areas of;

- Innovative proprietary medical software;
- Provision of training, installation and professional services;
- Ongoing support and service contracts, which provide help desk support;
- Promedicus.net secure email which has been further developed and marketed during the year; and
- Development and delivery of digital radiology integration products & services aimed at facilitating the transition from an analogue to fully digital environment.

In addition development has been completed for the following new products:

- A Canadian version of the Pro Medicus Radiology Information System;
- A US version of the Pro Medicus Radiology Information System; and
- ProMed Clinical an electronic medical record system designed fro GPs and specialists.

Apart from this, there have been no significant changes in the nature of activities during the year.

REVIEW AND RESULTS OF OPERATIONS

Investment Activities

Surplus funds are invested by the Company in commercial bills to maximise the interest return. At year end all bills had been cashed out and the proceeds recorded as cash at bank.

Performance Indicators

Management and the Board monitor overall performance, from the strategic plan through to the performance of the Company against operating plans and financial budgets.

The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Key management monitor these KPIs on a regular basis and Directors receive appropriately structured board reports for review prior to each monthly Board meeting allowing them to actively monitor the Company's performance.

Dynamics of the Business

Promedicus.net, the company's e-health offering, continued its growth in both the number of doctors registered as well as transaction volumes, which have now exceeded 8.8 million, making promedicus.net the leading e-health provider in Australia. The network carried 2.7 million transactions for the year, a 13.2% increase on the previous year and is now used by over 19,000 doctors Australia wide. The company continued to maximise the value of promedicus.net by extending its use to non-radiology providers, a trend it anticipates will accelerate in the 2006 financial year.

The company intends to leverage its relationship with the 19,000 doctors on the network to promote its other products and services, including the recently launched ProMed Clinical software.

Building on the success of the first digital imaging installation at Lake Imaging, the company has now installed the technology at 16 Australian sites, importantly covering private, large corporate and public radiology providers. Increased levels of market interest reinforce the company's confidence that the efficiency and clinical benefits the technology offers will inevitably drive the radiology industry towards a fully digital environment.

In addition, the company has made its first significant inroads into the Canadian market having successfully installed its radiology information system and digital integration products in 22 sites in Calgary Canada for the AltaPACS group.

The company has also targeted the US Imaging centre market and has completed the first installation of its US based software at a multi site radiology practice on the US East Coast. The software is currently progressing through the clinical validation process under the Agfa contract arrangements.

Operating Results for the Period

Pro Medicus reported an after tax profit of $5.493 million which is the most profitable year in Pro Medicus history. Profit after tax was calculated after capitalising some development costs in line with current Australian Accounting Standards. If these development costs were expensed, profit after tax would still be a record $5.06 million, up 14.4% on the previous year.

The company continued its focus on higher margin software sales, e-health and services. Gross margin as defined by profit before tax to revenue from operating activities increased to 74.9% (2004: 63.5% as reported or 68.4% restated).

SUMMARISED OPERATING RESULTS

	2005	
	Revenues	Results Before Tax
	$'000	$'000
Product and Service Groups		
Core Business	6,594	4,926
Promedicus.net	2,245	1,699
RIS/PACS	1,437	1,074
Total sales from operating activities and operating profit	10,276	7,699

Shareholder Returns

The Company is pleased to report a dividend return to shareholders of a total of 4.75 cents per share which is an increase of 1.25 cents over the previous period and represents the largest dividend payout in the company's history. This is made up of a final dividend of 2.75 cents plus a special dividend of 0.5 cents per share.

The directors are confident that the holdings of reserve cash after paying out both the second half and special dividends is sufficient to safeguard the development and expansion needs of the company as the business looks to increase its penetration of the North American market as part of the Agfa North American contract announced during the year.

Despite extra dividend payments the company has maintained cash holdings and the increased return on net assets and equity as shown in the table below, reflects the increased level of profit in the current period.

	2005	2004	2003	2002	2001
Basic earnings per share – reported (cents)	5.5	3.6	4.5	4.8	4.1
Basic earnings per share - restated (cents)	n/a	4.4	3.7	n/a	n/a
Return on assets (%)	49.9	38.4	51.3	59.4	66.6
Return on equity (%)	42.9	32.3	42.3	64.6	79.5
Net debt / equity ratio (%)	Nil	1.2	1.8	3.3	6.2
Dividend payout ratio (%) – normal dividend plan	77.4	97.9	71.5	51.9	55.1
Available franking credits [tax paid basis] ($'000)	5,362	4,910	4,840	3,471	3,057

Investments for Future Performance

The Company will continue to direct resources into the development of new products and in particular is committed to the research being undertaken within the core RIS/PACS offerings for the Australian, US and Canadian markets, the further development of ProMed Clinical, the company's clinical desktop product and expansion of Promedicus.net. It is anticipated this will translate into an increase in and improvement in the bottom line of the operation.

Despite significant increases in development and business activity over the past year as a result of the US and Canadian developments, staff numbers have only increased marginally to 20 which includes the two Pro Medicus employees currently in the US as part of the Agfa contract.

The directors express their gratitude for the efforts of all employees in achieving this year's result.

The Company remains committed to providing staff with access to appropriate training and development programs, together with the resources to complete their duties.

REVIEW OF FINANCIAL CONDITION

Capital Structure

The company has a sound capital structure with a debt/equity ratio, which has been reduced to zero in the current year as compared to 1.2% in the previous year.

The directors believe that the debt to equity ratio for the Company could increase, if the need for expansion or acquisition required extra funds sourced from borrowings.

Treasury Policy

The Company previously had limited exposure to foreign exchange rate fluctuations however with the increase in overseas operations the currency risk as a consequence of contracts written in and cash being held in foreign currencies has increased. This change in risk profile has been noted by the board and action is being taken, where appropriate to look to manage this risk.

The treasury function, co-ordinated within Pro Medicus Limited, is limited to maximising interest return on surplus funds and now managing currency risk. The treasury operates within policies set by the Board, which is responsible for ensuring that management's actions are in line with board policy.

During the financial period, surplus cash was deposited to various bank instruments and Cash Management accounts to maximise the interest earned. At balance date there was $10.4m of cash available to the company.

Cash from Operations

Net cash flows from operating activities increased marginally from $4.4m in the previous year to $4.5m in the current period. The increase in cash from operating activities was attributable to the capitalisation of development costs, (expenditure for which is not recorded under the operating cost category) and was offset by higher overhead costs including establishment of overseas operations, legal expenses relating to HCN legal case and higher PAYG tax instalments. Receivables at year end increased year to year, due to the production of a number of invoices late in the period. Cash from these invoices will be recorded in the 2006 financial period.

There was an increase in receipts from customers of approximately 3% and the ratio of payments to suppliers and employees, as a percentage of receipts from customers showed an increase of 13%.

Liquidity and Funding

The Company is cash flow positive, has substantial cash reserves and has no overdraft facility. Sufficient funds are held to finance operations.

Risk Management

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to participate in this process, as such the Board has not established separate committees for areas such as risk management, environmental issues, occupational health and safety or treasury.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of strategic plans, which encompass the company's vision, mission and strategy statements, designed to meet stakeholder needs and manage business risk;
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs; and
- Overseeing of appropriate backup procedures for important company data.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Pro Medicus Limited support and have adhered to the principles of good corporate governance. Please refer to the separate "Corporate Governance" section for more details of specific policies.

Statement of Compliance

The above report is based on the guidelines in The Group of 100 Incorporated publication *Guide to the Review of Operations and Financial Condition*.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Shareholders' equity increased to $12.818m from $11.075m, an increase of $1.743m or 15.7%. This movement was largely the result of higher profit and retaining cash in the business. Increased dividend payout has limited the growth in cash funds this year but directors consider funds on hand sufficient to cover any anticipated requirements.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

A Final Dividend of 2.75 cents per share, an increase of 0.5 cents or 22% over 2004 has been declared post 1 July. Please refer Note 5(c). This Final Dividend was based on the Directors' decision to maintain a dividend payout policy of 60 to 70% of Profit after Tax.

