Promedicus

annual report 2004

highlights 2003/2004

Financial Highlights

- Profit before tax of $5.02 million after taking into account the reversal of $1.2 million of accrued revenue due to deferral of a Mayne contract.
- Full year profit after tax of $3.58 million with second half profit after tax of $2.52 million, up 21.8% on previous corresponding period.
- Final dividend of 2.25 cents per share fully franked.
- Full year dividend increased to 3.5 cents per share fully franked.
- Strong balance sheet with cash reserves increased to $10.5 million. The company remains operationally debt free.

contents

Business Highlights

- Considerable progress with digital radiology integration products with a number of important contracts won. These included a major public sector tender, new and existing private radiology practices and a flagship practice of one of the country's largest private radiology groups, Mayne Imaging.
- Continued strong growth of **Promedicus.net**, the company's e-health offering, with 16,000 doctors now using the service to send or receive diagnostic results. The network carried 2.4 million transactions for the year (up 27.80%).
- Release of version 5.0 of the company's flagship practice management system.
- Completion of HIC-Online Version 3.0 capability, the latest version of the government electronic payment system.
- New product, **ProMed Clinical**, enters GP clinical desktop software market.

financial summary

Strong balance sheet with cash reserves increased to $10.5 million. The company remains operationally debt free.

Financial Summary

Year ending 30 June 2004

All figures in $A thousands unless otherwise stated

	Reported 2004 $'000	Reported 2003 $'000	**Restated 2004 $'000**	Restated 2003 $'000
Revenues from Ordinary Activities	8,402 (-11.6%)	9,502	9,610 (+15.9%)	8,294
Revenues from Operating Activities	7,900 (-13.2%)	9,100	9,108 (+15.4%)	7,892
Operating Profit Before Interest and Income Tax	4,529 (-25.1%)	6,049	5,737 (+18.5%)	4,841
Net Profit After Tax	3,577 (-21.3%)	4,546	4,423 (+19.5%)	3,700
Earnings per Share (cents)	3.6	4.5	4.4	3.7
Total Assets 30 June	13,058	12,543		
Shareholders' Funds 30 June	11,075	10,748		
Net Tangible Assets per Share at 30 June (cents)	10.8	10.5		
Franked Dividends per Share (cents per share)	3.50	3.25		

Dividends to Shareholders

An interim dividend of 1.25 cents per share fully franked (30%) was paid on April 5, 2004. A final dividend of 2.25 cents per share fully franked (30%) will be paid on October 4, 2004. The total dividend for the year of $3.50m (3.50 cents per share, fully franked) represents a payout ratio of 97.8% of reported net profit after tax or 79% on restated profit after reversal of effect of fundamental error. See Note 2(b) Annual Financial Statements.

CEO and Chairman's letter

The business highlight for the year was undoubtedly the acceleration of market interest and adoption of our digital radiology technology.

Dear Shareholders,

It is pleasing to report that the 2004 financial year was another successful period in the development of our company, particularly in terms of the growing market penetration of our digital radiology (PACS) integration products.

Our reported half year after tax profit was $3.58 million. This was down on the previous years' reported result, but shareholders will be aware of the previously reported impact on the first half year profit of a revenue reversal of $1.2 million due to the deferral of the installation of a Mayne Group contract. Your directors have taken a prudent approach to the handling of this transaction. All costs associated with the project have been expensed and all accrued income reversed. Based on assurances from senior Mayne executives, we expect that this contract will be resumed in due course, at which stage the revenue would be written back to profit.

The second half profit after tax of 2.52 million was however a return to strong operations, being a 21.8% increase on the 2003 second half. The company has further strengthened its balance sheet, remaining operationally debt free and with cash reserves increasing to $10.5 million. This gives us the financial strength to fund growth opportunities as they develop as well as continuing to reward our shareholders in the form of franked dividends. The Board has declared a final dividend of 2.25 cents per share fully franked, bringing the full year dividend to 3.50 cents per share fully franked, an increase of 7.7% on the previous year.

The business highlight for the year was undoubtedly the acceleration of market interest and adoption of our digital radiology technology. We now have ten sites using our digital integration products. Importantly these sites cover the whole range of the different types of radiology providers – standalone private practices, a private network, a major site of a large corporate provider in Mayne and a large public sector project with Hume Health. We have demonstrated the efficiencies that digital can deliver and the whole industry is now looking to the technology as a major productivity initiative.

The growth in Promedicus.net, the company's e-health offering, continued unabated during the year. The number of doctors subscribing to the service increased from 13,000 in 2003 to 16,000 in 2004 and the number of transactions the network carried increased 27.8% to 2.4 million. Promedicus.net is already clearly the gold standard for electronic delivery of radiology results throughout Australia, but we see considerable further growth potential, both through increases in radiology transactions and by opening up the network to other medical specialists.

During the year, the company acquired the intellectual property of a clinical desktop software product, which has been launched as ProMed Clinical. Shareholders may be aware that this product was the subject of legal action instituted by HCN Limited, the current market leader in GP desktop software. We are pleased to report that these actions were withdrawn by HCN on 13 August 2004, and that Pro Medicus was subsequently awarded costs in connection to these proceedings. Feedback from doctors who have used ProMed Clinical indicates that our product may have significant advantages over currently used clinical software.

