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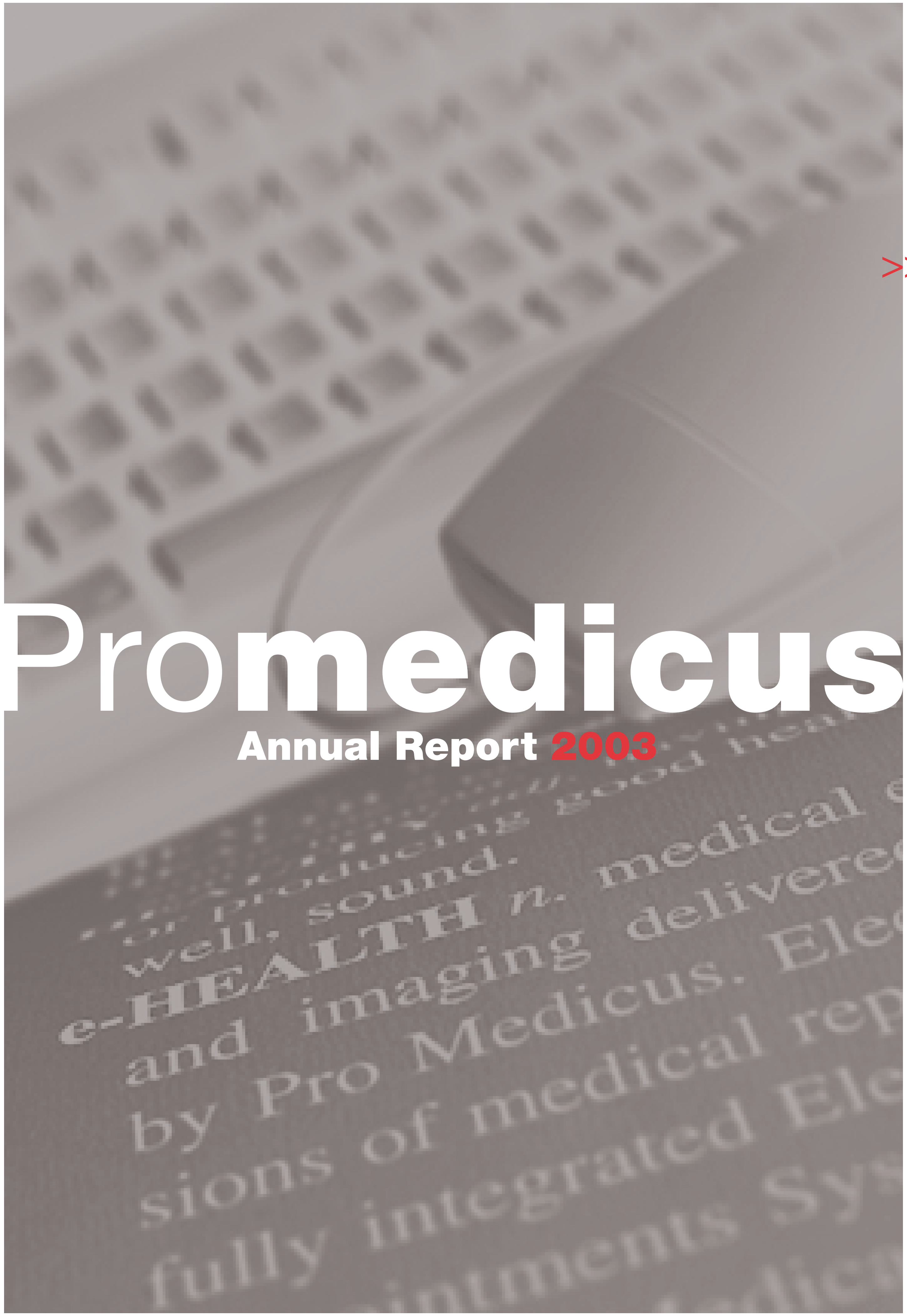

Promedicus

Annual Report 2003

highlights 2002/03

- Profit after tax of $4.54 million making Pro Medicus the most profitable e-health/medical IT Company in Australia. Achieved despite difficult market conditions for the radiology industry.
- Inaugural sale of digital radiology (PACS) integration products in October 2002. Cost efficiencies produced by this technology surpass initial expectations.
- Company in advanced negotiations with key clients regarding the use of its Digital Imaging integration products.
- Expansion into the UK - installs Practice Management and Appointments software into 15 radiology sites for MIA Lodestone, one of the UK's largest private radiology groups. UK presence forms a platform for future growth into overseas markets.
- promedicus.net, the company's e-health offering, now used by over 13,000 doctors or 60% of Australian GPs with numbers growing daily. Transaction volumes surpass 4 million mark making promedicus.net the de facto standard for delivery of radiology results.
- promedicus.net extended to cater for a broad range of non-radiology providers such as specialist and other allied health professionals significantly increasing the inherent value of the network.
- Increased R&D spending resulting in development of UK versions and enhanced Digital Imaging offerings. All R&D costs fully expensed.
- Margins increase to 70.7% (profit before tax/operating revenue) reflecting a higher percentage of revenue from software, e-health and services and continued focus on cost control.
- Over 55% of revenue derived from recurring sources.
- Continued strengthening of balance sheet with shareholder funds increasing 44.2% to $10.748 million. Cash reserves increased to $9.6 million. The company remains operationally debt free.
- Dividends increased by 30% to 3.25 cents per share fully franked.

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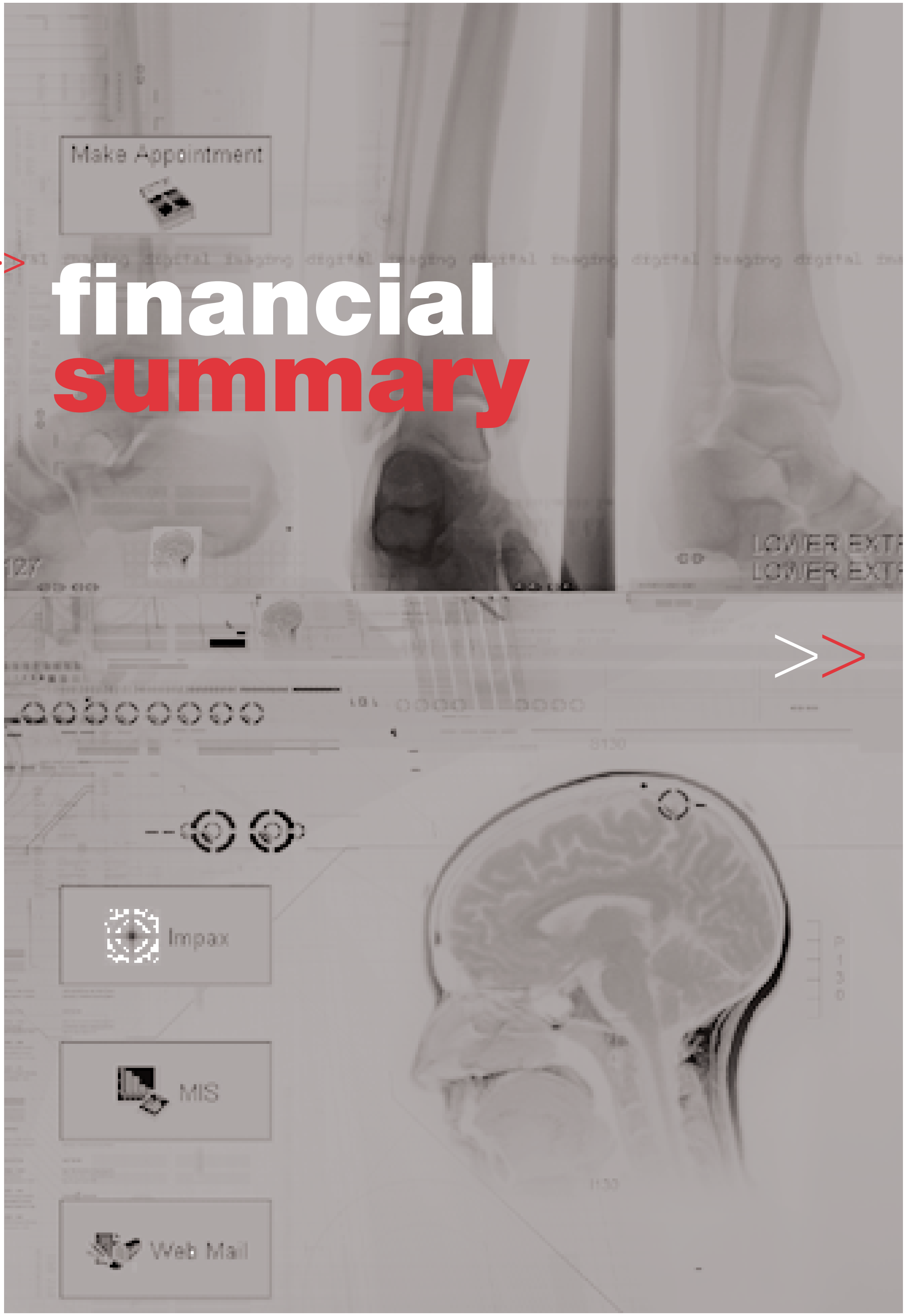