In addition a Special dividend of 0.50 cents per share has been declared post 1 July. Please refer Note 5(c).

No other significant post balance date events have been identified.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors foresee that the 2006 financial year will be a year of growth in both local and overseas markets following successful implementation and sale of both the Canadian and US products.

It is anticipated this will result from:

- Continued penetration of the Radiology Information System and digital imaging integration products in the Australian market;
- Continued installation and use of the Promedicus.net secure email product and Specialist Report Sender;
- Sales of ProMed Clinical desktop;
- Continued focus on overseas expansion particularly in Canada and the US; and
- The company is looking for further international opportunities for its world class digital radiology integration technology.

As a result, it is anticipated that the 2006 financial year will show improvement in profits. However, this is dependant on many market factors over which the directors have no control.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company has no identified risk with regard to environmental regulations currently in force. There have been no known breaches by the Company of any regulations.

SHARE OPTIONS

Un-issued Shares

As at the date of this report, there were 2,470,000 un-issued ordinary shares under options (2,470,000 at balance date). Refer to Notes 15 and 19 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

Shares Issued as a Result of the Exercise of Options

During the financial year, no employees or directors have exercised any option to acquire fully paid ordinary shares in Pro Medicus Limited. Since the end of the financial year, no options have been exercised.

Under the terms of the Share Option Plan 20% of the options vest on each anniversary of the date of commencement 25 August 2000 and can be converted into fully paid shares.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company did not indemnify any person for any reason.

During or since the financial year, the Company has paid premiums in respect of a contract for Directors' & Officers'/Company Re-Imbursement Liability insurance for directors, officers and Pro Medicus Limited for costs incurred in defending proceedings against them.

Terms of this cover are confidential and are not disclosed per Corporations Act 2001.

REMUNERATION REPORT

Remuneration Report

This report outlines the remuneration arrangements in place for directors and executives of Pro Medicus Limited.

Remuneration philosophy

The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives.

To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives
- Link rewards to shareholder value
- Portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration

Remuneration committee

Due to the small number of directors, the Board decided it was more appropriate to handle remuneration and nomination issues at full Board level. No Committees for these functions have been established at this time.

Board members, as per groupings detailed below, are responsible for determining and reviewing compensation arrangements.

In order to maintain good corporate governance the Non-Executive Directors assume responsibility for determining and reviewing compensation arrangements for the Chief Executive Officer and Technical Director. The Executive Directors in turn are responsible for determining and reviewing the compensation arrangements for the Non-Executive Directors. The full Board reviews the terms of employment for the Company Secretary and the Board has delegated the responsibility of executive remuneration to the executive management.

The assessment considers the appropriateness of the nature and amount of remuneration of such directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 24 August 2000 when shareholders approved an aggregate remuneration of $200,000 per year.

The amount of the aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. No additional fee is paid for time spent on Audit Committee business.

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for the directors to have a stake in the company on whose board he sits. The non-executive directors of the company participate in the

Employee Share Incentive Scheme [Option based] which was established in 2000 to provide incentive for participants.

The remuneration of non-executive directors for the period ending 30 June 2005 is detailed in Table 1 page 10 of this report.

Senior manager and executive director remuneration

Objective

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

Structure

In determining the level and the make-up of executive remuneration, the executive management consider market levels of remuneration for comparable executive roles.

Employment Contracts have been entered into with the Chief Executive Officer and the Technical Director. No other employment contracts have been executed. Details of these contracts are provided on page 10.

Remuneration consists of the following key elements:

- Fixed Remuneration
- Variable Remuneration
    - Short Term Incentive ('STI')
    - Long Term Incentive ('LTI')

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each executive director and senior manager as described under the Remuneration Committee section above.

No STI variable component is currently paid to the senior managers or executive directors.

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually and the process consists of a review of company wide, business and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. As noted above, the group conducting the review has access to external advice independent of management.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

The fixed remuneration component of the 2 relevant most highly remunerated senior managers is detailed in Table 2 page 10.

Variable Pay – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward senior managers and executive directors in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance.

Structure

LTI grants to executives are delivered in the form of options.

The company granted these options in 2000 and at the time there was no performance hurdle for this long term incentive plan.

Subsequent to this an executive [non-directors] Performance Based Incentive Share Plan has been set up but to date no share allocations have been made.

Employment Contracts

Executive Service Contracts, on similar terms and conditions, have been prepared for the Chief Executive Officer and Technology Director.

These agreements provide the following major terms:

- Each executive will receive a remuneration package pa which is to be reviewed annually;
- The agreements protect the Company's confidential information and provide that any inventions or discoveries of an executive become the property of the Company;
- Non-competition during employment and for a period of 12 months thereafter; and
- Termination by the Company on six months notice or payment of six months remuneration in lieu of notice or a combination of both (or without notice or payment in lieu in the event of misconduct or other specified circumstances). The agreements may be terminated by the executives on the giving of six months notice.

Table 1: Director remuneration for the year ended 30 June 2005

Name		Primary Benefits		Post Employment	Equity	Total
		Salary & Fees	Non monetary	Superannuation	Options	
		$	$	$	$	$
A B Hall	2005	268,415	6,648	11,585	8,940	295,588
	2004	268,998	8,491	11,002	18,777	307,268
S A Hupert	2005	268,415	8,629	11,585	8,940	297,569
	2004	268,998	9,674	11,002	18,777	308,451
M K Ward	2005	70,000		6,300	8,414	84,714
	2004	60,000	—	5,400	17,672	83,072
P D Jonson	2005	35,000		3,150	4,207	42,357
	2004	30,000	—	2,700	8,836	41,536
P G Molyneux	2005	35,000		3,150	4,207	42,357
	2004	30,000	—	2,700	8,836	41,536

Table 2: Remuneration of the named executives who receive the highest remuneration for the year ended 30 June 2005

Name		Primary Benefits		Post Employment	Equity	Total
		Salary & Fees	Non monetary	Superannuation	Options	
		$	$	$	$	$
D Tauber	2005	263,415	—	11,585	7,362	282,362
	2004	255,665	—	11,002	15,463	282,130
G W Holden	2005	95,000	—	45,000	1,788	141,788
	2004	95,000	—	38,333	3,755	137,088

Table 3: Options granted as part of remuneration for the year ended 30 June 2005 (in accordance with the LTI plan)

No options have been granted in the year ended 30 June 2005.

DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings	Audit Committee
Number of meetings held:	**12**	**3**
Number of meetings attended:		
A. B. Hall	12	3
S. A. Hupert	11	2
M. K. Ward	11	3
P. D. Jonson	12	3
P. G. Molyneux	12	3

Committee membership

As at the date of this report, the company had an Audit Committee comprising the 3 non-executive directors.

The Audit Committee decided, based on the company ownership structure to invite the 2 major shareholder executive directors to be present at the committee meetings as non-voting attendees.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received a declaration from the auditor of Pro Medicus Limited (attached).

NON-AUDIT SERVICES

The following non-audit services were provided by the company's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for the auditors imposed by the Corporations Act. The nature and scope of the non-audit service provided means that auditor independence is not compromised.

Ernst & Young received the following amount for the provision of non-audit services:

Professional services rendered in respect to taxation matters	$4,900

Signed in accordance with a resolution of the Directors.

M K Ward
Director
Melbourne, 24 August 2005.