The company expects its major sources of growth in the Australian market to come from the widespread adoption of digital radiology technology, the continued growth of Promedicus.net, particularly the expansion of the e-health network to include other (non-radiology) specialists and market take-up of ProMed Clinical.

In our previous years report we referred to the installation of Pro Medicus systems into the UK radiology practices owned by MIA Group Limited. The successful support of the now seventeen sites has continued this year. We intend to increase our focus on overseas expansion and are now looking for further international opportunities for this world class digital integration technology.

In closing, we would like to express our thanks to our fellow directors and to the innovative and professional Pro Medicus staff whose efforts continue to keep our company at the forefront of medical IT.

Yours faithfully,

Dr Sam Hupert
CHIEF EXECUTIVE OFFICER

Mel Ward AO
CHAIRMAN

business background

Pro Medicus now provides healthcare IT solutions to large corporate groups, as well as specialist physicians, surgeons and allied health professionals.

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 Ltd, Sonic Healthcare, i-med and Mayne Health, as well as specialist physicians and surgeons, GPs and allied health professionals. In 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 company added the clinical desktop software, ProMed Clinical to its range in 2004.

The activities of Pro Medicus in the financial year ending June 30, 2004 can be characterised by the following revenue streams:

Core / Practice Management

The Company's traditional 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 operates a secure internet based computer network and supplies software that manages the exchange of clinical information for Australian doctors, Diagnostic companies, Specialists and other medical groups.

Promedicus.net 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 16,000 doctors, representing around 70% of Australian GPs, and has become the de facto standard for delivery of electronic radiology results throughout Australia. The service has also been extended to other specialist doctors. Revenue is generated from a single connection fee as well as a transaction charge for each report that is delivered.

The destination for all of these clinical reports is a doctor's clinical medical records software application. Encouraged by demand from the 16,000 strong client base the company has entered the clinical desktop market with the launch of its own clinical medical records product – ProMed Clinical. This exciting development will assist the company to leverage the benefit of the Promedicus.net client base and allow it to develop new e-health transactions for its network.

Digital imaging

Traditionally X-Ray images have been captured on sheets of photographic film, which are held up to a light source to be reviewed by a radiologist. In the new world of Digital Radiology these images are captured electronically and directly viewed on high-resolution computer monitors. The digital image and the subsequent diagnostic report are stored and linked electronically in a combined RIS (Radiology Information) / PACS (Picture Archive and Communication) system - or more simply a Digital Radiology system.

This new way of managing a radiology practice is forecast to revolutionise the diagnostic imaging business by significantly improving efficiency of radiographic/technical staff and radiologists as well as facilitating the sharing of the diagnostic images, leading to better quality of care and patient outcomes.

Pro Medicus has developed a range of digital imaging integration products in conjunction with partners Agfa-Gevaert, aimed at providing a seamless interface between two market leading products, the Pro Medicus Practice Management System and Agfa's Impax Digital Imaging solutions. 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 first commercialised in 2002 with the sale and successful installation at Lake Imaging in Ballarat. Ten radiology sites across a wide range of clients now use the Pro Medicus digital technology with market interest escalating as radiology providers recognise the efficiency benefits the technology offers.

the year 2004 in review

Core Business

The Core business continued to perform well with key applications such as the Practice Management System (PMS) and the Pro Medicus Appointments system continuing to sell into their respective markets with sales to a number of new practices as well as new locations for additional clients.

A key development in 2004 was the release of the company's next generation of PMS – version 5.0. Not only did this new release further extend the company's leadership in digital ready systems, it also became the first application approved by the Health Insurance Commission (HIC) for use with HIC Online version 3.0, the latest version of the government electronic payment system which incorporates the new Medicare safety net.

HIC Online will allow radiology providers to electronically process claims on behalf of patients at the time of consultation. A key benefit of the new system is that patients who become eligible for the new Medicare safety net will automatically receive a significantly higher rebate that covers 80% of the difference between the charged fee and the scheduled fee for the service. This will result in significantly lower out of pocket expenses for patients, which is particularly important in radiology where the examination cost is generally higher than those for GP visits.

The company estimates it will be eligible for more than $500,000 of Government funded incentives in the coming financial year for connecting its clients to HIC Online and an additional $100,000 in the following year for maintaining the service.

Being the first software provider to integrate HIC Online Version 3.0 will provide our clients with a very significant strategic advantage over those using other systems.

This new technology has the potential to significantly improve cash flow by simplifying direct Medicare claiming with the HIC, and will also be a major catalyst in reducing outstanding accounts for Pro Medicus clients. Patients will be more inclined to pay at the time of consultation knowing that the HIC Medicare rebate will be electronically lodged in their bank account.

Another key feature of the Pro Medicus HIC Online implementation is that, unlike other vendors who developed standalone offerings aimed at the single site GP market, the Pro Medicus implementation has been designed to scale to an enterprise level.

