

PRO MEDICUS LIMITED
Directors' Report

Your Directors submit their report for the half-year ended 31 December 2004.

DIRECTORS

The names and details of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

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)

Dr Peter David Jonson

B.Comm(Hons), M.A.(Hons), PhD, F.A.I.C.D, F.A.A.S.S. (Deputy Chairman)

Dr Sam Aaron Hupert

M.B.B.S. (Managing Director and Chief Executive Officer)

Anthony Barry Hall

B.Sc.(Hons), M.Sc. (Executive Director and Technology Director)

Philip Gregory Molyneux

B.Econ, F.C.A. (Non-Executive Director)

REVIEW AND RESULTS OF OPERATIONS

Pro Medicus today reported an after tax profit of \$1.802 million which is an increase of 70.5% on the December 2003 reported result. This was based on revenue of \$4.489m which is an increase of 40.7% compared with the comparable prior period result which included a "Fundamental Error" adjustment. Please refer Note 3 of the Condensed Half Year Financial Statements. As a result, the company has announced an increased interim dividend of 1.5c per share.

During the half, the company expensed a number of non recurring costs related to the Agfa North American transaction and the ProMed Clinical product including party for party legal costs defending the HCN copyright claim. The company does not anticipate any further significant one-off costs relating to these projects in the second half. As previously announced, increased revenue from these projects is expected to come on stream in the second half.

Financially the company continued its 20 plus year history of a strong balance sheet with Cash reserves of \$10.4 million whilst remaining operationally debt free.

During the past half year, the company continued its focus on higher margin software sales, e-health and services. Profit before tax to revenue from operating activities on published figures was 60.2% (2003: 50.2%).

Promedicus.net, the company's e-health offering, continued its strong growth. Over 17,000 doctors are now registered to use the network making promedicus.net the leading e-health provider in Australia. The network carried 1.3 million transactions for the half-year, a 12.0% increase on the previous comparative period. The company continued to maximise the value of promedicus.net by extending its use to non-radiology providers, a trend it anticipates will accelerate through the 2005 financial year. It also intends to leverage its relationship with the 17,000 doctors using promedicus.net 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 10 sites, covering private, large corporate and public radiology providers. The level of market interest reinforces the company's confidence that the efficiency and clinical benefits the technology offers will inevitably drive the radiology industry towards a fully digital environment.

The half also saw considerable expansion of the company's overseas efforts with the announcement of a three-year agreement with Agfa-Gevaert. Under the terms of the agreement Agfa will exclusively distribute Pro Medicus Practice Management and Digital Imaging products in the private imaging centre market in the US and Canada.

Directors' Report cont.

The products first demonstrated at the Radiological Society of North America (RSNA) meeting in Chicago in December 2004 have received positive response and it is anticipated that key reference sites in the US will be in place in the near future.

The company also announced its first major sale in North America with the \$2.2 million sale to the AltaPACS group in Calgary. The first site in Canada has been installed ahead of schedule in December 2004 and subject to final acceptance for the site the company anticipates the remaining 22 AltaPACS sites will be installed prior to 30th June 2005.

The company intends to continue to focus on growth of promedius.net, developing the market for Promed clinical and promoting it's world class digital radiology integration technology both here in Australia and overseas.

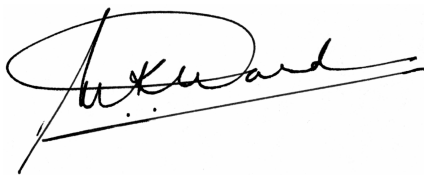
ROUNDING

The amounts contained in this report and in the half-year 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 Class Order applies.

AUDITORS' INDEPENDENCE DECLARATION

In accordance with section 307C of the Corporations Act 2001, we have obtained a declaration of independence from our auditors Ernst & Young, a copy of which is attached at Appendix 1.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'M K Ward', with a horizontal line underneath it.