ERNST & YOUNG

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Melbourne VIC 3000
Australia

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Auditor's Independence Declaration to the Directors of Pro Medicus Ltd

In relation to our review of the financial report of Pro Medicus Ltd for the half-year ended 31 December 2004, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

David Petersen
Partner

Date: 18 February 2005

STATEMENT OF FINANCIAL PERFORMANCE

YEAR ENDED 30 JUNE 2005	Notes	2005 $'000	2004 $'000
REVENUES FROM ORDINARY ACTIVITIES BEFORE FUNDAMENTAL ERROR		**10,816**	9,610
Correction of Fundamental Error	2(b)	—	(1,208)
REVENUES FROM ORDINARY ACTIVITIES	2(a)	**10,816**	8,402
Borrowing costs expense	3	**(1)**	(11)
Other expenses from ordinary activities	3	**(3,116)**	(3,371)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		**7,699**	5,020
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	4	**(2,206)**	(1,443)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		**5,493**	3,577
NET PROFIT		**5,493**	3,577
NET PROFIT ATTRIBUTABLE TO MEMBERS OF PRO MEDICUS LIMITED	16	**5,493**	3,577
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		**5,493**	3,577
Basic earnings per share (cents per share) – reported	21	**5.5**	3.6
Diluted earnings per share (cents per share) - reported	21	**5.5**	3.6
Basic earnings per share (cents per share) – restated	21	—	4.4
Diluted earnings per share (cents per share) - restated	21	—	4.4
Franked dividends per share (cents per share)	5	**4.75**	3.50

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005	Notes	2005 $'000	2004 $'000
CURRENT ASSETS			
Cash assets	17(b)	**10,406**	10,479
Receivables	6	**3,846**	2,014
Inventories	7	**18**	4
TOTAL CURRENT ASSETS		**14,270**	12,497
NON-CURRENT ASSETS			
Intangible Asset	8	**679**	75
Property, plant and equipment	9	**190**	229
Deferred tax assets	10	**279**	257
TOTAL NON-CURRENT ASSETS		**1,148**	561
TOTAL ASSETS		**15,418**	13,058
CURRENT LIABILITIES			
Payables	11	**693**	477
Interest-bearing liabilities	12	**—**	133
Current tax liabilities	4	**840**	541
Provisions	13	**527**	504
TOTAL CURRENT LIABILITIES		**2,060**	1,655
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4	**181**	12
Provisions	14	**359**	316
TOTAL NON-CURRENT LIABILITIES		**540**	328
TOTAL LIABILITIES		**2,600**	1,983
NET ASSETS		**12,818**	11,075
EQUITY			
Contributed equity	15	**9**	9
Retained profits	16	**12,809**	11,066
TOTAL EQUITY		**12,818**	11,075

STATEMENT OF CASH FLOWS

YEAR ENDED 30 JUNE 2005	Notes	2005 $'000	2004 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**8,611**	8,385
Payments to suppliers and employees		**(2,929)**	(3,044)
Interest received		**540**	502
Borrowing costs		**(1)**	(11)
Income tax paid		**(1,760)**	(1,478)
NET CASH FLOWS FROM OPERATING ACTIVITIES	17(a)	**4,461**	4,354
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(32)**	(71)
Purchase of ProMed Clinical		**—**	(75)
Capitalisation of Development Costs		**(619)**	—
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**(651)**	(146)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of hire purchase borrowings		**(133)**	(58)
Payment of dividends on ordinary shares		**(3,750)**	(3,250)
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		**(3,883)**	(3,308)
NET INCREASE/(DECREASE) IN CASH HELD		**(73)**	900
Add opening cash brought forward		**10,479**	9,579
CLOSING CASH CARRIED FORWARD	17(b)	**10,406**	10,479

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial statements have been prepared in accordance with the historical cost convention. Cost in relation to assets represents the cash amount paid or the fair value of the assets given in exchange.

(b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

(c) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year.

(d) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks.

(e) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any un-collectable debts. A provision is raised for doubtful debts based on specific review of outstanding amounts at balance date. Bad debts are written-off as incurred.

(f) Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of finished goods represents the purchase cost and is assigned on a first in first out basis.

(g) Recoverable Amount

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate.

(h) Plant and equipment

Cost and valuation

Plant and equipment is carried at cost.

Depreciation

Depreciation is provided on a straight-line basis or diminishing value basis on all plant and equipment. Depreciation rates are calculated to allocate the cost less estimated residual value at the end of the useful lives of assets against revenue over those estimated useful lives.

MAJOR DEPRECIATION PERIODS	2005	2004
Property Improvements	2 to 7 years	2 to 7 years
Motor Vehicles	4 to 5 years	4 to 5 years
Office Equipment	2 to 7 years	2 to 7 years
Furniture and Fittings	5 years	5 years
Research and Development Equipment	3 to 4 years	3 to 4 years

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(i) Hire Purchase Liability

In prior year acquisitions by means of hire purchase were capitalised recording an asset and liability equal to the fair value of the asset acquired. Hire purchase repayments were allocated between the reduction of the hire purchase liability and interest expense for the year.

(j) Intangibles

Research and development costs

Research and development costs are expensed as incurred except where the costs are expected beyond reasonable doubt to be recovered from future cash flows. Where research and development costs are deferred such costs are amortized over future periods on a basis related to expected future benefits.

(k) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the entity.

(l) Provisions

Dividends payable are recognised when a legal or constructive obligation to pay the dividend arises, typically following approval of the dividend at a meeting of directors.

(m)Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

(n) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Control of goods has passed to the buyer. Control of goods passes to the buyer on delivery.

Service Income

Where the contract outcome can be reliably measured, control of the right to be compensated for the services and the stage of completion can be reliably measured. Stage of completion is measured by completion of identifiable service segments.

Sales Revenue is recognised over the term of the contract. Where revenue is received in advance, revenue is recognised in the period during which service was provided.

Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

Licences

Control of the right to receive licensing fees.

Interest

Control of the right to receive the interest payment.

(o) Income Tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the times items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

The income tax expense for the year is calculated using the 30% tax rate.

1.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

(p) Employee entitlements

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date.

Liabilities arising in respect of wages and salaries and annual leave, expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits and
- Other types of employee benefits

are recognised against profits on a net basis in their respective categories.

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

Currently, fair values of the option plan allocations are not recognised as expenses in the financial statements. Please refer to note 19(e) for further details.

(q) Earnings per share

Basic earnings per share is determined by dividing the profit from ordinary activities after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by dividing the profit from ordinary activities after related income tax expense by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial year.

(r) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Finance Leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased items to the group are capitalized at the present value of the minimum lease payments and disclosed as property plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

(s) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures. Comparative earnings per share has been adjusted for the fundamental error. Please refer to Note 2(b).

NOTES

30 JUNE 2005	Notes	2005	2004
		$'000	$'000
2 (a). REVENUE FROM ORDINARY ACTIVITIES			
Revenues from operating activities			
Sale of goods		**244**	285
Service Income		**7,267**	7,302
Licence Income		**2,765**	1,521
Licence & Service Income fundamental error		—	(1,208)
Total revenues from operating activities		**10,276**	7,900
Revenues from non-operating activities			
Interest			
Other		**540**	502
Total interest		**540**	502
Total revenues from outside the operating activities		**540**	502
Total revenues from ordinary activities		**10,816**	8,402

2 (b). FUNDAMENTAL ERROR IN ACCRUED REVENUE

In June 2002, the company entered into a Heads of Agreement (HoA) with Mayne Health Diagnostic Imaging (Mayne), a major radiology provider. As part of the HoA, Mayne was to standardise its national IT network by using the full suite of Pro Medicus' software and e-health products including a significant "roll-out" of the company's appointments programme.

On the basis of the HoA, Pro Medicus implemented and was paid by Mayne for a range of products and services covered by the agreement. Appointments software installation work was completed and revenue accrued.

Mayne subsequently advised the company, citing internal, non Pro Medicus related reasons, that it had decided to defer final implementation of the Appointments system beyond June 2004.

Due to the deferral the directors, as a matter of appropriate and prudent financial reporting, reversed the accrued revenue for this Appointments system work pending final resolution of the deferral.

All costs associated with the work completed have been expensed.