The company continued its strong record in providing excellent customer service and support. Total ongoing fees for service and support increased the percentage of recurring revenue for the core business to in excess of 49% of total revenue from operating activities.

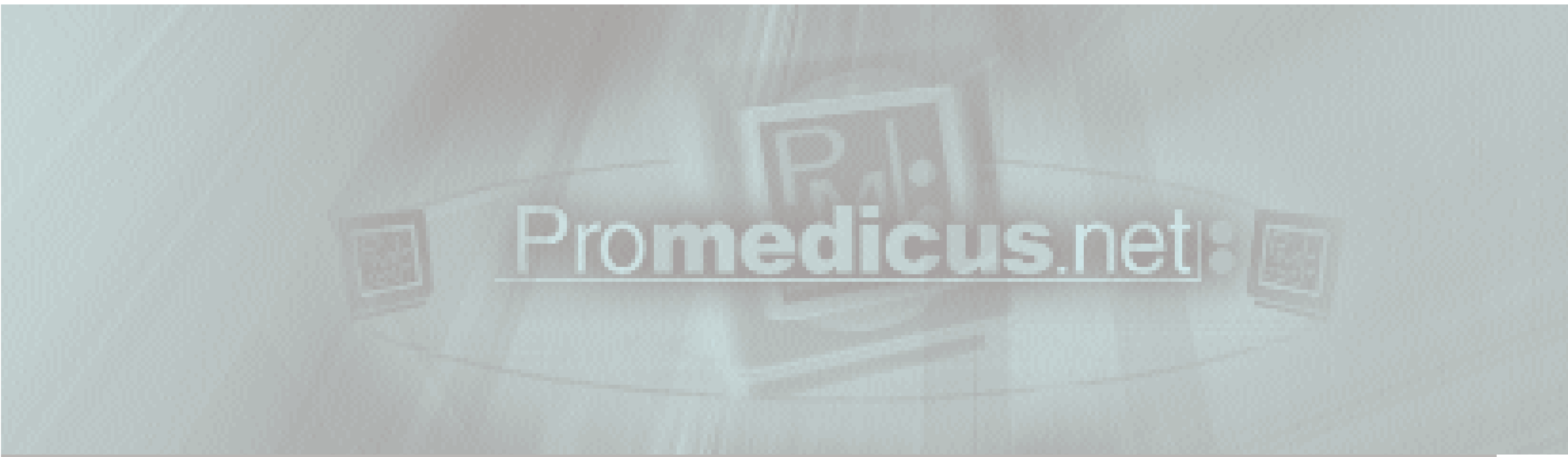
E-health

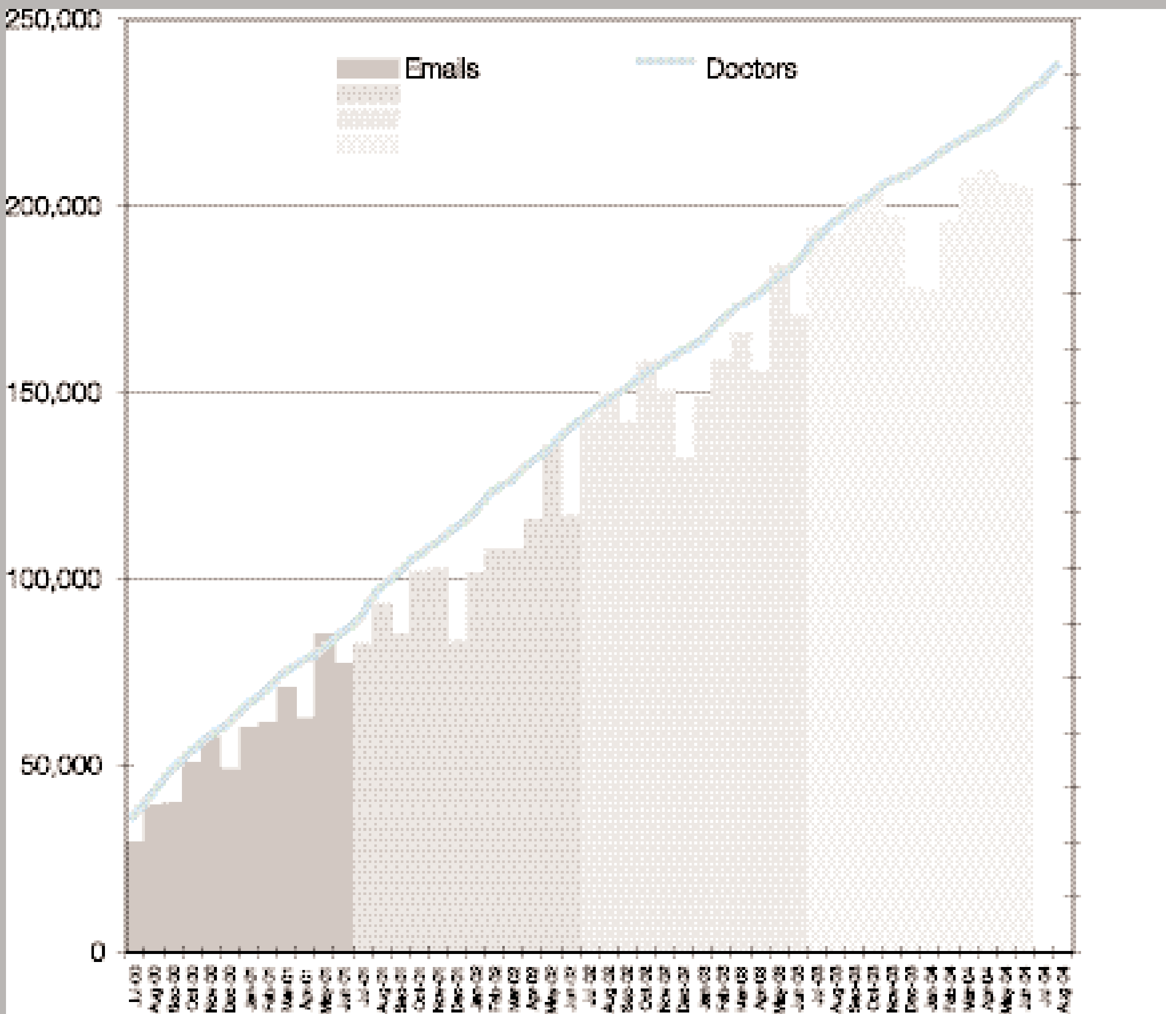
Our e-health business, Promedicus.net, continues to grow and cement its position as the largest Internet-based system for delivery of imaging reports in Australia with over 16,000 doctors connected to date.