financial summary

FINANCIAL SUMMARY

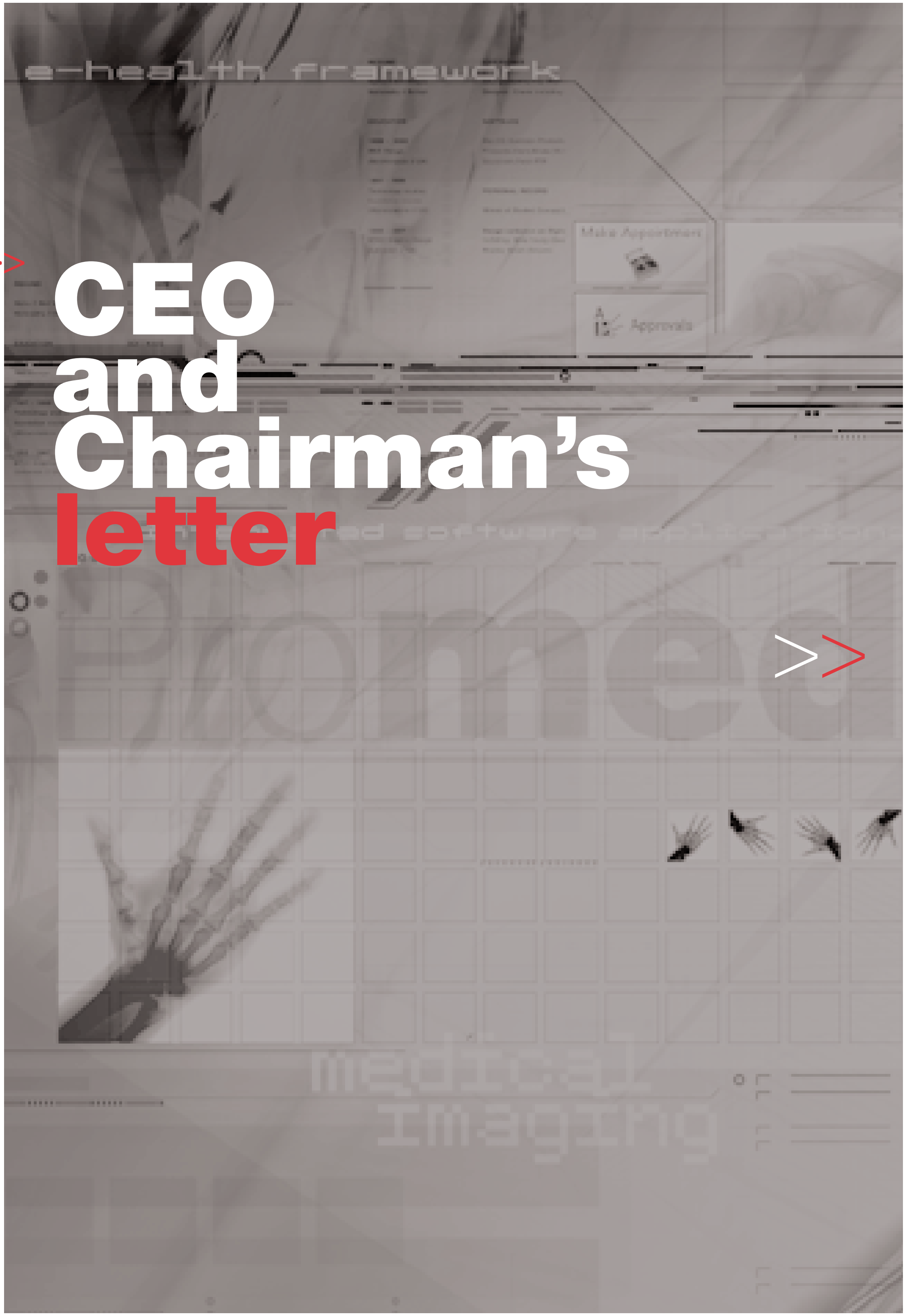
Year ending 30 June 2003

All figures in $A thousands unless otherwise stated

	2003 **$'000**	2002 $'000
Revenues from Ordinary Activities	9,502 (-8.8%)	10,414
Revenues from Operating Activities	9,100 (-10.4%)	10,156
Operating Profit Before Interest and Income Tax	6,049 (-7.1%)	6,510
Net Profit After Tax	4,546 (-5.5%)	4,812
Total Assets 30 June	12,543 (+10.2%)	11,384
Shareholders' Funds 30 June	10,748 (+44.2%)	7,452
Net Tangible Assets per Share at 30 June (cents)	10.5	7.2
Earnings per Share (cents)	4.5	4.8
Franked Dividends per Share (cents per share)	3.25 (+30%)	2.5

Dividends to Shareholders

An interim dividend of 1.25 cents per share fully franked (30%) was paid on April 7, 2003. A final dividend of 2.0 cents per share fully franked (30%) will be paid on October 21, 2003. The total dividend for the year of $3.25m (3.25 cents per share, fully franked) represents a payout ratio of 71.5% of net profit after tax.



CEO and Chairman's letter

Dear Shareholders,

We are pleased to report that the 2003 financial year has been another profitable year for the company. After tax profit of $4.54 million was within 5.5% of last year's record profit result making Pro Medicus the most profitable e-health/medical IT company in Australia. This result was achieved despite difficult second half operating conditions for the radiology sector that resulted in some major clients deferring installations scheduled for late in the second half of the 2003 financial year. The company reasonably expects that these installations will take place in the 2004 financial year.

The company has continued to strengthen its balance sheet with shareholder funds increasing by 44.2% to $10.75 million. It is cash flow positive, has increased cash reserves of $9.58 million, is operationally debt free and has sufficient funds to finance operations.

Our strong balance sheet gives the company confidence that it can fund growth opportunities whilst still rewarding shareholders. Directors have resolved to change the dividend policy to distribute between 60% and 70% of profit after tax. This has resulted in a final dividend of 2c per share fully franked bringing the full year dividend to 3.25c, an increase of 30% as compared to the previous year.

A change in product mix away from lower margin hardware sales to higher margin software products, services and e-health offerings resulted in a lower revenue base of $9.1 million. This was offset by margins, (net profit before tax to revenue from operating activities), increasing from 66.5% to 70.7% with over 55% of the company's revenue coming from recurring sources.

Promedicus.net, the Company's e-health offering, continued to experience strong growth and has again made a solid contribution to profits. Transaction volumes are now in excess of 185,000 transactions per month with further growth anticipated. The number of doctors registered to use our e-health service has swelled to over 13,000 practitioners which represent over 60% of Australian GPs making promedicus.net the de facto standard for electronic delivery of radiology results throughout Australia.

The number of non-radiology providers now using promedicus.net as their preferred means of delivering medical information to their referrers has also increased. We anticipate that this trend will continue.

The past year also saw the company achieve two strategic milestones. In October 2002 the company made the first sale of its Digital Imaging integration products to Lake Imaging. These products, developed as a result of our alliance with global medical imaging group Agfa HealthCare Limited, play a key role in transitioning a radiology practice from analogue (film based) technology to a fully digital environment. Interest in these products is extremely high with efficiency gains derived from the technology exceeding initial expectations. Currently, the company is in advanced negotiations with a number of its larger clients regarding the use of this technology and is confident of making further sales of these products in the 2004 financial year.

In November 2002, the company achieved a second significant milestone by winning its first overseas contract to supply MIA Lodestone, one of the UK's largest private radiology groups.

This resulted in the company's Practice Management, Appointments and MIS software being installed in fifteen radiology sites throughout the UK. The sale is strategically important as the company looks to expand its UK presence.

The company continued to invest in its future through an increased level of R&D activity. This resulted in the commercialisation of a number of new products including the UK versions of the Pro Medicus Practice Management System and the Pro Medicus Appointments System as well as significant enhancements to the suite of digital radiology (PACS) integration products. As in previous years, all R&D costs were fully expensed.

Over the past 12 months the Pro Medicus share price has fluctuated. Liquidity has increased, particularly over the past two months with the number of shareholders increasing by 22% as compared to the same time last year.

The company anticipates renewed growth in FY2004 as it pursues its primary strategies of:

- Achieving wide spread adoption of the company's digital imaging integration products as a major source of operating efficiency for the radiology profession.
- Building on the continued growth of promedicus.net by maximising the value of a network connecting over 13,000 doctors.
- Leveraging its existing base in the UK with a view to expanding offshore markets.

Yours faithfully,

Dr Sam Hupert
CHIEF EXECUTIVE OFFICER

Mel Ward AO
CHAIRMAN

business background

Pro Medicus is a leading provider of IT solutions and services to the private healthcare industry.

Established in 1983 by Dr Sam Hupert, a general medical practitioner, together with Anthony Hall, an award-winning software engineer, Pro Medicus aimed to provide a class-leading range of products and services to address the specific IT needs of the healthcare industry.

Pro Medicus now provides healthcare IT solutions to large corporate groups, such as MIA Group Limited (MIA), Sonic Healthcare, i-med and Mayne Group Limited, as well as specialist physicians and surgeons and allied health professionals.