30 JUNE 2005	Notes	2005 restated	2004 restated
		$000	$000
Revenues from ordinary activities		—	9,610
Expenses from ordinary activities		—	(3,382)
Profit from ordinary activities before income tax expense		—	6,228
Income tax expense		—	(1,805)
Profit from ordinary activities after income tax expense		—	4,423
Restatement of Retained Profits			
Previously reported retained profits at the beginning of the reporting period		—	10,739
Correction of fundamental error (net of income tax expense at 30%)		—	(846)
Restated retained profits at the beginning of the reporting period		—	9,893
Profit from Ordinary Activities after income tax expense		—	4,423
Less Final Dividend		—	(3,250)
Restated Retained Profits at the reporting date		—	11,066

	Notes	2005 $'000		2004 $'000	
3. EXPENSES AND LOSSES/(GAINS)					
Profit from ordinary activities has been determined after charging /(crediting) the following items:					
(a) Expenses					
Borrowing costs expensed					
Interest on Hire Purchase contracts			**1**		**11**
Total borrowing costs expensed			**1**		**11**
Accounting & Secretarial Fees			**162**		**154**
Advertising and Public Relations			**117**		**122**
Consulting Expenses			**101**		**32**
Cost of Goods Sold			**221**		**269**
Depreciation and Amortisation					
Motor Vehicles		**29**		35	
Office Equipment		**21**		20	
Furniture and Fittings		**11**		17	
Research & Development Equipment		**10**		7	
Intangible Asset		**15**		—	
Total Depreciation and Amortisation Expenses			**86**		79
Insurance			**111**		107
Legal Costs			**76**		96
Operating Lease Expenditure			**171**		167
Other Expenses			**93**		123
Research & Development costs			**394**		755
Salaries and Employee Benefits Expense			**1,448**		1,399
Travel and Accommodation			**136**		68
Total Other Expenses from Ordinary Activities			**3,116**		3,371
(b) Losses/(gains)					
Net foreign currency (gains)/losses			**2**		(12)
Total Losses/(gains)			**2**		(12)
4. INCOME TAX					
The prima facie tax, using tax rates applicable in the country of operation, on profit from ordinary activities differs from the income tax provided in the financial statements as follows:					
Prima facie tax on profit from ordinary activities			**2,310**		1,506
Tax effect of permanent differences					
Non-deductible Entertainment			**2**		3
Non-deductible Legal Costs			**—**		6
Research & Development Concession			**(126)**		(88)
Non-deductible depreciation on Motor Vehicles			**15**		2
Non-deductible amortisation on Intangible Asset			**5**		—
Other items (net)			**—**		15
Under/(over) provision of previous year			**—**		(1)
Income tax expense relating to ordinary activities			**2,206**		1,443

	Notes	2005 $'000	2004 $'000
Deferred tax assets and liabilities			
Current tax payable		**840**	541
Provision for deferred income tax – non-current		**181**	12
Future income tax benefit – non-current	10	**279**	257

5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

	Notes	2005 $'000	2004 $'000
(a) Dividends proposed and recognised as a liability			
Franked dividends 2005: (nil cents per share), (2004: nil cents per share)		**—**	—
(b) Dividends paid during the year			
(i) Current year interim			
Franked dividends (1.5c per share) (2004: 1.25c)		**1,500**	1,250
		1,500	1,250
(ii) Previous year final			
Franked dividends (2.25c per share) (2004: 2.0c)		**2,250**	2,000
(c) Dividends proposed and not recognised as a liability	20		
Final franked dividend (2.75c per share) (2004: 2.25c)		**2,750**	2,250
Special franked dividend (0.50c per share) (2004: nil)		**500**	—
Total dividends proposed		**3,250**	2,250
(d) Franking credit balance			
The amount of franking credits available for the subsequent financial year are:			
– franking account balance as at the end of the financial year (at 30%)		**4,522**	4,369
– franking credits that will arise from the payment of income tax payable as at the end of the financial year		**840**	541
– franking credits that the entity may be prevented from distributing in the subsequent financial year		**—**	—
		5,362	4,910

Franking credits above are reported on a "tax paid" basis.
The tax rate at which paid dividends have been franked is 30%, (2004: 30%). Dividends proposed and not recognised as a liability at 30 June 2005 were fully franked at the rate of 30% (2004: 30%).

6. RECEIVABLES (CURRENT)

	2005 $'000	2004 $'000
Trade Debtors	**3,825**	1,973
Other Debtors and Prepayments	**21**	41
Total Receivables (Current)	**3,846**	2,014

Terms and conditions relating to the above financial instruments
(i)Trade debtors are on 30 day trading terms.

	Notes	2005	2004
		$'000	$'000

7. INVENTORIES (CURRENT)

Finished goods			
At cost		**18**	4
Total inventories at lower of cost and net realisable value		**18**	4

8. INTANGIBLE ASSETS

Purchase of ProMed Clinical at cost		**75**	75
Less amortisation		**(15)**	—
		60	75
Capitalised Development costs at cost		**619**	—
Total Intangibles		**679**	75

9. PROPERTY, PLANT AND EQUIPMENT

Property Improvements		**184**	184
Accumulated depreciation		**(182)**	(182)
		2	2
Motor Vehicles		**34**	34
Accumulated depreciation		**(8)**	(3)
		26	31
Motor Vehicles Under Hire Purchase	(a)	**446**	446
Accumulated amortisation		**(362)**	(338)
		84	108
Office Equipment		**172**	163
Accumulated depreciation		**(131)**	(110)
		41	53
Furniture & Fittings		**216**	216
Accumulated depreciation		**(210)**	(199)
		6	17
Research & Development Equipment		**119**	96
Accumulated depreciation		**(88)**	(78)
		31	18
Total plant and equipment		**190**	229
Total plant and equipment Cost		**1,171**	1,139
Accumulated depreciation and amortisation		**(981)**	(910)
Total written down amount		**190**	229

(a) The Hire Purchase agreement has expired during the year. At year-end the motor vehicles under the agreement are now owned by Pro Medicus.

	Notes	2005 $'000	2004 $'000
9. PROPERTY, PLANT AND EQUIPMENT (cont'd)			
Reconciliations			
Property Improvements			
Carrying amount at beginning		**2**	2
Depreciation expense		**—**	—
		2	2
Motor Vehicles			
Carrying amount at beginning		**31**	1
Disposals		**—**	(1)
Additions		**—**	34
Depreciation expense		**(5)**	(3)
		26	31
Motor Vehicles Under Hire Purchase			
Carrying amount at beginning		**108**	140
Depreciation expense		**(24)**	(32)
		84	108
Office Equipment			
Carrying amount at beginning		**53**	57
Additions		**9**	16
Depreciation expense		**(21)**	(20)
		41	53
Furniture & Fittings			
Carrying amount at beginning		**17**	32
Additions		**—**	2
Depreciation expense		**(11)**	(17)
		6	17
Research & Development Equipment			
Carrying amount at beginning		**18**	7
Additions		**23**	18
Depreciation expense		**(10)**	(7)
		31	18
10. DEFERRED TAX ASSETS			
Future Income Tax Benefit	4	**279**	**257**
		279	**257**
11. PAYABLES (CURRENT)			
Trade creditors		**93**	151
Other creditors and accruals		**205**	111
Goods and services tax		**171**	177
		469	439
Deferred Income		**224**	38
		693	477

Terms and conditions relating to the above financial instruments:

(i) Trade creditors are non-interest bearing and are normally settled on 30-day terms.

(ii) Other creditors are non-interest bearing and have an average term of 1 month.

	Notes	**2005 $'000**	2004 $'000
12. INTEREST-BEARING LIABILITIES (CURRENT)			
Hire Purchase Liability- secured	18(a)	**—**	133
		—	133

Terms and conditions relating to the above financial instruments

(i) Hire Purchase contracts have a term of 2 years with the option to purchase the asset at the completion of the term for the asset's residual value. The average discount rate implicit in the leases is 7.0%, (2003: 7.0%). Secured hire purchase liabilities are secured by a charge over the hired assets.