Total revenue for Promedicus.net was in excess of $2.1m, an increase of 19.2% over last year. Transaction volumes have risen strongly with an average of over 200,000 reports processed through the network each month.

The critical mass of Australian doctors connected to Promedicus.net makes the network attractive for other providers of clinical results. Developments have continued to make the network easily accessible to medical specialists, allied health professionals and other industry providers. The ubiquity of connection has been a strong attractant for these providers who are seen as significant new sources of transactions for the network.

In a major addition to the e-health portfolio the company purchased the intellectual property to a clinical records system which it is has released as ProMed Clinical. In the 6 months since the acquisition of what was already a strong product we have incorporated advanced Pro Medicus technology into ProMed Clinical. This has been facilitated by the common primary programming language and database underlying ProMed Clinical and other Pro Medicus products allowing rapid uptake of new features. In particular our experience in packaging and electronically distributing and supporting software using Promedicus.net has been employed to drive down the cost of supporting ProMed Clinical.





promedicus.net growth

"Switching to ProMed Clinical not only allowed us to keep our existing hardware, but also gave us a system that was dramatically faster than what we had been used to. All of our existing data was converted ready to use from day one with virtually no extra training required.
ProMed Clinical has been extremely reliable and we could not be happier with the result." Surrey Hills Medical Centre

The company intends using this product to leverage the relationship it has with the 16,000 general practitioners on its Promedicus.net e-health network. A key feature of the new product is that GP's using the current market-leading product can seamlessly transition to ProMed Clinical.

The product's inherent speed, scalability and reliability coupled with the electronic delivery advantages of Promedicus.net should make it an attractive proposition to the GP market space. Importantly it will give the company a platform to develop the 16,000 strong user base as a source for e-health transactions.

Digital imaging

The company has continued the development of its digital imaging integration product set. The year was notable for the technologies successful application to three vastly different deployment scenarios namely the private, public and corporate radiology sectors.

In the private sector the company continued its strong relationship with Lake Imaging, a regional radiology provider, who extended their filmless digital radiology network to encompass 5 sites throughout Victoria. Reporting efficiency gains of more than 30% the practice has capitalised on the competitive advantage gained by the group over those persisting with analogue film based technology.

"Converting to digital imaging has given us a distinct competitive advantage," said Lake Imaging partner John Livingston. "We have a highly efficient and reproducible business model and can offer clinical benefits to patients and referring doctors that other providers cannot do with analogue technology."

Public sector activity commenced with the launch of the Hume project which links the medical imaging departments of health services and public hospitals across a large part of north-eastern Victoria. Delivered over HumeNet, a broadband network linking health services across the region, digital radiology images and reports can be sent electronically between doctors and specialists in Wodonga, Shepparton, Wangaratta, Bright, Myrtleford, Beechworth, Mansfield, Numurkah and Nathalia. Patients can now have their medical images sent to the best medical practitioners in the region in a matter of seconds, allowing a quick and easy diagnosis. This type of service is a first for Australia and one of the first of its kind in the world.

"Victoria's North-East is the first rural or regional area in Australia to receive the benefits of this new technology."

"From today patients can have their medical images sent to the best medical practitioners in the region in a matter of seconds, allowing a quick and easy diagnosis."

"Doctors will be able to view X-rays on their desktop computers, discuss the case with a hospital's radiologist and agree on the best form of treatment almost instantly."

"This means that Victorians in the North-East now have access to the best available services for medical treatment."