M K Ward

Chairman

Melbourne, 21 February 2005

CONDENSED STATEMENT OF FINANCIAL PERFORMANCE

HALF-YEAR ENDED 31 DECEMBER 2004	Notes	2004 \$'000	2003 \$'000
Revenues from ordinary activities before fundamental error	2	4,489	4,398
Correction of fundamental error	3	—	(1,208)
Revenues from ordinary activities		4,489	3,190
Expenses from ordinary activities	2	(1,945)	(1,708)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		2,544	1,482
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES (including the effect of the correction of the fundamental error)		(742)	(425)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		1,802	1,057
NET PROFIT		1,802	1,057
NET PROFIT ATTRIBUTABLE TO MEMBERS OF PRO MEDICUS LIMITED		1,802	1,057
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		1,802	1,057
Basic earnings per share (cents per share)		1.80¢	1.06¢
Diluted earnings per share (cents per share)		1.80¢	1.06¢
Franked dividends per share (cents per share)		1.50¢	1.25¢

CONDENSED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2004	Notes	Dec 2004 \$'000	Jun 2004 \$'000
CURRENT ASSETS			
Cash assets		10,360	10,479
Receivables		1,365	2,014
Inventories		3	4
TOTAL CURRENT ASSETS		11,728	12,497
NON-CURRENT ASSETS			
Intangible Asset		75	75
Property, plant and equipment		206	229
Deferred tax assets		274	257
TOTAL NON-CURRENT ASSETS		555	561
TOTAL ASSETS		12,283	13,058
CURRENT LIABILITIES			
Payables		358	477
Interest-bearing liabilities		—	133
Current tax liabilities		412	541
Provisions		539	504
TOTAL CURRENT LIABILITIES		1,309	1,655
NON-CURRENT LIABILITIES			
Deferred tax liabilities		—	12
Provisions		347	316
TOTAL NON-CURRENT LIABILITIES		347	328
TOTAL LIABILITIES		1,656	1,983
NET ASSETS		10,627	11,075
EQUITY			
Contributed equity		9	9
Retained profits		10,618	11,066
TOTAL EQUITY		10,627	11,075

CONDENSED STATEMENT OF CASH FLOWS

HALF-YEAR ENDED 31 DECEMBER 2004	Notes	2004 \$'000	2003 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		4,999	5,003
Payments to suppliers and employees		(2,087)	(1,583)
Interest received		266	235
Borrowing costs		(1)	(7)
Income tax paid		(900)	(970)
NET CASH FLOWS FROM OPERATING ACTIVITIES		2,277	2,678
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(13)	(48)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		(13)	(48)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of hire purchase borrowings		(133)	(27)
Payment of dividends on ordinary shares		(2,250)	(2,000)
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		(2,383)	(2,027)
NET INCREASE/(DECREASE) IN CASH HELD		(119)	603
Add opening cash brought forward		10,479	9,579
CLOSING CASH CARRIED FORWARD		10,360	10,182

Notes to the Half-Year Condensed Financial Statements

31 DECEMBER 2004

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Pro Medicus Limited as at 30 June 2004. It is also recommended that the half-year Financial Report be considered together with any public announcements made by Pro Medicus Limited during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year 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 half-year financial report has been prepared in accordance with the historical cost convention.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Changes in accounting policies

The accounting policies applied are consistent with the most recent annual financial report for the year ended 30 June 2004.

NOTES (cont)	Notes	2004	2003
31 DECEMBER 2004		\$'000	\$'000
2. PROFIT FROM ORDINARY ACTIVITIES			
(a) Specific Items			
Profit from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:			
(i) Revenues from operating activities			
Sale of goods		214	150
Service Income		3,378	2,818
Licence Income		631	1,195
Licence & Service Income fundamental error correction		—	(1,208)
(ii) Revenues from non-operating activities			
Interest		266	235
Total Revenue from ordinary activities		4,489	3,190
(iii) Expenses			
Accounting & Secretarial Fees		87	89
Advertising and Public Relations		70	48
Borrowing costs expensed		1	7
Consulting Fees		45	—
Cost of Goods Sold		186	124
Depreciation and Amortisation		37	39
Insurance		56	51
Legal Expenses		35	17
Operating Lease Expenditure		85	83
Other Expenses		74	68
Research & Development Costs		408	380
Salaries and Employee Benefits Expense		781	764
Travel and Accommodation		80	38
Total Expenses from ordinary activities		1,945	1,708

NOTES (cont)

31 DECEMBER 2004

3. 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 ehealth 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.