	Notes	**2005 $'000**	2004 $'000
13. PROVISIONS (CURRENT)			
Employee entitlements	19	**527**	504
		527	504
14. PROVISIONS (NON-CURRENT)			
Employee entitlements	19	**359**	316
		359	316
15. CONTRIBUTED EQUITY			
(a) Issued and paid up capital			
Ordinary shares fully paid		**9**	9
		9	9

15 (b) Movements in shares on issue

	2005		2004	
	Number of Shares	$'000	Number of Shares	$'000
Beginning of the financial year	100,000,000	9	100,000,000	9
End of the financial year	100,000,000	9	100,000,000	9

(c) Share Options

Options over ordinary shares:

Employee share scheme

During the financial year, no additional options were issued over ordinary shares. The Option Plan states options are exercisable from the first anniversary from the date of issue with an issue term of 5 years. During the financial year nil (2004: nil) options were cancelled due to option holding staff leaving employment with Pro Medicus Ltd. The options have an exercise price of $1.15 and each option converts to one fully paid share. Details are provided in Note 19.

At the end of the year there were 2,470,000 (2004: 2,470,000) unissued ordinary shares in respect of which options were outstanding.

(d) Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

	Notes	2005 $'000	2004 $'000
16. RETAINED PROFITS			
Retained profits		**12,809**	11,066
(a) Retained profits			
Balance at the beginning of year		**11,066**	10,739
Net profit attributable to members of Pro Medicus Limited		**5,493**	3,577
Total available for appropriation		**16,559**	14,316
Dividends provided for or paid		**(3,750)**	(3,250)
BALANCE AT END OF YEAR		**12,809**	11,066

30 JUNE 2005	Notes	**2005 $'000**	2004 $'000
17. STATEMENT OF CASH FLOWS			
(a) Reconciliation of the profit from ordinary activities after tax to the net cash flows from operating activities			
Profit from ordinary activities after tax		**5,493**	3,577
Non-Cash Items			
Depreciation of non-current assets		**71**	79
Amortisation of Intangible Asset		**15**	—
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables		**(1,851)**	460
(Increase)/decrease in inventory		**(14)**	1
(Increase)/decrease in future income tax benefit		**(22)**	(20)
(Increase)/decrease in prepayments		**19**	9
(Decrease)/increase in deferred income		**187**	27
(Decrease)/increase in trade and other creditors		**35**	126
(Decrease)/increase in tax provision		**299**	(15)
(Decrease)/increase in deferred income tax liability		**169**	—
(Decrease)/increase in goods and services tax payable		**(6)**	46
(Decrease)/increase in employee entitlements		**66**	64
Net cash flow from operating activities		**4,461**	4,354
(b) Reconciliation of cash			
Cash balance comprises:			
– cash on hand		**10,406**	10,479
Closing cash balance		**10,406**	10,479
18. EXPENDITURE COMMITMENTS			
(a) Commitments in relation to hire purchase agreements are payable as follows:			
– not later than one year		**—**	134
– later than one year and not later than five years		**—**	—
– aggregate lease expenditure contracted for at balance date		**—**	134
Less: Future finance charges		**—**	(1)
		—	133
Aggregate expenditure commitments comprise:			
– current	12	**—**	133
– non-current		**—**	—
		—	133
(b) Non-Cancellable Operating Lease expenditure commitments			
Minimum lease payments			
- not later than one year		**178**	188
- later than one year and not later than five years		**704**	32
- later than five years		**29**	-
- aggregate lease expenditure contracted for at balance date		**911**	220

Operating lease payments are largely rental for operating premises at Swan Street Richmond. Please refer Note 24 Related Party Disclosures.

30 JUNE 2005	Notes	**2005 $'000**	2004 $'000
19. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS			
Employee Entitlements			
The aggregate employee entitlement liability is comprised of:			
Provisions (current)	13	**527**	504
Provisions (non-current)	14	**359**	316
		886	820

Employee Share Incentive Scheme

An employee share incentive scheme was established on 25th August 2000 whereby directors and staff of the Company were issued with options over the ordinary shares of Pro Medicus Limited. The options, issued for nil consideration, have an exercise price of $1.15. Options vest at 20% per annum commencing at the end of the first anniversary of issue. The options cannot be transferred and will not be quoted on the ASX. There are currently 14 staff members, 2 executive directors and 3 non-executive directors eligible for this scheme.

Information with respect to the number of options granted under the employee share incentive scheme is as follows:

	2005 Number of Options	**Weighted average exercise price**	2004 Number of Options	Weighted average exercise price
Balance at beginning of the year	**2,470,000**	**$1.15**	2,470,000	$1.15
- granted	**—**	**—**	—	—
- forfeited	**—**	**—**	—	—
- exercised	**—**	**—**	—	—
Balance at end of year	**2,470,000**	**$1.15**	2,470,000	$1.15
Exercisable at end of year	**1,976,000**	**$1.15**	1,482,000	$1.15

(a) Options held at the beginning of the reporting period:

The following table summarises information about options held by employees as at 1 July 2004:

Number of options	**Grant Date**	**Vesting Date**	**Expiry Date**	**Weighted average exercise price**
494,000	25 August 2000	25 August 2001	25 August 2010	$1.15
494,000	25 August 2000	25 August 2002	25 August 2010	$1.15
494,000	25 August 2000	25 August 2003	25 August 2010	$1.15
494,000	25 August 2000	25 August 2004	25 August 2010	$1.15
494,000	25 August 2000	25 August 2005	25 August 2010	$1.15

(b) Options granted during the reporting period:

No options (2004 nil) were granted during the year.

(c) Options exercised:

No options (2004 nil) were exercised during the year.

(d) Options held as at the end of the reporting period:

The following table summarises information about options held by the employees as at 30 June 2005:

Number of options	**Grant Date**	**Vesting Date**	**Expiry Date**	**Weighted average exercise price**
494,000	25 August 2000	25 August 2001	25 August 2010	$1.15
494,000	25 August 2000	25 August 2002	25 August 2010	$1.15
494,000	25 August 2000	25 August 2003	25 August 2010	$1.15
494,000	25 August 2000	25 August 2004	25 August 2010	$1.15
494,000	25 August 2000	25 August 2005	25 August 2010	$1.15

19. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS (cont'd)

(e) Fair value of options:

The fair value of each option is estimated on the date of grant using a Black Scholes option-pricing model with the following assumptions used for grants made on 25 August 2000.

Dividend yield	4.68%
Expected volatility	51.9%
Historical volatility	51.9%
Risk-free interest rate	6.37%
Expected life of option	7.0 years

The dividend yield reflects the assumption that the current dividend payout will continue in line with the policy adopted to determine the 2003 final dividend which was based on a payout of between 60% and 70% of Profit after Tax. As no options have been exercised the expected life of the options is based on best estimate and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The resulting fair value per option vesting after 1 July 2001 are:

Number of options	Grant date	Vesting date	Weighted average fair value
494,000	25 August 2000	25 August 2001	0.44
494,000	25 August 2000	25 August 2002	0.44
494,000	25 August 2000	25 August 2003	0.44
494,000	25 August 2000	25 August 2004	0.44
494,000	25 August 2000	25 August 2005	0.44

Currently, these fair values are not recognised as expenses in the financial statements. However, should these grants be expensed, they would be amortised over the vesting periods resulting in an increase in employee benefits expense of $51,958 for the 2005 financial year (2004: $109,127). Note that no adjustments to these amounts have been made to reflect estimated or actual forfeitures (i.e., options that do not vest).

Superannuation Commitments

Superannuation contributions are paid by the Company in accordance with relevant statutory requirements. Contributions of 9% of employee's ordinary time earnings are legally enforceable in Australia up to 30 June as the legal minimum. The superannuation plans provide accumulated benefits.