In March of 2003, the company successfully expanded overseas, completing its first installation in the UK for MIA Lodestone, one of the UK's largest private radiology groups.

The suite of products comprises core and e-health applications and digital radiology (PACS) integration products, plus comprehensive services in network design, training, hardware configuration and technical support.

The activities of Pro Medicus in the financial year ending June 30, 2003 can be characterised by the following revenue streams:

• Core Business

The Company's core business consists of a range of integrated software applications and services that are designed to aid the management of medical practices. The primary products in this area include medical accounting, clinical reporting, appointments /scheduling and marketing/management information applications. Services include network design and implementation, hardware sourcing and configuration, staff and management training and ongoing technical and end user support.

• E-health

Pro Medicus occupies the leading position in Australia in delivery of electronic clinical results to doctors with its Internet-based e-health offering, promedicus.net.

This system enables referring doctors to receive encrypted clinical reports, via the Internet, to a centralised "In-Tray" run on a doctor's computer. These reports are then electronically incorporated into the patients' medical record doing away with the need for double handling or manual filing. Promedicus.net currently integrates with over 50 clinical desktop products and is supported on both Microsoft Windows and Apple Macintosh platforms.

Pro Medicus provides "end to end" management of the delivery process ensuring that both the sending of the result by the diagnostic provider and its receipt by the referring doctor are logged.

This assists in fulfilling duty-of-care requirements and in so doing provides significant added value to the process.

Promedicus.net now connects in excess of 13,000 doctors, representing over 60% of Australian GPs, and has become the de facto standard for delivery of electronic radiology results throughout Australia. Revenue is generated from one-off connection fees as well as a transaction charge for each report that is delivered.

• Digital imaging

Traditionally X-ray images have been acquired on photographic film. Newer medical devices such as CT-scanners acquire images digitally but record them on film for the radiologist to review. Photographic film needs to be processed chemically to produce the image and being a physical object can only be in one place at a time.

In the new world of Digital Radiology or PACS (Picture Archive and Communication Systems) all images are presented digitally and viewed on high-resolution computer monitors without the need to print these images to costly x-ray film. Images and the subsequent diagnostic report are stored and linked electronically. This new way of managing a radiology practice is forecast to produce significant efficiencies for professional staff as well as facilitating the sharing of diagnostic images, leading to better quality of care and patient outcomes.

Pro Medicus has developed a range of digital imaging (PACS) integration products in conjunction with partners Agfa-Gevaert, aimed at providing a seamless interface between two market leading products: the Pro Medicus Practice Management and Appointments System and the Agfa Impax Digital Imaging solution. These leading-edge products are highly modular allowing large diagnostic imaging providers to incrementally implement this technology across their enterprise. Revenue is generated from the sale of software licences for the integration modules, implementation services and ongoing support.

These products were commercialised in July 2002 with the first sale and successful installation at Lake Imaging in October of that year.

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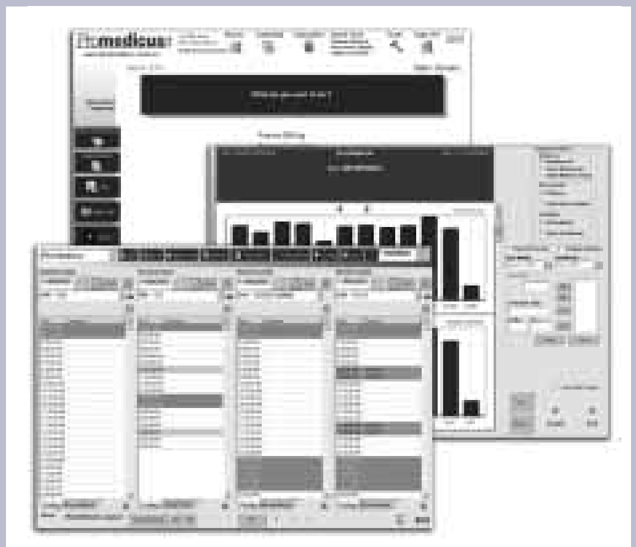
the year 2003 in review

• Core Business

The Core business continued to perform well despite one-off factors beyond the control of Pro Medicus that led some major clients to defer scheduled installations. The company reasonably expects that these installations will take place in the 2004 financial year.



Key applications such as the Practice Management System (PMS) and the Pro Medicus Appointments system continued to be leaders in their respective markets which resulted in sales to a number of new clients as well as add-on sales to existing customers.

Strong software sales in the preceding twelve months were translated into increased service and support fees for the current period. This has contributed to the growth in recurring revenue as expressed as a percentage of total sales.

The Company is continually enhancing and developing its products to meet the changing needs of the medical market. These enhancements are released as software product updates that are distributed to all clients with current service agreements.

• E-health

Our e-health business, Promedicus.net, continues to grow strengthening its position as the largest Internet-based system for delivery of imaging reports in Australia.

Total revenue for Promedicus.net increased to $1.77 million, generated from software licensing, new registrations and transaction fees, an increase of 22.9% over last year.

Transaction volumes have risen strongly with in excess of 185,000 reports transacted per month.
New registrations have continued to grow strongly to more than 13,000 doctors now connected.

Revenue is derived from an initial registration fee followed by a transaction fee for each result sent to the doctor.

We have continued to develop our support infrastructure and product line for Promedicus.net. This has enabled significant growth in our e-health business without recourse to additional staff or infrastructure.

• Digital Imaging

The company made its inaugural sale of its suite of digital imaging integration products in October 2002 to Lake Imaging, a regional radiology provider.
The products, which tightly integrate with the Agfa IMPAX range of digital imaging solutions, have enabled Lake Imaging to create a fully digital (filmless) environment at its two locations in Ballarat becoming the first private radiology group to do so.

Results to date have exceeded initial expectations with the Practice experiencing significant productivity gains for both technical/radiographic staff and radiologists. This has led to higher throughput per staff member and has facilitated an improved diagnostic service by having previous images and reports available at the time of examination.

Lake Imaging have also used the technology to provide a superior service to their referrers by making images available via the Web, or on CD-ROM.

As a key reference site, Lake Imaging has become an excellent showcase of best practice using our new integration technology.

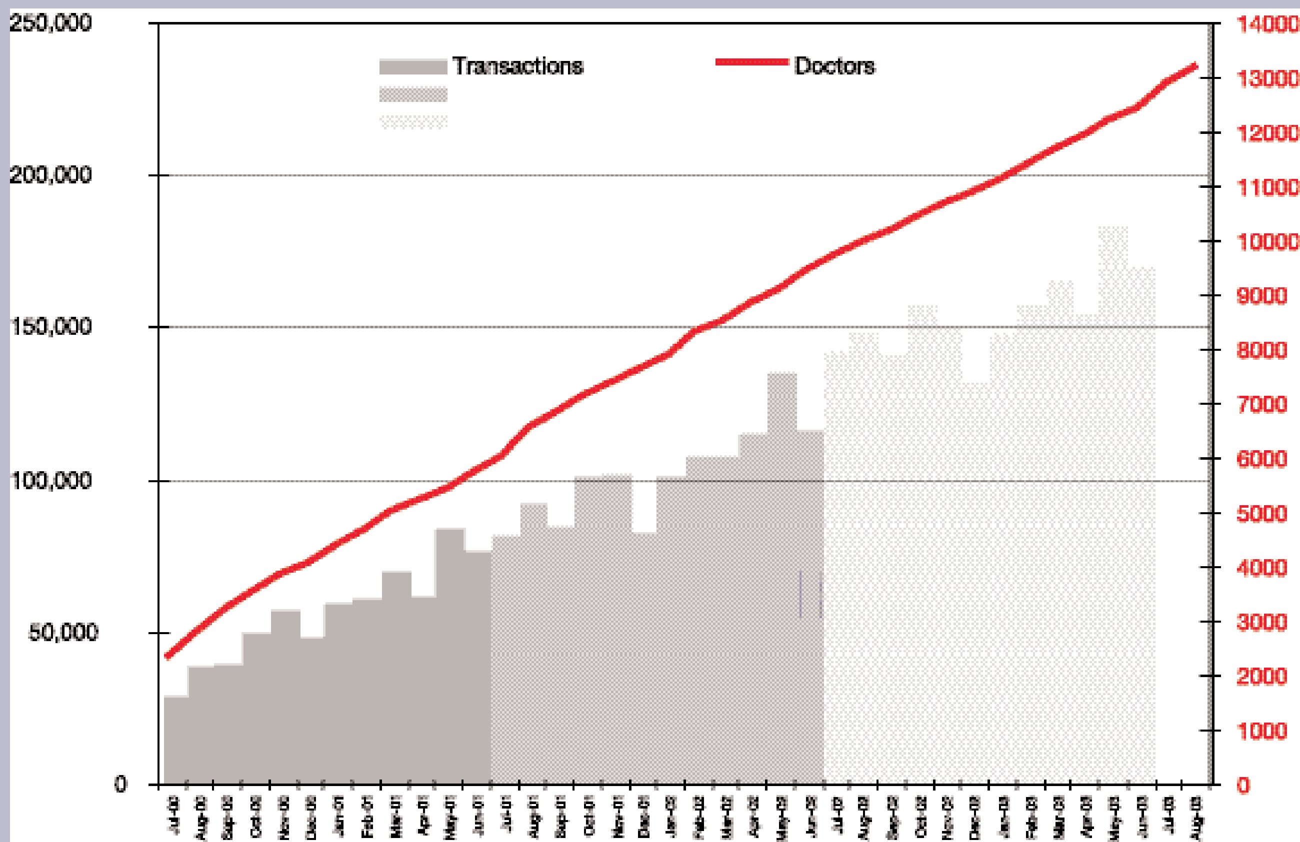
• UK Expansion

In November 2002, the company achieved a significant milestone by winning its first overseas contract to supply MIA Lodestone, one of the UK's largest private radiology groups, with its Practice Management, Appointments and MIS software.