Ms. Marsha Thomson

VICTORIAN MINISTER FOR INFORMATION & COMMUNICATION TECHNOLOGY

Corporate interest in Digital Imaging was demonstrated with the installation of the full suite of digital imaging integration products to the radiology department at Knox Private Hospital, a flagship Mayne Diagnostic Imaging practice making it Australia's first fully digital private hospital radiology department.

In each of these very different environments the company has successfully demonstrated the efficiencies and tangible financial benefits of its technology. Importantly these installations covered a wide range of imaging equipment and network infrastructure and allowed the company to fine tune its integration products to meet the diverse requirements experienced.

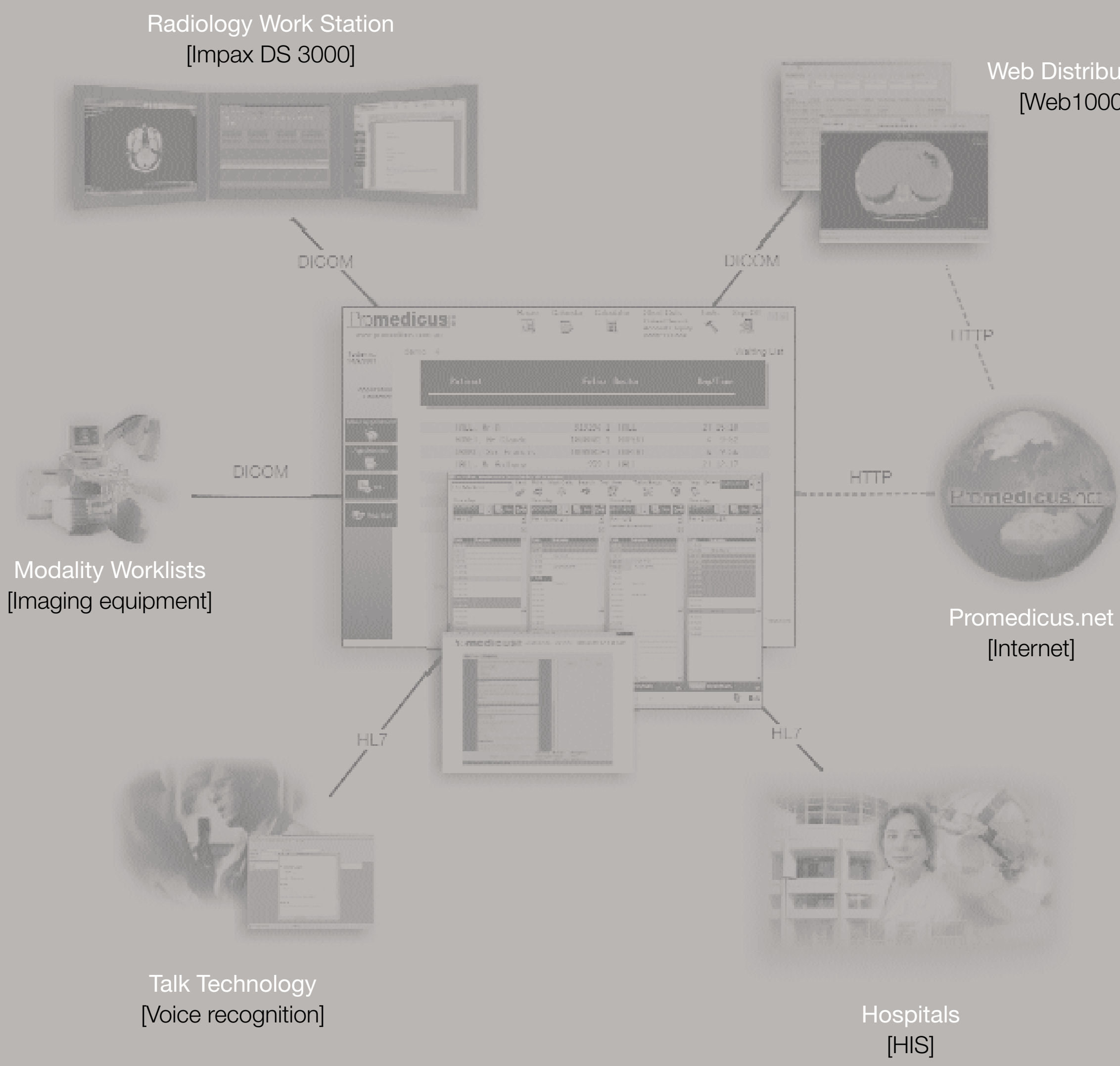
The exciting productivity gains that are being produced by our integration technology demonstrate a significant opportunity for the Radiology industry to improve bottom line margins whilst improving clinical care.

We are confident that the compelling business case that our digital technology provides coupled with the consolidated nature of the Australian radiology industry will result in widespread adoption of this technology in the coming year.

Overseas Software Developments

The company has continued to develop and support its UK sites – first installed in November 2002 with the most recent development being the installation of the company's new generation version 5.0 PMS. The experience gained in maintaining a common programming source code base for both Australia and UK will be of great assistance when considering other overseas development opportunities. Likewise the support infrastructure to support clients across multiple time zones is in place and functioning well.