Executive [non-directors] Performance Based Incentive Share Plan

A performance based employee incentive share plan has been established to provide fully paid shares to nominated executives for achieving various performance hurdles.
At the date of this report the structure to manage this has been completed but no allocations of shares have been made.

20. SUBSEQUENT EVENTS

(i) A Final Dividend of 2.75 (2004: 2.25) cents per share has been declared since 1 July. Please refer Note 5(c). This Final Dividend was based on the Directors' decision to maintain the normal dividend payout to distribute at least 60 and 70% of Profit after Tax.

(ii) A Special Dividend of 0.50 (2004: nil) cents has been declared since 1 July. Please refer Note 5(c) and Directors' Report – Review and Results of Operations - Shareholder Returns.

No other significant post balance date events have been identified.

30 JUNE 2005	Notes	**2005** **$**	2004 $

21. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share		
Net Profit	**5,492,904**	3,576,846
Earnings base used in calculating Basic & Diluted earnings per share- reported in Financial Statements	**5,492,904**	3,576,846
Net Profit	**5,492,904**	3,576,846
Adjustments		
Effect of Fundamental Error	**—**	845,975
Earnings base used in calculating Basic & Diluted earnings per share- restated for effect of fundamental error	**5,492,904**	4,422,821
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share.	**100,000,000**	100,000,000
Effect of potential ordinary shares:		
Number of potential ordinary shares outstanding that are not considered dilutive	**2,470,000**	2,470,000
Weighted average number of ordinary shares used in the calculation of diluted earnings per share.	**100,000,000**	100,000,000

(a) Conversions, calls, subscription or issues after 30 June 2005

Since the end of the financial year, no ordinary shares have been issued pursuant to the employee share incentive scheme. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

22. AUDITORS' REMUNERATION

	2005	2004
Amounts received or due and receivable by Ernst & Young for:	**$**	$
– an audit or review of the financial report of the Company	**63,400**	59,500
– other services in relation to the Company	**4,900**	8,360
	68,300	67,860

23.DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified directors

Melvyn Keith Ward	Chairman (non-executive)
Dr Peter David Jonson	Deputy Chairman (non-executive)
Philip Gregory Molyneux	Chairman Audit Committee (non-executive)
Dr Sam Aaron Hupert	Managing Director and CEO
Anthony Barry Hall	Executive Director and Technology Director

(ii) Specified executives

Geoffrey William Holden	Chief Financial Officer & Company Secretary
Danny Tauber	Chief Operations Officer

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

Given the small number of Directors the board decided it was more appropriate to handle board nomination and remuneration issues at board level. In order to maintain good corporate governance the non-executive directors have assumed authority for determining and reviewing compensation arrangements for the Chief Executive Officer and Technology Director who will in turn review remuneration for the non-executive directors. The full board is responsible for the review of the Company Secretary remuneration and the board has delegated the responsibility of executive remuneration to the management.
The assessment process includes the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment and market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

To assist in achieving these objectives, the reviewing parties link the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance. All directors and executives have the opportunity to qualify for participation in the Employee Share Option Plan and the Executive Share Incentive Plan which currently provides incentives where specified criteria are met including criteria related to profitability, cash flow, share price growth and environmental performance.
Executive Service Contracts, on similar terms and conditions, have been prepared for the Chief Executive Officer and Technology Director.
These agreements provide the following major terms:

- Each executive will receive a remuneration package which is to be reviewed annually;
- The agreements protect the Company's confidential information and provide that any inventions or discoveries of an executive become the property of the Company;
- Non-competition during employment and for a period of 12 months thereafter; and
- Termination by the Company on six months notice or payment of six months remuneration in lieu of notice or a combination of both (or without notice or payment in lieu in the event of misconduct or other specified circumstances). The agreements may be terminated by the executives on the giving of six months notice.

(ii) Remuneration of Specified Directors and Specified Executives

	Primary		Post Employment	Equity Options	Total
	Salary & Fees	Non Monetary benefits	Super-annuation		
Specified Directors					
M K Ward	70,000	—	6,300	8,414	84,714
P D Jonson	35,000	—	3,150	4,207	42,357
P G Molyneux	35,000	—	3,150	4,207	42,357
S A Hupert	268,415	8,629	11,585	8,940	297,569
A B Hall	268,415	6,648	11,585	8,940	295,588
Total Remuneration: Specified Directors	676,830	15,277	35,770	34,708	762,585
Specified Executives					
G W Holden	95,000	—	45,000	1,788	141,788
D Tauber	263,415	—	11,585	7,362	282,362
Total Remuneration: Specified Executives	358,415	—	56,585	9,150	424,150

23. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

(c) Remuneration options: Granted and vested during the year

During the year no new options were granted

	Vested Number
Specified Directors	
M K Ward	80,000
P D Jonson	40,000
P G Molyneux	40,000
S A Hupert	85,000
A B Hall	85,000
Specified Executives	
G W Holden	17,000
D Tauber	70,000
Total	**417,000**

(d) Shares issued on exercise of remuneration options

No shares have been issued during the year.

(e) Option holdings of specified directors and specified executives

	Balance at beginning of period	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period	Vested at 30 June 2005		
	1 July 2004			#	30 June 2005	Total	Not exercisable	Exercisable
Specified Directors								
M K Ward	400,000	—	—	—	400,000	320,000	—	320,000
P D Jonson	200,000	—	—	—	200,000	160,000	—	160,000
P G Molyneux	200,000	—	—	—	200,000	160,000	—	160,000
S A Hupert	425,000	—	—	—	425,000	340,000	—	340,000
A B Hall	425,000	—	—	—	425,000	340,000	—	340,000
Specified Executives								
G W Holden	85,000	—	—	—	85,000	68,000	—	68,000
D Tauber	350,000	—	—	—	350,000	280,000	—	280,000
Total	**2,085,000**	**—**	**—**	**—**	**2,085,000**	**1,668,000**	**—**	**1,668,000**

 # Includes forfeits and offer to all employees under the Employee Share Scheme dated

23. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

(f) Shareholdings of Specified Directors and Specified Executives

Shares held in Pro Medicus Limited (number)	Balance 1 July 04	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 05
	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
Specified Directors					
M K Ward	50,000	—	—	—	50,000
P D Jonson	50,000	—	—	—	50,000
P G Molyneux	25,000	—	—	—	25,000
S A Hupert	^40,172,660	—	—	—	40,172,660
A B Hall	#40,259,000	—	—	—	40,259,000
Specified Executives					
G W Holden	35,000	—	—	—	35,000
D Tauber	—	—	—	268,000	268,000
Total	**80,591,660**	**—**	**—**	**268,000**	**80,859,660**

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Personally Related shareholdings included in total:
^ 100,000 shares #190,500 shares

24. RELATED PARTY DISCLOSURES

Other related party transactions

Directors and director-related entity transactions

Lease payments of $171,255 (2004 $167,426) in respect of the operating premises paid to Champagne Properties Pty. Ltd., an entity controlled by S. Hupert and A. Hall. Commercial arrangements on an 'arms length basis' have been determined by an independent assessment of rental and lease terms.

25. SEGMENT INFORMATION

The Company operates predominantly in one industry being, information technology within the health care industry and in two geographical areas being Australia and North America.