The UK health market represents a significant growth opportunity for the company being over three times the size of that in Australia. Traditionally this market has been serviced by the public National Health Service (NHS). Private enterprise has the capacity both clinically and financially to offer a high quality and cost effective alternative to public imaging services. The UK Government has committed significant funding to the NHS and is encouraging the involvement of private medicine as a means of controlling cost and improving service.

Development of UK versions of the Practice Management and Appointments systems was completed by March 2003 with implementation of the software finished within a record five-week period.

promedicus.net growth



This was achieved using the same rapid deployment techniques pioneered in the Australian market proving that the company's methodology is readily translatable to overseas markets.

Since the original deal, MIA Lodestone have added two more practices to the network with scope for more software sales as the client continues its expansion in the UK.

>> As part of the deal, Pro Medicus is able to use the Lodestone sites to demonstrate its technology to other potential clients. This facility assists our UK sales process, highlighting the strategic nature of this installation.

• Research and Development

Pro Medicus has continued to invest in its future through an increased level of R&D activity.
This resulted in the commercialisation of a number of new products including the UK versions of the Pro Medicus Practice Management System and the Pro Medicus Appointments System as well as significant enhancements to the suite of digital radiology (PACS) integration products. As in previous years, all R&D costs were fully expensed.

UK Version

The UK health system has a number of fundamental differences to Australia, the largest being the requirements of the National Health System (NHS).
As a result of the MIA Lodestone deal, the company undertook a significant development project to create a UK tailored version of both the Practice Management and Appointments systems. A number of new features developed for the UK products have been incorporated into the local versions of the programs.

During the period, the company also developed an electronic ordering and result interface in common use by a number of hospitals throughout the UK.
This interface will facilitate further sales in the UK by providing enhanced connectivity with existing systems in those hospitals.

e-health developments

In e-health we have continued to enhance our offering to make it suitable for an even wider range of doctors and systems.

In addition we have continued to develop and invest in automated management and support technology to assist in the efficient operation of the service.
Promedicus.net currently integrates with over 50 clinical desktop products and is supported on both Microsoft Windows and Apple Macintosh platforms making it the most flexible product on the market.

The Clinical Report Viewer product has been further enhanced and is used by specialist referrers and organizations such as hospitals that wish to provide access to clinical results. Written in Java the Clinical Report Viewer may be installed as a stand-alone client or deployed as part of an intranet.

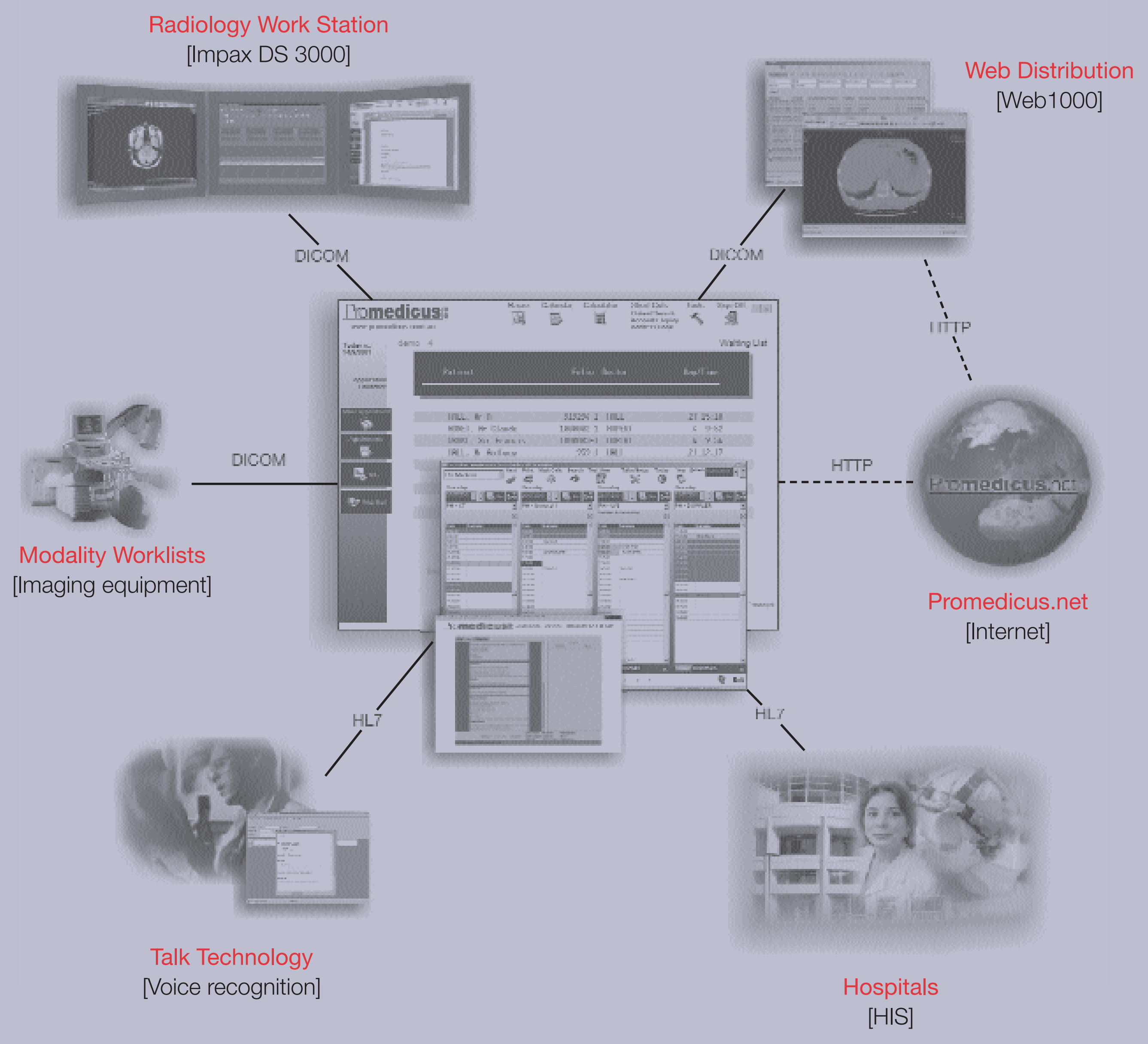
Digital Imaging Integration

Following commercialisation of these products in July of 2002, the company has continued to enhance and develop these applications ensuring that they address the widest range of client requirements.

Enhancements include increased Dicom connectivity with a broader range of imaging equipment as well as HL-7 interfaces to Hospital Information Systems.

The company has also developed a sophisticated suite of Web based monitoring and diagnostic tools enabling remote configuration of new interfaces as well as online problem resolution. This will greatly enhance the company's ability to deploy and remotely support these mission critical applications.
This ongoing research and development has ensured that the company's integration products continue to be "best in class" throughout the radiology industry.

Integrated Digital Radiology



>> into the future

The company anticipates 2004 will be a landmark year in which the radiology profession makes the revolutionary transition from the traditional paper and photographic film environment to a truly digital workplace.

Experience gained with our first digital imaging installation has demonstrated the compelling operational efficiencies that this new technology provides. We expect these efficiencies to rapidly produce industry operating benchmarks that will drive adoption of our digital systems across the profession.

In conjunction with this trend towards the digital radiology practice we see a corresponding growth of promedicus.net to electronically deliver the clinical results produced by these systems. A convergence of these trends could result in the commencement of digital availability of the image over the internet to promedicus.net connected clients.

Promedicus.net currently connects over 13,000 doctors throughout Australia. We are starting to see interest from health providers other than radiology companies in using this network to send and receive information. The Federal Government has recently published a set of standards relating to electronic requests and referrals that may provide opportunity for integration into the promedicus.net framework. As our systems are a prime source of diagnostic results we expect further involvement in the expanding electronic health records (EHR) developments being promoted by the Government.

The ongoing restructuring of the UK health system is providing new opportunities for private enterprise in what has been a previously public operation. The features of the Pro Medicus practice management system that have made it the market leader in the Australian private environment make it attractive to new entrants providing outsourced imaging facilities to the NHS. Following the UK localisation of our system we have continued to build new functionality to meet the requirements of our UK client with a view to making the software attractive to other entrants in this new market. We have proven our ability to provide remote internet and telephone based support for the UK client which leverages our Australian support operation and lowers the cost base for doing business overseas.

These growth options provide the company with an exciting future capitalising on synergies and past developments and experience to broaden and strengthen its position in the e-health/medical information technology market.