All new software enhancements and developments are undertaken with international application in mind. For example a role based security and authentication module has been developed to comply with both Australian privacy legislation and the American HIPPA legislation.



Integrated Digital Radiology

into the future

...the experience we have gained with both our digital integration products and the success of our UK sites positions us with both the ability and a world class product set to tackle further international markets.

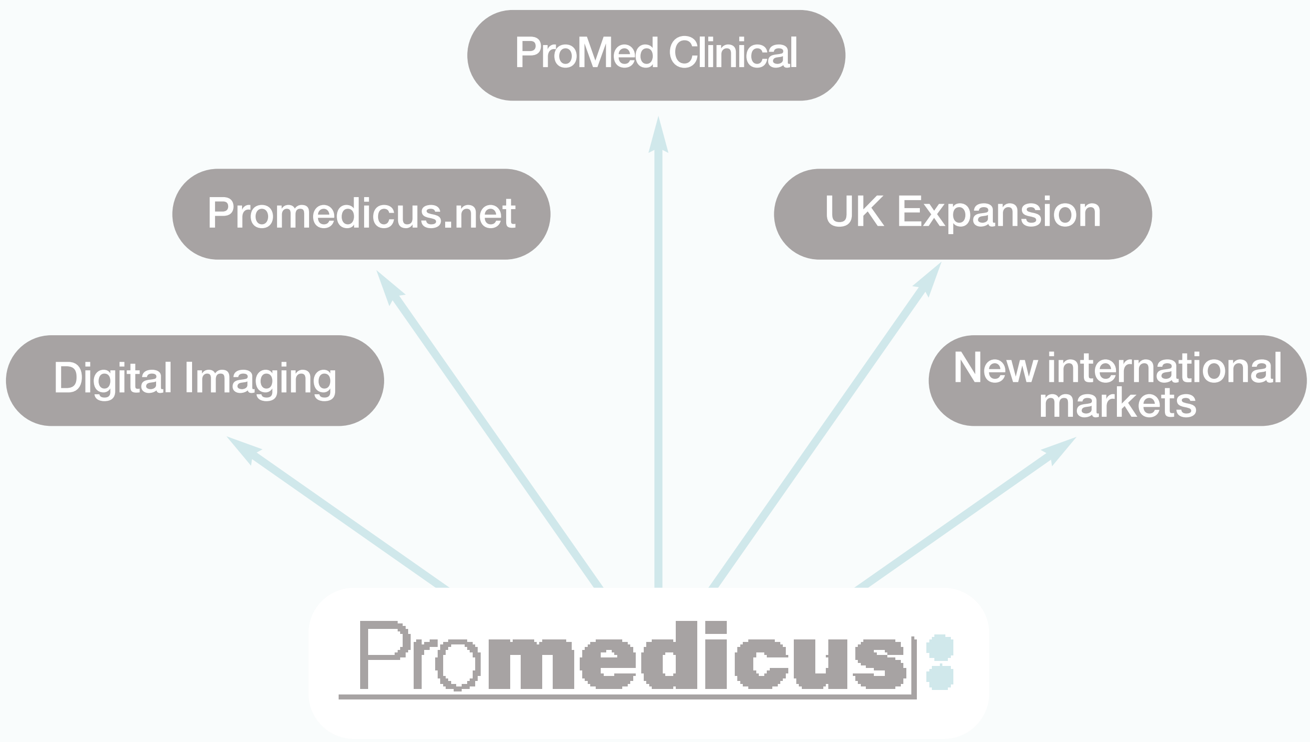
In 2003 we predicted that 2004 would be the landmark year in which the radiology profession made the transition from the traditional paper and photographic film environment to a truly digital workplace. Whilst the profession has been slower to embark on this journey than we had expected we have seen some very positive signs in the second half and we expect this activity to increase and become a strong contributor to the company's growth in 2005.

The same forces are in effect in other areas of the Australian health supply chain with pressure from all stakeholders to transact electronically. Pro Medicus is strategically placed to provide services for both financial transactions through government initiatives such as HIC Online and clinical transactions through its e-health network Promedicus.net. The natural destination of electronic clinical information is the electronic medical record (EMR). Pro Medicus, with the launch of ProMed Clinical, now has a leading EMR product for the GP and Specialist space. Most e-health transactions to date start in the middle of the supply chain – for example the clinical result is generated after the examination of the patient. Products like ProMed Clinical will have the capacity to generate requests for diagnostic tests at the start of the chain and offer significant potential for generating efficiencies for Pro Medicus clients.

In the radiology industry in Australia we have seen a number of years of consolidation of the market into a few extremely large corporate groups. Pro Medicus has been a key part of this consolidation process by providing a common computing platform for many of the players. We believe that our new digital integration products can provide productivity gains of compelling magnitude to these groups who can benefit from the wide area networks that they have built up to distribute and manage workload as well as the pure local productivity gains inherent in the technologies use.