Geographic Segments

	Australia		North America		Pro Medicus Ltd	
	2005	2004	**2005**	2004	**2005**	2004
Revenue	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Sales to customers outside the company	8,269	7,900	2,007	—	10,276	7,900
Total segment revenue	8,269	7,900	2,007	—	10,276	7,900
Interest Revenue					540	502
Total Revenue					10,816	8,402
Results						
Segment Result	6,215	5,020	1,484	—	7,699	5,020
Non segment expenses						
Income Tax Expense					(2,206)	(1,443)
Net Profit					5,493	3,577
Assets						
Segment Assets	12,398	12,801	2,741	—	15,139	12,801
Non segment assets						
Income Tax Assets					279	257
Total Assets					15,418	13,058
Liabilities						
Segment Liabilities	1,334	1,442	245	—	1,579	1,430
Non segment liabilities						
Tax Liabilities					1,021	553
Total Liabilities					2,600	1,983

25 SEGMENT INFORMATION

	Australia		North America		Pro Medicus Ltd	
	2005	2004	**2005**	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Other segment information:						
Acquisition of intangible assets	**167**	75	**452**	—	**619**	75

26. IMPACT OF ADOPTING AASB EQUIVALENTS TO IFRS

Pro Medicus Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standard (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. In 2004, the company allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, the Pro Medicus transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Pro Medicus prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to(a) ongoing work being undertaken by the Chief Financial Officer; (b) potential amendments to the AIFRS and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG interpretations.

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

	Notes	Pro Medicus Limited	
		30 June 2005**	1 July 2004*
		$'000	$'000
Total Equity under AGAAP		12,818	11,075
Adjustments to retained earnings (net of tax)			
Tax effect on introduction of IFRS	(i)	-	11
Total equity under AIFRS		12,818	11,086

* This column represents the adjustments as at the date of transition to AIFRS.
** This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005.
(i) AASB 112 *Income Taxes* requires the company to use a balance sheet liability method, rather than the current income statement method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. This would result in the recognition of a deferred tax liability in relation to any re-valued assets.
(ii) Options are issued to directors and employees. These options were granted prior to 7 November 2002, and as such the company is encouraged but not required to apply the recognition and measurement requirements of AASB2. Accordingly management has elected not to apply these requirements to these options.

(b) Reconciliation of net profit under AGAAP to that under AIFRS

	Notes	Pro Medicus Limited
		$'000
Net Profit as reported under AGAAP		5,493
Adjustments		—
Net Profit AIFRS		5,493

(c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

27. FINANCIAL INSTRUMENTS

(a) Accounting policies

Details of significant accounting policies in respect of each class of financial asset and financial liability are disclosed in Note 1 Significant Accounting Policies.

(b) Interest rate risk

The Company's exposure to interest rate risks and the effective interest rate of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in: 1 year or less		Over 1 to 5 years		More than 5 years		Non-interest bearing		Total carrying amount as per the balance sheet		Weighted average effective interest rate	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**%**	%
(i) Financial assets														
Cash	**10,406**	10,479	**—**	—	**—**	—	**—**	—	**—**	—	**10,406**	10,479	**5.2**	3.8
Trade and other receivables	**—**	—	**—**	—	**—**	—	**—**	—	**3,846**	2,014	**3,846**	2,014	**N/A**	N/A
Total financial assets	**10,406**	10,479	**—**	—	**—**	—	**—**	—	**3,846**	2,014	**14,252**	12,493	**5.2**	3.8
(ii) Financial liabilities														
Trade creditors and accruals	**—**	—	**—**	—	**—**	—	**—**	—	**469**	439	**469**	439	**N/A**	N/A
Hire Purchase Liability	**—**	—	**—**	133	**—**	—	**—**	—	**—**	—	**—**	133	**N/A**	7.0
Total Financial Liabilities	**—**	—	**—**	133	**—**	—	**—**	—	**469**	439	**469**	572	**N/A**	7.0

27. FINANCIAL INSTRUMENTS (Cont'd)

(c) Net fair values

For all financial assets and liabilities, the carrying amount approximates fair value.

(d) Credit risk exposures

The Company minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers within the specified industry.

Concentrations of credit risk

Concentrations of credit risk on trade receivables arise in the following industries:

	Maximum credit risk exposure* for each concentration			
	Percentage of total trade debtors		$'000	
INDUSTRY	2005	2004	2005	2004
Diagnostic Imaging	100	100	3,825	1,973
	100	100	3,825	1,973

*The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entites/parties fail to perform their obligations under the financial instruments in question.

Credit risk in trade receivables is managed in the following ways:

- payment terms are 30 days;
- a risk assessment process is used for customers over $50,000; and
- high dollar value deposits and/or bank & other guarantees are obtained for high-risk customers.

Directors' Declaration

In accordance with a resolution of the directors of Pro Medicus Limited, I state that:

(1) In the opinion of the directors:

(a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards and 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.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.

On behalf of the Board

M K Ward
Chairman

Melbourne, 24 August 2005

ERNST & YOUNG

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Independent audit report to members of Pro Medicus Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Pro Medicus Limited (the company), for the year ended 30 June 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, 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 of the financial report in order to express an opinion on it 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 in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit 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.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

ERNST & YOUNG

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed. In addition to our audit of the full financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Pro Medicus Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of Pro Medicus Limited at 30 June 2005 and of its performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

David Petersen
Partner
Melbourne
Date: 24 August 2005

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 July 2005

(a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of share are:

	Ordinary shares Number of holders	Number of shares
1 – 1,000	163	124,933
1,001 – 5,000	621	2,032,981
5,001 – 10,000	307	2,527,838
10,001 – 100,000	263	7,254,389
100,001 and Over	14	88,059,859
	1,368	100,000,000
The number of shareholders holding less than a marketable parcel of 439 shares are:	20	3,860

(b) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

		Listed ordinary shares Number of shares	Percentage of ordinary shares
1	**Dr S Hupert**	**40,072,660**	40.10%
2	**Mr A Hall**	**40,068,500**	40.10%
3	**Citicorp Nominees Pty Ltd <CFS Developing Companies**	**6,340,202**	6.34%
4	**Mr D Tauber**	**291,000**	0.29%
5	**Mr M Roth & Ms B Roth**	**222,000**	0.22%
6	**Mrs Tung Yueh-Ying Tsai**	**173,500**	0.17%
7	**Summerbay Investments Pty Ltd**	**160,000**	0.16%
8	**Crosbie Holdings A/S**	**150,000**	0.15%
9	**Prodin Management Services Pty Ltd**	**140,000**	0.14%
10	**Mellett Super Pty Ltd**	**125,000**	0.13%
11	**Mr S J Wilson & Ms D A Prandi**	**121,907**	0.12%
12	**Mrs R P Hall**	**115,000**	0.12%
13	**Mr S G Hannes**	**111,250**	0.11%
14	**Miss P Pringle**	**110,000**	0.11%
15	**Mr A Cross**	**100,000**	0.10%
16	**Mrs R Hupert**	**100,000**	0.10%
17	**Mini Nominees**	**100,000**	0.10%
18	**National Nominees Limited**	**100,000**	0.10%
19	**Tortlite Pty Ltd**	**100,000**	0.10%
20	**Ms V E Hirschfeld & Mr E Matla & Mr H B Rennie**	**90,000**	0.09%
		88,691,019	**88.69%**

(c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Law are:

	Number of shares
S. Hupert	**40,072,660**
A Hall	**40,068,500**
Commonwealth Bank of Australia	**6,340,202**

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

Corporate Governance

The Board of Directors of Pro Medicus Limited is responsible for the corporate governance of the entity. The Board guides and monitors the business and affairs of Pro Medicus Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities it supports, and has adopted where considered appropriate, the principles set out in the ASX Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations" dated March 2003. Pro Medicus Limited corporate governance practices were in place throughout the year ended 30 June 2005 and except where noted in this report, were compliant with the Council's best practice recommendations.

For further information on corporate governance policies adopted by Pro Medicus Limited, refer to our website: www.promedicus.com.au

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report.

The composition of the Board was determined in accordance with the following principles and guidelines:

- The Board should comprise at least five directors and should maintain a majority of non-executive directors;
- The Chairperson must be a non-executive director and not occupy the role of CEO;
- The Board should comprise directors with an appropriate range of qualifications and expertise; and
- The Board shall meet monthly and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

Directors of Pro Medicus Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Pro Medicus Limited are considered to be independent:

Name	Position
M K Ward	Chairman, Non-Executive Director
P D Jonson	Deputy Chairman, Non-Executive Director
P G Molyneux	Non-Executive Director, Chairman Audit Committee

The board has codified a list of its responsibilities consistent with the recommendations and details are disclosed on the company website.