...more growth opportunities than at any time in the past...

Digital Imaging | Promedicus.net | UK Expansion

Promedicus

Key Growth Strategies for 2004

financial statements

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directors' report

Your Directors submit their report for the year ended 30 June 2003.
The names and details of the Company's directors in office during the financial year and until the date of this report are:

Melvyn Keith Ward A.O. CHAIRMAN

B.E.(Hons), M.Eng.Sc., F.I.E(Aust), F.T.S., F.A.I.M., I.V.A.

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. After a long career in the communications sector, he retired as Managing Director of Telecom Australia (Telstra) in 1992.

Dr Peter David Jonson DEPUTY CHAIRMAN

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

Peter Jonson joined Pro Medicus as a Director on 4th April 2000. He is Chairman of the Australian Institute for Commercialisation and 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 MANAGING DIRECTOR AND CEO

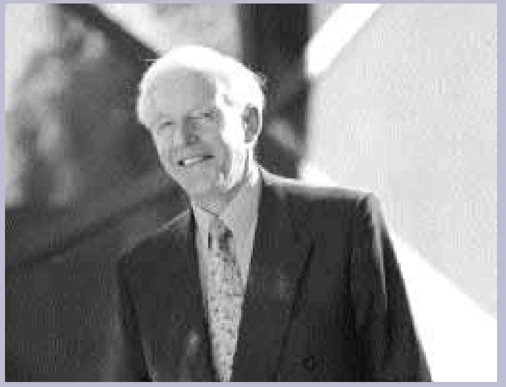
M.B.B.S.

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
EXECUTIVE DIRECTOR AND TECHNOLOGY DIRECTOR

B.Sc.(Hons), M.Sc.

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 NON-EXECUTIVE DIRECTOR

B.Econ, F.C.A.

Philip Molyneux joined Pro Medicus Limited as a Director on 4 April, 2000. He is Chairman of Anadis Limited and Sedgwick Superannuation Pty Ltd, a director of Equity Trustees Limited, Centre for Eye Research Australia Limited, Australian National Academy of Music and Corps of Commissionaires (Victoria) Limited.

All Directors were in office from the beginning of the financial year until the date of this report.

Geoffrey William Holden COMPANY SECRETARY

CA

Geoffrey Holden has been company secretary for 3 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 29 years.

INTEREST 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	4.5
Diluted earnings per share	4.5

DIVIDENDS

	Cents	$'000
Final dividends recommended:		
• on ordinary shares	2.0	2,000
Dividends paid in the year:		
Interim for the year		
• on ordinary shares	1.25	1,250
Final for 2002 shown as recommended in the 2002 report:		
• on ordinary shares	1.5	1,500

>> directors' report cont.

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 of diagnostic imaging groups and a broad range of groups within the private medical market in the following areas;

- provision of computer hardware, network design and installation services;
- innovative proprietary medical software;
- ongoing support and service contracts, which provide help desk support; and
- Promedicus.net secure email.

Promedicus.net has been further developed and marketed during the year.

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

- RIS/PACS interface for the Agfa digital radiology system; and
- "Professional Suite" which is an integrated package using Pro Medicus software modules aimed at the medical specialist market.

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

REVIEW AND RESULTS OF OPERATIONS

Investment Activities

The Company has no investments at year end but invests in commercial bills during the year to maximise the interest return on surplus funds.

Performance Indicators

Management and the Board monitor overall performance, from 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 monitors these KPIs on a regular basis and Directors receive the KPIs for review prior to each monthly Board meeting allowing them to actively monitor the Company's performance.

Dynamics of the Business

An improvement in gross margin has been achieved this year as a result of the previously anticipated change in mix of products sold.
It is anticipated that more software and support contracts can be sold and these will attract better margins compared to the current mix with hardware.

Operating Results for the Period

Pro Medicus has experienced the second most profitable year in its history. This has been achieved in a difficult operating environment which saw some major clients, due to one-off factors beyond the control of Pro Medicus, defer installations scheduled for the second half of the 2003 financial year into the first half of the 2004 financial year.

During the past financial year, the company continued its focus on higher margin software sales, e-health and services. The change in product mix away from hardware sales resulted in a slight decrease in revenue, offset by a decrease in cost of goods sold. This has resulted in profit before tax to revenue from operating activities increasing to 70.7% (2002: 66.5%).

Promedicus.net, the company's e-health offering, continued its strong growth in both the number of doctors registered as well as transaction volumes which have now exceeded 4 million, making promedicus.net the leading e-health provider in Australia. The company continued to maximise the value of promedicus.net by extending its use to non-radiology providers, a trend we anticipate will accelerate in the 2004 financial year.

In March of 2003, the company achieved a strategic milestone, installing its Practice Management and Appointments software into fifteen sites in the UK for MIA Lodestone, one of the UK's largest private radiology groups. Two additional sites have been added since the original installation. This installed base in the UK provides the company with a product highly suited to the local environment and a strategic presence in a market over three times the size of Australia.

Building on the success of the first digital imaging sale to Lake Imaging in October 2002, the company has been in advanced negotiations with a number of major clients. Due to the size and complexity of these negotiations, the company has experienced slightly longer than expected lead times for sales of these products, which has impacted sales growth for the 2003 financial year. The company is still confident that it will achieve ongoing sales of this technology as its clients transition to a digital radiology environment.

SUMMARISED OPERATING RESULTS

	2003 Revenues $'000	Results Before Tax $'000
Industry segments		
Core Business	6,685	4,680
Promedicus.net	1,771	1,470
RIS/PACS	644	287
Total sales from operating activities and operating profit	9,100	6,437

Shareholder Returns

The Company is pleased to report that dividend return to shareholders of 3.25 cents per share has exceeded the percentage return paid in the previous year. Reductions in return on net assets and equity as shown in the table below, reflect the retention of extra cash in the business.

	2003	2002	2001	2000
Basic earnings per share (cents)	4.5	4.8	4.1	3.3
Return on assets (%)	51.3	59.4	66.6	74.1
Return on equity (%)	42.3	64.6	79.5	99.6
Net debt / equity ratio (%)	1.8	3.3	6.2	11.3
Dividend payout ratio (%)	71.5	51.9	55.1	51.7
Available franking credits ($'000)	11,295	8,098	5,934	3,045

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 both the core and Promedicus.net areas. In turn, this will translate into an increase in sales and, more importantly, to a significant improvement in the bottom line of the operation.

The Company's workforce remained at the same level as last year, in spite of the increased activity and continued product development. The Company has increased its level of activity, largely due to the efforts of employees at all levels. The directors express their gratitude for the efforts of all employees in achieving this year's result.

The workforce currently stands at 17 equivalent full time employees compared with 18 in 2002. The group believes that there needs to be a small increase in staff numbers to ensure that effort can be maintained and new initiatives will have the staffing resources necessary for their success.

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. This is clear in the debt/equity ratio, which is 1.8% in the current year and was 3.3% in the previous year.

The directors believe that the debt to equity ratio for the Company could be higher, if the need for expansion or acquisition required extra funds sourced from borrowings. The Directors are satisfied with the ratio as it currently stands.

Treasury Policy

The Company is not exposed to any interest rate or significant currency sensitive loans or debts. The treasury function, co-ordinated within Pro Medicus Limited, is basically limited to maximising interest return on surplus funds. 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 in excess of $9.5m of cash available to the company.

Cash from Operations

Net cash flows from operating activities increased from $4.3m in the previous year to $4.5m in the current period. The increase in cash from operating activities was largely due to reduced payments to suppliers and higher interest income. Net operating cash flow excluding tax payments was essentially consistent with the previous year.

There was a decrease in receipts from customers of approximately 8% and the ratio of payments to suppliers and employees, as a percentage of receipts from customers showed a decrease of 10%.

Liquidity and Funding

The Company is cash flow positive, has substantial cash on deposit 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
- Oversight 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 $10.75m from $7.45m, an increase of $3.3m (2002: $2.31m) or 44% (2002: 45%). The movement was largely the result of retaining more cash in the business relative to the previous year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

A Final Dividend of 2.0 cents per share (2002: nil) has been declared post 1 July. Please refer Note 5(c). This Final Dividend was based on the Directors' decision to change the dividend policy in future to distribute between 60 and 70% of Profit after Tax. Previously this was based on a payout of 50%.

No other significant post balance date events have been identified.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors foresee that the 2004 financial year will be a period of consolidation for sales of the traditional core products and during which the changes made in the 2003 financial year will have their full impact. The most significant areas for change will be in:

- Continued installation and use of the Promedicus.net secure email product;
- Continued sales of the Pro Medicus Appointments System;
- Marketing of the Radiology Information System (RIS)/PACS interface and introduction to the Australian market under an alliance with Agfa-Gevaert Limited;
- Marketing of the Professional Suite to various medical specialists;
- Expansion of the business overseas to service MIA Group UK operations together with the sale of Pro Medicus products into the local UK market; and
- Expansion of the business to Asia to promote the RIS/PACS products developed under the Agfa-Gevaert strategic alliance agreement.

It is anticipated that the 2004 financial year will show continued 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 Note 16 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.

>> **directors' report** cont.

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 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 section 300(9).

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.

DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

Remuneration Policy

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 Technical 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. It should be noted that no review of Directors' or Company Secretary emoluments has taken place at the date of this report.

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. 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 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.

To assist in achieving these objectives, the Board links the nature and amount of officers' emoluments to the Company's financial and operational performance.

Details of the nature and amount of each element of the emolument of each director of the Company and each of two executive officers of the Company receiving the highest emolument for the financial year are as follows:

EMOLUMENTS* OF DIRECTORS OF PRO MEDICUS LIMITED

	Annual Emoluments		Long Term Emoluments			
	Base Fee/Salary	Other	Options Vesting During the Current Period@			Super-annuation
	$	$	Number	$	% of Remuneration	$
A. B. Hall	239,481	10,292	85,000	32,217	11.1	10,519
S. A. Hupert	239,481	14,568	85,000	32,217	11.0	10,519
M. K. Ward	60,000	–	80,000	30,322	31.7	5,400
P. D. Jonson	30,000	–	40,000	15,161	31.7	2,700
P. G. Molyneux	30,000	–	40,000	15,161	31.7	2,700

EMOLUMENTS* OF THE TWO MOST HIGHLY PAID EXECUTIVE OFFICERS# OF THE COMPANY

	Annual Emoluments		Long Term Emoluments		
	Salary	Bonus	Options Vesting During the Current Period@		Super-annuation
	$	$	Number	$	$
D. Tauber	239,481	–	70,000	26,532	10,519
G. W. Holden	97,515	–	17,000	6,443	22,485

Notes
The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.
* The elements of emoluments have been determined on the basis of the cost to the Company
\# Executives are those directly accountable and responsible for the operational management and strategic direction of the Company. Interpretation of this definition results in two staff members being identified for reporting purposes.

@ The company has adopted the fair value measurement provisions of ED 108 "Share-based Payment" prospectively for all options granted to directors and relevant executives, which have not vested as at 1 July 2002. The fair value of such grants is being amortised and disclosed as part of director and executive emoluments on a straight-line basis over the vesting period. No adjustments have been or will be made to reverse amounts previously disclosed in relation to options that never vest (i.e., forfeitures). From 1 July 2002, options granted as part of director and executive emoluments have been valued using a Black Scholes option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. For further details, refer to Note 20 to the financial statements.

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	Strategic Planning Committee	Audit Committee
Number of meetings held:	11	2	0
Number of meetings attended:			
A. B. Hall	11	2	0
S. A. Hupert	11	2	0
M. K. Ward	11	2	0
P. D. Jonson	10	2	0
P. G. Molyneux	11	2	0

No Audit Committee meetings were held during the financial period however the committee was constituted in June and the first meeting was held on 13 August 2003.

Signed in accordance with a resolution of the Directors.

M K Ward
DIRECTOR
Melbourne, 4 September, 2003.

>> statement of financial performance

YEAR ENDED 30 JUNE 2003	Notes	2003 $'000	2002 $'000
REVENUES FROM ORDINARY ACTIVITIES	2	9,502	10,414
Borrowing costs expense	3	(14)	(10)
Other expenses from ordinary activities	3	(3,051)	(3,646)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		6,437	6,758
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	4	(1,891)	(1,946)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		4,546	4,812
NET PROFIT		4,546	4,812
NET PROFIT ATTRIBUTABLE TO MEMBERS OF PRO MEDICUS LIMITED	17	4,546	4,812
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		4,546	4,812
Basic earnings per share (cents per share)	22	4.5	4.8
Diluted earnings per share (cents per share)	22	4.5	4.8
Franked dividends per share (cents per share)	5	3.25	2.50

>> statement of financial position

AS AT 30 JUNE 2003	Notes	2003 $'000	2002 $'000
CURRENT ASSETS			
Cash assets		9,579	1,941
Receivables	6	2,483	2,901
Inventories	7	5	10
Other financial assets	8	—	6,000
TOTAL CURRENT ASSETS		12,067	10,852
NON-CURRENT ASSETS			
Property, plant and equipment	9	239	307
Deferred tax assets	10	237	225
TOTAL NON-CURRENT ASSETS		476	532
TOTAL ASSETS		12,543	11,384
CURRENT LIABILITIES			
Payables	11	280	611
Interest-bearing liabilities	12	68	249
Current tax liabilities	4	556	841
Provisions	13	492	1,980
TOTAL CURRENT LIABILITIES		1,396	3,681
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	14	123	—
Deferred tax liabilities	4	12	14
Provisions	15	264	237
TOTAL NON-CURRENT LIABILITIES		399	251
TOTAL LIABILITIES		1,795	3,932
NET ASSETS		10,748	7,452
EQUITY			
Contributed equity	16	9	9
Retained profits	17	10,739	7,443
TOTAL EQUITY		10,748	7,452

>> statement of cash flows

YEAR ENDED 30 JUNE 2003	Notes	2003 $'000	2002 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		9,451	10,286
Payments to suppliers and employees		(3,158)	(3,838)
Interest received		388	265
Borrowing costs		(14)	(10)
Income tax paid		(2,191)	(2,367)
NET CASH FLOWS FROM OPERATING ACTIVITIES	18(a)	4,476	4,336
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(31)	(18)
Redemption/(Purchase) of commercial bills		6,000	(2,200)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		5,969	(2,218)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of hire purchase borrowings		(57)	(69)
Payment of dividends on ordinary shares		(2,750)	(1,500)
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		(2,807)	(1,569)
NET INCREASE/(DECREASE) IN CASH HELD		7,638	549
Add opening cash brought forward		1,941	1,392
CLOSING CASH CARRIED FORWARD	18(b)	9,579	1,941

>> 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) 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 (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

(c) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable value.
For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks.

(d) Trade and other 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 general and specific review of outstanding amounts at balance date. Bad debts are written-off as incurred.

(e) 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.

(f) 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.

(g) 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	2003	2002
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

>> summary of significant accounting policies cont.

(h) Hire Purchase Liability

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

(i) Research & development costs

Research and development costs are expensed as incurred.

(j) 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.

(k) 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.

(l) Share capital

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

(m) 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 recognized:

Sale of goods

Control of goods has passed to the buyer.

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 recognized over the term of the contract. Where revenue is received in advance, revenue is recognized 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.

(n) 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.

(o) 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.

>> summary of significant accounting policies cont.

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.

(p) 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.

(q) 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 recognized.

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.

(r) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year except for the accounting policies with respect to provision for dividend.

(i) Provision for dividends

The company has adopted the new Accounting Standard AASB 1044 “Provisions, Contingent Liabilities and Contingent Assets” which has resulted in a change in the accounting for dividends provision. Previously, the company recognised a provision for dividend based on the amount that was proposed or declared after the reporting date. In accordance with the requirements of the new Standard, a provision for dividends will only be recognised at the reporting date where the dividends have been declared, determined or publicly recommended prior to the reporting date. The effect of the revised policy has been to increase the company retained profits and decrease provisions at the beginning of the year by $1,500,000 (refer to note 17 (a)). In accordance with the new Standard, no provision for dividend has been recognised for the year ended 30 June 2003.

>> summary of significant accounting policies cont.

(ii) Employee benefits

The company has adopted the revised Accounting Standard AASB 1028 “Employee Benefits”, which has resulted in a change in the accounting policy for the measurement of employee benefit liabilities. Previously, the company measured the provision for employee benefits based on remuneration rates at the date of recognition of the liability. In accordance with the requirements of the revised Standard, the provision for employee benefits is now measured based on the remuneration rates expected to be paid when the liability is settled. The effect of the revised policy is immaterial and no change was required to the financial statements.

(s) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

30 JUNE 2003	Notes	2003 $'000	2002 $'000
2. REVENUE FROM ORDINARY ACTIVITIES			
REVENUES FROM OPERATING ACTIVITIES			
Sale of goods		701	1,460
Service Income		6,116	5,798
Licence Income		2,283	2,898
Total revenues from operating activities		9,100	10,156
REVENUES FROM NON-OPERATING ACTIVITIES			
Interest			
Other		402	258
Total interest		402	258
Total revenues from outside the operating activities		402	258
Total revenues from ordinary activities		9,502	10,414

3. EXPENSES AND LOSSES/(GAINS)

Profit from ordinary activities has been determined after charging /(crediting) the following items:

(a) Expenses

		2003 $'000	2002 $'000
Borrowing costs expensed			
Interest on Hire Purchase contracts		14	10
Total borrowing costs expensed		14	10
Accounting & Secretarial Fees		128	150
Advertising and Public Relations		67	86
Cost of Goods Sold		295	801
Depreciation and Amortisation			
Property Improvements		17	17
Motor Vehicles		41	53
Office Equipment		18	15
Furniture and Fittings		18	27
Research & Development Equipment		5	5
Total Depreciation and Amortisation Expenses		99	117
Insurance		96	87
Operating Lease Expenditure		163	157
Other Expenses		148	203
Research & Development costs		669	611
Salaries and Employee Benefits Expense		1,323	1,336
Travel and Accommodation		63	98
TOTAL OTHER EXPENSES FROM ORDINARY ACTIVITIES		3,051	3,646