In contrast to the consolidation of the radiology industry we are also seeing a new breed of "boutique" radiology companies being formed of smaller size. With no existing investment in traditional analogue / film based equipment these groups are a natural source of new clients for the Pro Medicus digital integration technology.

Finally the experience we have gained with both our digital integration products and the success of our UK sites positions us with both the ability and a world class product set to tackle further international markets. We therefore hope to extend the reach of our technology into other overseas markets.



Key Growth Strategies for 2005

financial statements

directors' report

Your Directors submit their report for the year ended 30 June 2004.
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

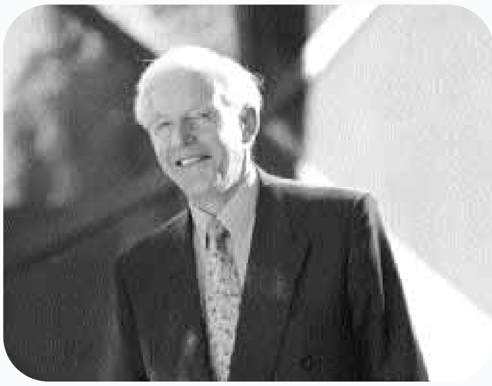
M.B.B.S.

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 Equity Trustees Limited, a director of Centre for Eye Research Australia Limited, Australian National Academy of Music and Corps of Commissionaires (Victoria) Limited. He is also a trustee of Monash University Accident Research Foundation.

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 4 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 30 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	3.6
Diluted earnings per share	3.6

DIVIDENDS

	Cents	$'000
Final dividends recommended:		
• on ordinary shares	2.25	2,250
Dividends paid in the year:		
Interim for the year		
• on ordinary shares	1.25	1,250
Final for 2003 shown as recommended in the 2003 report:		
• on ordinary shares	2.0	2,000

CORPORATE INFORMATION

Corporate Structure

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

Nature of operations and principal activities

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

- 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
- ProMed Clinical a GP electronic health record system.

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

directors' report cont.

REVIEW AND RESULTS OF OPERATIONS

Investment Activities

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

During the year an amount of $75,000 was paid to acquire the intellectual property to Promed Clinical, a clinical records system which will enable the company to aggressively compete in the GP desktop space currently serviced by other clinical record products.

Performance Indicators

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

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

Dynamics of the Business

The gross margin has been maintained this year as a result of a similar software and service sales product mix compared with last year.
It is anticipated that this sales mix and margin are likely to be maintained in future.

Operating Results for the Period

Pro Medicus reported an after tax profit of $3.577 million. This published result for the current period, including the fundamental error adjustment relating to the reversal of accrued income for a deferred contract [please refer Note 2(b) of the Financial Statements], shows a reduction in profit before tax of $1.417m to $5.020m. After reversing the fundamental error adjustment back to 2003, the period in which it occurred, Pro Medicus 2004 results showed the second most profitable year in its history.

During the past financial year, the company continued its focus on higher margin software sales, e-health and services. Profit before tax to revenue from operating activities on published figures decreased to 63.5% (2003: 70.7%). However, after reversing the fundamental error adjustment back to 2003, the period in which it occurred, the results show profit before tax to revenue from operating activities increased to 68.4% (2003: 66.3%) on these restated figures.

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 6 million, making promedicus.net the leading e-health provider in Australia. The network carried 2.4 million transactions for the year, a 27.8% increase on the previous year. The company continued to maximise the value of promedicus.net by extending its use to non-radiology providers, a trend it anticipates will accelerate in the 2005 financial year. It also intends to leverage its relationship with the 16,000 doctors on the network to promote its other products and services, including the recently launched ProMed Clinical software.

Building on the success of the first digital imaging installation at Lake Imaging, the company has now installed the technology at 10 sites, importantly covering private, large corporate and public radiology providers. Due to the size and complexity of these negotiations, the company has experienced slightly longer than expected lead times for sales of these products, but the level of recent market interest reinforces the company's confidence that the efficiency and clinical benefits the technology offers will inevitably drive the radiology industry towards a fully digital environment.

directors' report cont.

SUMMARISED OPERATING RESULTS

	2004 Revenues $'000	2004 Results Before Tax $'000
Product and Service Groups		
Core Business	4,667	2,836
Promedicus.net	2,105	1,645
RIS/PACS	1,128	539
Total sales from operating activities and operating profit	7,900	5,020

Shareholder Returns

The Company is pleased to report that dividend return to shareholders of 3.5 cents per share has exceeded the percentage return paid in the previous year. Despite extra dividend payments the company has increased cash holdings and the reductions in return on net assets and equity as shown in the table below, reflect the retention of extra cash in the business and the effect of the fundamental error adjustment on current period profit.