The Board wishes to advise that it continues to maintain responsibility for the actions of the chief executive officer and any tasks delegated to the management by the Board.

Directors' Appointment Letters have not been revised in the prescribed format as the board considered this unnecessary given the small number of fairly recently appointed current directors who understand their roles and responsibilities. The board has undertaken that the recommended format should be used for any future director appointments.

The term in office held by each director in office at the date of this report is 4 years however Mr. Sam Hupert and Mr. Anthony Hall were directors in Pro Medicus Pty Ltd since incorporation in 1983.

Code of Conduct and Securities Trading Policy

The board has developed a "Code of Conduct" and a "Securities Trading Policy" consistent with the recommendations and details are disclosed on the company website.

Committees

The current Board of five Directors was appointed on April 4, 2000. Due to the small number of Directors, the Board decided it was more appropriate to handle nomination and remuneration issues at full Board level. No Committees for these functions have been established at this time.

In addition the full Board handles any matters as and when they arise concerning environmental issues, occupational health and safety, finance and treasury.

In order to maintain good corporate governance the Non-Executive Directors will assume responsibility for determining and reviewing compensation arrangements for the Chief Executive Officer and Technology Director who will in turn review the terms for the Non-Executive Directors. The full Board will review the terms of employment for the Company Secretary.

The Board has delegated the responsibility of executive remuneration to the management who will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality executive team. Independent experts have been consulted to provide appropriate information to ensure decisions are soundly based.

The appointment of appropriately skilled Non-Executive Directors, together with a broadly unchanged business base has meant no new director nominations have been required to date.

Strategic planning has been an important objective of the Board. Meetings are scheduled so that all Board members can attend and are conducted in an informal fashion to allow non-executive directors to gain enhanced industry, customer, product and research knowledge.

Audit Committee

The board has established an audit committee, which operates under a charter approved by the Board.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes. This also includes the safeguarding of assets, the maintenance of proper accounting records, and reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the entity to the audit committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are non-executive directors.

The members of the audit committee are:
P G Molyneux Chairman
M K Ward
P D Jonson

The audit committee is also responsible for nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half yearly audit review.

A copy of the Audit Committee Charter is posted on the company website.

The Company is small with a total staff at present of twenty full time people so it should be understood that the Chief Executive Officer and Chief Financial Officer play key roles in all financial aspects of the business. Both people will provide a written assurance to the board in the prescribed format.

Board Responsibilities

As the Board acts on behalf of and is accountable to the shareholders, it seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board seeks to discharge these responsibilities in a number of ways.

The Board has delegated responsibility for the operation and administration of the entity to the Chief Executive Officer and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Chief Executive and the executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the establishment of the committee referred to above, these mechanisms include the following:

- approval of strategic plans, which encompass the entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk;
- involvement in developing the strategic plan (a dynamic document) and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- overseeing implementation of operating plans and budgets by management and monitoring of progress against budget - this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes; and

- utilising appropriately skilled professionals to provide advice on relevant discussion topics and procedures to allow Directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the Chairman annually reviews the performance of all Directors who will be asked to retire from the board if not performing in a satisfactory manner.

Monitoring of the Board's Performance and Communication to Shareholders - Continuous Disclosure Policy

The board has developed a written policy to ensure compliance with the ASX Listing Rules on continuous disclosure and has adopted measures to ensure the market and shareholders are fully informed. The measures in place require all potential market sensitive matters are discussed with the Chief Executive Officer who in conjunction with the Chairman and other relevant directors decide whether to make an appropriate announcement to the market.

Only nominated authorised persons have the authority to release these communications to the ASX. This policy is displayed on the company website.

Shareholder Communication

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors. Information is communicated to the shareholders through:

- the annual report which is distributed to all shareholders registered to receive copies;
- the annual general meeting and other meetings so called to obtain approval for Board action as appropriate;
- an up to date website - www.promedicus.com.au;
- email contact with registered users; and
- special written communications to shareholders distributed with the dividend notifications.

The company is adopting procedures to ensure that any material given to a particular group is available to all interested parties via the company website. This includes any material presented at the Annual General Meeting.

A representative of the external auditors Ernst & Young will continue to attend the Annual General Meeting.

Risk Management Policies

The Company up until late in the financial period was not exposed to any interest rate or significant currency sensitive loans or debts. Given the increase in overseas operations there is now an increased currency risk as a consequence of contracts written in and cash being held in foreign currencies. This change in risk profile has been noted by the board and action is being taken to manage this risk.

The Board oversees appropriate backup procedures for important company data.

Detailed annual review of insurance policies in force to ensure cover is at appropriate levels to safeguard key executives, Company assets and operations.

The Board regularly considers succession planning to ensure staff of appropriate skill and experience are available to the Company.

Corporate Information

ABN 25 006 194 752

Directors

The names of the Directors of the Company in office during the year and until the date of this report are:

Melvyn Keith Ward	Chairman
Dr Peter David Jonson	Deputy Chairman
Dr Sam Aaron Hupert	Managing Director
Anthony Barry Hall	Technical Director
Philip Gregory Molyneux	Non-Executive Director/Chairman Audit Committee

Company Secretary

Geoffrey William Holden CA

Registered Office

450 Swan Street
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Solicitors

Madgwicks
Innovation Law

Bankers

Westpac Banking Corporation

Share Register

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Facsimile +613 9615 9900
E-mail registrars@asxperpetual.com.au
Website: www.asxperpetual.com.au

You can do so much more online

Did you know that you can access – and even update – information about your holdings in Pro Medicus Limited via the Internet.

Visit ASX Perpetual's website www.asxperpetual.com.au and access a wide variety of holding information, make some changes online or download forms. You can:

- Check your current and previous holding balances
- Choose your preferred annual report delivery option
- Update your address details
- Update your bank details
- Lodge, or confirm lodgement of, your Tax File Number (TFN), Australian Business Number (ABN) or exemption
- Check transaction and dividend history
- Enter your email address

- Check the share prices and graphs
- Download a variety of instruction forms
- Subscribe to email announcements

You can access this information via a security login using your Security holder Reference Number (SRN) or Holder Identification Number (HIN) as well as your surname (or company name) and postcode (must be the postcode recorded on your holding record).

Don't miss out on your dividends
Dividend cheques that are not banked are required to be handed over to the State Trustee under the Unclaimed Monies Act. You are reminded to bank cheques immediately.

Better still, why not have us do your banking for you.
Wouldn't you prefer to have immediate access to your dividend payment? Your dividend payments can be credited directly into any nominated bank, building society or credit union account in Australia as cleared funds on dividend payment date – and we will still mail [(or email if you prefer)] you a dividend advice confirming your payment details. Not only can we do your banking for you, but payment by direct credit eliminates the risk of cheque fraud.

Top 5 tips for Pro Medicus Limited investors visiting ASX Perpetual's website
1. Bookmark www.asxperpetual.com.au – to bookmark, click on 'Favourites' on the menu bar at the top of your browser then select 'Add to Favourites'
2. Create a portfolio for your holding or holdings and you don't have to remember your SRN or HIN every time you visit
3. Lodge your email via the 'Communications Options' and benefit from the online communications options Pro Medicus Limited offers its investors
4. Check out the 'FAQs' page (accessible via the orange menu bar) for answers to frequently asked questions
5. Use the 'Client List' page (accessible via the orange menu bar) to link to Pro Medicus Limited website and the website of the other ASX Perpetual clients in which you invest.

Contact Information
You can also contact the Pro Medicus Limited share registry by calling
613 9615 999 or Toll Free 1300 554 474

Auditors
Ernst & Young

Internet Address
www.promedicus.com.au
www.promedicus.com