30 JUNE 2003	Notes	2003 $'000	2002 $'000
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		1,931	2,027
Tax effect of permanent differences			
Non-deductible Entertainment		3	2
Life and Trauma Insurance		13	11
Research & Development Concession		(85)	(84)
Non-deductible depreciation on Motor Vehicles		5	8
Other items (net)		—	3
Under/(over) provision of previous year		24	(21)
Income tax expense relating to ordinary activities		1,891	1,946
DEFERRED TAX ASSETS AND LIABILITIES			
Current tax payable		556	841
Provision for deferred income tax – non-current		12	14
Future income tax benefit – non-current		237	225

This future income tax benefit will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
(c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

	Notes	2003 $'000	2002 $'000
(a) Dividends proposed and recognised as a liability			
Franked dividends 2003: (nil c per share), (2002: 1.5c per share)	13, 1(r)	—	1,500
(b) Dividends paid during the year			
(i) Current year interim			
Franked dividends (1.25c per share) (2002: 1c)		1,250	1,000
		1,250	2,500
(ii) Previous year final			
Franked dividends (1.5c per share) (2002: 0.5c)		1,500	500
(c) Dividends proposed and not recognised as a liability			
Franked dividend (2.0c per share) (2002: nil)	1(r)	2,000	—
(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%)		9,997	7,635
– franking credits that will arise from the payment of income tax payable as at the end of the financial year		1,298	1,963
– franking debits that will arise from the payment of dividends as at the end of the financial year		—	(1,500)
– franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date		—	—
– franking credits that the entity may be prevented from distributing in the subsequent financial year		—	—
		11,295	8,098

The tax rate at which paid dividends have been franked is 30%, (2002: 30%).
Dividends proposed at 30 June 2002 were fully franked at the rate of 30%.

30 JUNE 2003	Notes	2003 $'000	2002 $'000

6. RECEIVABLES (CURRENT)

Trade Debtors		2,432	2,848
Other Debtors and Prepayments		51	53
		2,483	2,901

TERMS AND CONDITIONS RELATING TO THE ABOVE FINANCIAL INSTRUMENTS

(i) Trade debtors are on 30 day trading terms.

7. INVENTORIES (CURRENT)

Finished goods			
At cost		5	10
Total inventories at lower of cost and net realisable value		5	10

8. OTHER FINANCIAL ASSETS (CURRENT)

Commercial Bills			
At cost		—	6,000
Total Other Financial Assets		—	6,000

9. PROPERTY, PLANT AND EQUIPMENT

Property Improvements		184	184
Accumulated depreciation		(182)	(165)
		2	19
Motor Vehicles		30	30
Accumulated depreciation		(29)	(29)
		1	1
Motor Vehicles Under Hire Purchase		446	446
Accumulated amortisation		(306)	(265)
		140	181
Office Equipment		146	119
Accumulated depreciation		(89)	(71)
		57	48
Furniture & Fittings		222	222
Accumulated depreciation		(190)	(172)
		32	50
Research & Development Equipment		197	365
Accumulated depreciation		(190)	(357)
		7	8
Total plant and equipment		239	307
Total plant and equipment Cost		1,225	1,366
Accumulated depreciation and amortisation		(986)	(1,059)
Total written down amount		239	307

During the period Research & Development Equipment with a zero written down value was scrapped by offsetting the Cost and Accumulated Depreciation amounts to a value of $172,034 (2002: nil). There was no profit effect as a result of this adjustment.

>> **notes** cont.

30 JUNE 2003	Notes	2003 $'000	2002 $'000
RECONCILIATIONS			
Property Improvements			
Carrying amount at beginning		19	36
Depreciation expense		(17)	(17)
		2	19
Motor Vehicles			
Carrying amount at beginning		1	2
Disposals		—	—
Depreciation expense		—	(1)
		1	1
Motor Vehicles Under Hire Purchase			
Carrying amount at beginning		181	233
Depreciation expense		(41)	(52)
		140	181
Office Equipment			
Carrying amount at beginning		48	52
Additions		27	11
Depreciation expense		(18)	(15)
		57	48
Furniture & Fittings			
Carrying amount at beginning		50	75
Additions		—	2
Disposals		—	(4)
Depreciation expense		(18)	(23)
		32	50
Research & Development Equipment			
Carrying amount at beginning		8	8
Additions		4	5
Depreciation expense		(5)	(5)
		7	8

10. DEFERRED TAX ASSETS

Future Income Tax Benefit		237	225
		237	225

11. PAYABLES (CURRENT)

Trade creditors		37	151
Other creditors and accruals		101	126
Goods and services tax		131	252
		269	529
Deferred Income		11	82
		11	82
		280	611

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.

30 JUNE 2003	Notes	2003 $'000	2002 $'000
12. INTEREST BEARING LIABILITIES (CURRENT)			
Hire Purchase Liability- secured	19(a)	68	249
		68	249

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%, (2002: 6.6%). Secured hire purchase liabilities are secured by a charge over the hired assets.

13. PROVISIONS (CURRENT)

	Notes	2003 $'000	2002 $'000
Dividends on ordinary shares		–	1,500
Employee entitlements	20	492	480
		492	1,980

TERMS AND CONDITIONS RELATING TO THE ABOVE FINANCIAL INSTRUMENTS

(i) No dividends were provided for the year ended 2003, (2002: 1.5 cents per ordinary share). The extent to which the dividends are franked, details of the franking account balance at balance date and franking credits available for the subsequent financial year are disclosed in Note 5(d).

14. INTEREST-BEARING LIABILITIES (NON-CURRENT)

	Notes	2003 $'000	2002 $'000
Hire Purchase Liability – secured	19(a)	123	–
		123	–

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%, (2002: 6.6%). Secured hire purchase liabilities are secured by a charge over the hired assets.

30 JUNE 2003	Notes	2003 $'000	2002 $'000
15. PROVISIONS (NON-CURRENT)			
Employee entitlements	20	264	237
		264	237

16. CONTRIBUTED EQUITY

(a) Issued and paid up capital

	2003 $'000	2002 $'000
Ordinary shares fully paid	9	9
	9	9

(b) Movements in shares on issue

	2003 Number of Shares	2003 $'000	2002 Number of Shares	2002 $'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 (2002: 20,000) options were cancelled due to option holding staff leaving employment with Pro Medicus Ltd. The options had an exercise price of $1.15 and each option converts to one fully paid share. Details are provided in Note 20.

At the end of the year there were 2,470,000 (2002: 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	2003 $'000	2002 $'000
17. RESERVES AND RETAINED PROFITS			
RETAINED PROFITS		10,739	7,443
(a) Retained profits			
Balance at the beginning of year		7,443	5,131
Net profit attributable to members of Pro Medicus Limited		4,546	4,812
Adjustment arising from adoption of revised accounting standards;			
AASB 1028 Employee Benefits		–	–
AASB 1044 Provisions, Contingent Liabilities and Contingent Assets	1(r)	1,500	–
Total available for appropriation		13,489	9,943
Dividends provided for or paid		(2,750)	(2,500)
BALANCE AT END OF YEAR		10,739	7,443

30 JUNE 2003	Notes	2003 $'000	2002 $'000

18. 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		4,546	4,812
NON-CASH ITEMS			
Depreciation of non-current assets		99	117
CHANGES IN ASSETS AND LIABILITIES			
(Increase)/decrease in trade and other receivables		411	537
(Increase)/decrease in inventory		5	108
(Increase)/decrease in future income tax benefit		(12)	(13)
(Increase)/decrease in prepayments		7	9
(Decrease)/increase in deferred income		(71)	(400)
(Decrease)/increase in trade and other creditors		(140)	(387)
(Decrease)/increase in tax provision		(285)	(412)
(Decrease)/increase in deferred income tax liability		(2)	3
(Decrease)/increase in goods and services tax payable		(121)	(89)
(Decrease)/increase in employee entitlements		39	51
Net cash flow from operating activities		4,476	4,336

(b) Reconciliation of cash

Cash balance comprises:			
– cash on hand		9,579	1,941
Closing cash balance		9,579	1,941

19. EXPENDITURE COMMITMENTS

(a) Commitments in relation to hire purchase agreements are payable as follows:

– not later than one year		68	250
– later than one year and not later than five years		134	—
– aggregate lease expenditure contracted for at balance date		202	250
Less: Future finance charges		(11)	(1)
		191	249
Aggregate expenditure commitments comprise:			
– current (Note 12)		68	249
– non-current (Note 14)		123	—
		191	249

(b) Non-Cancellable Operating Lease expenditure commitments

Minimum lease payments			
- not later than one year		184	175
- later than one year and not later than five years		216	379
- aggregate lease expenditure contracted for at balance date		400	554

>> notes cont.

30 JUNE 2003	Notes	2003 $'000	2002 $'000

20. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

EMPLOYEE ENTITLEMENTS

The aggregate employee entitlement liability is comprised of:			
Provisions (current)		492	480
Provisions (non-current)		264	237
		756	717

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 15 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:

	2003 Number of Options	Weighted average exercise price	2002 Number of Options	Weighted average exercise price
Balance at beginning of the year	2,470,000	$1.15	2,490,000	$1.15
- granted	—	—	—	—
- forfeited	—	—	(20,000)	$1.15
- exercised	—	—	—	—
Balance at end of year	2,470,000	$1.15	2,470,000	$1.15
Exercisable at end of year	988,000	$1.15	494,000	$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 2002:

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 (2002: nil) were granted during the year.