Pro Forma Statement of Financial Performance	Notes	6 mths to Dec 2004 \$000	6 mths to Dec 2003 \$000 restated
Revenues from ordinary activities		—	4,398
Expenses from ordinary activities		—	(1,708)
Profit from ordinary activities before income tax expense		—	2,690
Income tax expense		—	(787)
Profit from ordinary activities after income tax expense		—	1,903
Restatement of Retained Profits		Dec 2004 \$000	Dec 2003 \$000 restated
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		—	1,903
Less Final Dividend		—	(2,000)
Restated Retained Profits at the reporting date		—	9,796

The Statement of Financial Performance for the 6 months ended 31 December 2004 and the Retained Profits at 31 December 2004 do not require restatement because the fundamental error was corrected in 2003.

NOTES (cont)

31 DECEMBER 2004

Notes

2004

2003

\$'000

\$'000

4. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

(a) Dividends proposed and recognised as a liability

Franked dividend

—

—

(b) Dividends paid during the half-year

Franked dividend

2,250

2,000

(c) Dividends proposed and not recognised as a liability

Franked dividend

1,500

1,250

5. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

6. SEGMENT INFORMATION

The Company operates predominantly in one industry being information technology within the health care industry and in material terms for this report, one geographical area being Australia.

7. SUBSEQUENT EVENTS

An interim dividend of 1.50 (2003: 1.25) cents per share has been declared since 31 December 2004.

No other significant post balance date events have been identified.

8. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Pro Medicus Limited has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). As Pro Medicus has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Pro Medicus prepares its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Pro Medicus. At this stage the company has not been able to reliably quantify the impacts on the financial report.

Impairment of Assets

Under the Australian equivalent to IAS 36 Impairment of Assets the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the company's current accounting policy which determines the recoverable amount of an asset on the basis of discounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

Intangible Assets

Pro Medicus has one small intangible asset recorded. The change in accounting policy will not result in a material impact - refer to Research & Development below.

Share based payments

Under AASB 2 Share Based Payments, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and it extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Please refer Note 20(e) in the June 30 2004 Annual Report for further explanation.

8. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS (Cont'd)**Research & Development**

Under the Australian equivalent to IAS 38 Research & Development costs are written off as incurred, except where they meet very strict criteria for deferral. Pro Medicus has adopted a conservative policy and has previously charged R & D costs to the P & L as incurred.

IAS 38 requires recognition of an intangible asset arising from development if the entity can satisfy a set of parameters set out in the standard. It is probable that some R & D project costs, incurred in future will be capitalised and amortised as required under the new standard.

Income taxes

Under the Australian equivalent to IAS 12 Income taxes, the company will be required to use a balance sheet method which focuses on the tax effects of transactions and other events that effect amounts recognised in either the Statement of Financial Position or a tax -based balance sheet. It is not expected there will be any material impact as a result of the adoption of this standard.

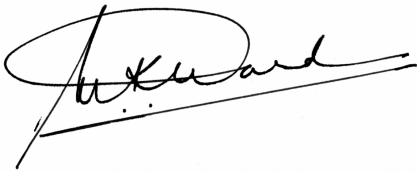
Directors' Declaration

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

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 31 December 2004 and of its performance for the half-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.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'M K Ward', with a long horizontal flourish extending to the right.

M K Ward

Chairman

Melbourne, 21 February 2005