(c) Options exercised:

No options (2002: 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 2003:

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

(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 exercise price
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 $187,237 for the 2003 financial year (2002: $312,889). 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.

21. SUBSEQUENT EVENTS

(a) 2003

A Final Dividend of 2.0 (2002: nil) cents per share has been declared since 1 July. Please refer Note 5(c). This Final Dividend was based on the Directors' decision to change the dividend policy in future to distribute between 60 and 70% of Profit after Tax. Previously this was based on a payout of 50%. No other significant post balance date events have been identified.

30 JUNE 2003	Notes	2003 $'000	2002 $'000
22. EARNINGS PER SHARE			
The following reflects the income and share data used in the calculations of basic and diluted earnings per share			
Net Profit		4,546	4,812
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share. |Comparative figure has been adjusted for share split.		100,000,000	100,000,000
Effect of dilutive securities:			
Share Options		836,416	418,208
Weighted average number of ordinary shares used in the calculation of diluted earnings per share. Comparative figure has been adjusted for share split.		100,836,416	100,418,208

(a) Conversions, calls, subscription or issues after 30 June 2003

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.

23. REMUNERATION OF DIRECTORS

(a) Directors' remuneration

	2003	2002
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Pro Medicus Limited, directly or indirectly, from the entity or any related party.	655,660	648,304

	No.	No.
The number of directors of Pro Medicus Limited whose income (including superannuation contributions) falls within the following bands is:		
$30,000 – $39,999	2	2
$60,000 – $69,999	1	1
$250,000 - $259,999	—	1
$260,000 – $269,999	2	1

The above disclosure does not require the inclusion of the Fair Value of any options.

30 JUNE 2003	Notes	2003 $'000	2002 $'000

24. REMUNERATION OF EXECUTIVES

		2003	2002
Remuneration received or due and receivable by executive officers of the Company whose remuneration is $100,000 or more, from the Company or any related party, in connection with the management of the affairs of the Company, whether as an executive officer or otherwise		894,860	839,362
		No.	No.
The number of executives of the Company whose remuneration falls within the following bands:			
$120,000 – $129,999		1	1
$200,000 – $209,999		—	1
$250,000 - $259,999		1	1
$260,000 - $269,999		2	1

25. AUDITORS' REMUNERATION

		2003	2002
Amounts received or due and receivable by Ernst & Young for:			
– an audit or review of the financial report of the Company		56,000	54,000
– other services in relation to the Company		3,500	14,150
		59,500	68,150

26. RELATED PARTY DISCLOSURES

DIRECTORS

The directors of Pro Medicus Limited during the financial year were:

M K Ward S A Hupert
P D Jonson A B Hall
P G Molyneux

OTHER RELATED PARTY TRANSACTIONS
DIRECTORS AND DIRECTOR-RELATED ENTITY TRANSACTIONS
DIRECTOR-RELATED ENTITY

Lease payments of $162,718 (2002 $157,365) 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.

>> **notes** cont.

EQUITY INSTRUMENTS OF DIRECTORS
INTERESTS AT BALANCE DATE

Interests in the equity instruments of Pro Medicus Limited held by directors of the reporting entity and their director-related entities:

	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2003 Number	2002 Number	**2003 Number**	2002 Number
A B Hall	40,068,500	40,068,500	425,000	425,000
S A Hupert	40,072,660	40,072,660	425,000	425,000
M K Ward	50,000	50,000	400,000	400,000
P D Jonson	50,000	50,000	200,000	200,000
P Molyneux	25,000	25,000	200,000	200,000
	80,266,160	80,266,160	1,650,000	1,650,000

MOVEMENTS IN DIRECTORS' EQUITY HOLDINGS

Number of shares and options acquired during the financial year by directors and director-related entities nil (2002: 32,160).

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

27. SEGMENT INFORMATION

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

28. FINANCIAL INSTRUMENTS

28(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.

28(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 interst rate		Fixed interest rate maturing in: 1 years or less		Over 1 to 5 years		More than 5 years		Non-interest bearing		Total carrying amounts as per the balance sheet		Weighted average effective interest rate	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000	2003 $'000	2002 $'000	2003 $'000	2002 $'000	2003 $'000	2002 $'000	2003 $'000	2002 $'000	2003 $'000	2002 $'000
(i) Financial assets														
Cash	9,579	1,941	—	—	—	—	—	—	—	—	9,579	1,941	3.2	3.3
Trade and other receivables	—	—	—	—	—	—	—	—	2,483	2,901	2,483	2,901	N/A	N/A
Commercial Bills	—	—	—	6,000	—	—	—	—	—	—	—	6,000	4.8	4.4
Total financial assets	9,579	1,941	—	6,000	—	—	—	—	2,483	2,901	12,062	10,842	4.3	4.1
(ii) Financial liabilities														
Trade creditors and accruals	—	—	—	—	—	—	—	—	269	529	269	529	N/A	N/A
Hire Purchase Liability	—	—	68	249	123	—	—	—	—	—	191	249	7.0	6.6
Deferred Income	—	—	—	—	—	—	—	—	11	82	11	82	N/A	N/A
Total Financial Liabilities	—	—	68	249	123	—	—	—	280	611	471	860	7.0	6.6

28. FINANCIAL INSTRUMENTS (Cont'd)

28(c) Net fair values

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

28(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	2003	2002	2003	2002
Diagnostic Imaging	100	100	2,432	2,848
	100	100	2,432	2,848

* The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/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:

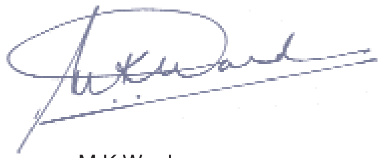
(a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2003 and of it's 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.

On behalf of the Board



M K Ward
CHAIRMAN

Melbourne, 4 September 2003

>> 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 29 August 2003

(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	124	91,245
1,001 – 5,000	595	1,919,603
5,001 – 10,000	266	2,193,253
10,001 – 100,000	174	4,778,885
100,001 AND OVER	12	91,017,014
	1,171	100,000,000
The number of shareholders holding less than a marketable parcel of 569 shares are:	43	17,017

(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	S Hupert	40,072,660	40.1%
2	A Hall	40,068,500	40.1%
3	Citicorp Nominees Pty Ltd <CFS Developing Companies	7,233,157	7.2%
4	Citicorp Nominees Pty Ltd <CFSIL CFS WS Small Companies	1,064,801	1.1%
5	Commonwealth Custodial Services Limited	796,724	0.8%
6	Mirrabooka Investments Limited	471,429	0.5%
7	Cogent Nominees Pty Limited	438,558	0.4%
8	Queensland Investment Corporation	409,746	0.4%
9	National Nominees Limited	241,177	0.2%
10	G E Moir	126,422	0.1%
11	Invia Custodian Pty Limited	120,000	0.1%
12	R P Hall	115,000	0.1%
13	Ms Y K Chun	100,000	0.1%
14	S G Hannes	100,000	0.1%
15	J & R Hupert	100,000	0.1%
16	J & P O'Shea	100,000	0.1%
17	J P Morgan Nominees Australia Limited	90,483	0.1%
18	ANZ Nominees	78,941	0.1%
19	Tower Trust Limited	78,024	0.1%
20	S Uldridge	76,485	0.1%
		91,882,107	91.9%

(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	8,297,958

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

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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 2003.

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.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

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 2003 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: 4 September 2003

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.

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.

• Composition of the Board

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 Chairman must be a Non-Executive director;
- The Board should comprise directors with an appropriate range of qualifications and expertise; and
- The Board shall meet at least 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.

The directors in office at the date of this statement are:

NAME	POSITION
M K Ward	Chairman, Non-Executive Director
P D Jonson	Deputy Chairman, Non-Executive Director
S A Hupert	Managing Director, Chief Executive Officer
A B Hall	Technical Director
P G Molyneux	Non-Executive Director

• 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 relatively recent appointment and 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. It should be noted that no review of these emoluments has taken place at the date of this report.

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.

>> **corporate governance** cont.

The recent 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.

• 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 Chairperson
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 or 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 seventeen 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 stating the financial reports show a "true and fair view" of the results.

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.

• 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:

- Board approval of strategic plans, which encompass the entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk;
- the strategic plan is a dynamic document and the Board is actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- implementation of operating plans and budgets by management and Board 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
- use of 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

Pro Medicus Limited has no interest, or at this time any significant currency sensitive assets or liabilities. Small value GBP currency invoice proceeds have been deposited to a designated foreign currency account for use in future UK operations, thus providing a natural hedge on currency changes.

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.

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>> 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

Company Secretary

Geoffrey William Holden CA

Registered Office

450 Swan Street
Richmond, VIC, 3121
(03) 9429 8800

Solicitors

Madgwicks

Bankers

Bank of Melbourne

Share Register

Computershare Registry Services Pty Limited
Level 12
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Melbourne, VIC, 3000
Ph (03) 9615 5970

Auditors

Ernst & Young

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