	2004	2003	2002	2001	2000
Basic earnings per share - reported (cents)	3.6	4.5	4.8	4.1	3.3
Basic earnings per share - restated (cents)	4.4	3.7	n/a	n/a	n/a
Return on assets (%)	38.4	51.3	59.4	66.6	74.1
Return on equity (%)	32.3	42.3	64.6	79.5	99.6
Net debt / equity ratio (%)	1.2	1.8	3.3	6.2	11.3
Dividend payout ratio (%)	97.9	71.5	51.9	55.1	51.7
Available franking credits (tax paid basis) ($'000)	4,923	4,840	3,471	3,057	1,713

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 RIS/PACS 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 about 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 16 full time and 1 casual employee compared with 17 full time in 2003. 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 1.2% in the current year and was 1.8% 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 $10.5m of cash available to the company.

Cash from Operations

Net cash flows from operating activities decreased slightly from $4.5m in the previous year to $4.4m in the current period. The decrease in cash from operating activities was largely due to reduced sales and consequent lower receipts from customers, offset by reduced payments to suppliers, higher interest income and consequent lower tax payments. Net operating cash flow excluding tax payments was reduced compared with the previous year.

There was a decrease in receipts from customers of approximately 11% and the ratio of payments to suppliers and employees, as a percentage of receipts from customers showed an increase of 9%.

Liquidity and Funding

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

Risk Management

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board.
The Company believes that it is crucial for all Board members to participate in this process, as such the Board has not established separate committees for areas such as risk management, environmental issues, occupational health and safety or treasury.

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

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

directors' report cont.

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 $11.075m from $10.748m, an increase of $0.33m (2003: $3.3m) or 3% (2003: 44%). The movement was largely the result of retaining more cash in the business relative to the previous year. Increased dividend payout has reduced the growth in cash funds this year but directors consider funds on hand sufficient to cover any anticipated requirements.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

A Final Dividend of 2.25 cents per share (2003: 2.0) 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 higher dividend amounts.

On 13 August 2004 HCN Limited was ordered to pay the costs (including reserved costs) of Pro Medicus Limited of and incidental to both Federal Court proceedings N1004 of 2004 and V755 of 2004, to be taxed if not agreed.

An executive [non-directors] performance based incentive share plan is to be implemented. At the date of this report the structure to manage this has not been completed nor have any allocations of shares been made.

No other significant post balance date events have been identified.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors foresee that the 2005 financial year will be a period of consolidation for sales of the traditional core products and during which the changes made in the 2004 financial year will have their full impact. The most significant areas for change will be in:

- Continued marketing of the Radiology Information System (RIS)/PACS interface to the Australian market;
- Expansion of the business to International markets to promote the (RIS)/PACS products developed under the alliance with Agfa-Gevaert Limited;
- Continued sales of the Pro Medicus Appointments System;
- Continued installation and use of the Promedicus.net secure email product and Specialist Report Sender;
- Sales of ProMed Clinical desktop; and
- The company intends to focus on overseas expansion following the successful installation and support of it's seventeen UK sites. It is now looking for further international opportunities for it's world class digital radiology integration technology.

It is anticipated that the 2005 financial year will show substantial 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.

directors' report cont.

SHARE OPTIONS

Un-issued Shares

As at the date of this report, there were 2,470,000 un-issued ordinary shares under options (2,470,000 at balance date). Refer to Notes 16 and 20 of the financial statements for further details of the options outstanding.

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

Shares Issued as a Result of the Exercise of Options

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

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

Terms of this cover are confidential and are not disclosed per Corporations Act 2001 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. The full Board will review the terms of employment for the Company Secretary.

The Board has delegated the responsibility of executive remuneration to the management who will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality executive team. 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	Total
	$	$	Number	$	% of Remuneration	$	$
A. B. Hall	268,998	8,491	85,000	18,777	6.1	11,002	307,268
S. A. Hupert	268,998	9,674	85,000	18,777	6.1	11,002	308,451
M. K. Ward	60,000	—	80,000	17,672	21.3	5,400	83,072
P. D. Jonson	30,000	—	40,000	8,836	21.3	2,700	41,536
P. G. Molyneux	30,000	—	40,000	8,836	21.3	2,700	41,536
Total	657,996	18,165	330,000	72,898		32,804	781,863

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

	Annual Emoluments		Long Term Emoluments		Super-annuation	Total
	Salary	Bonus	Options Vesting During the Current Period@			
	$	$	Number	$	$	$
D. Tauber	255,665	—	70,000	15,463	11,002	282,130
G. W. Holden	95,000	—	17,000	3,755	38,333	137,088
Total	350,665	—	87,000	19,218	49,335	419,218

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 AASB 2 "Share-based Payment" prospectively for all options granted to directors and relevant executives, which have not vested as at 1 July 2003. 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 2003, 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	1	4
Number of meetings attended:			
A. B. Hall	11	1	4
S. A. Hupert	11	1	4
M. K. Ward	11	1	4
P. D. Jonson	11	1	3
P. G. Molyneux	11	1	4

Signed in accordance with a resolution of the Directors.

M K Ward

DIRECTOR

Melbourne, 26 August 2004.

statement of financial performance

YEAR ENDED 30 JUNE 2004	Notes	2004 $'000	2003 $'000
REVENUES FROM ORDINARY ACTIVITIES BEFORE FUNDAMENTAL ERROR		9,610	9,502
Correction of Fundamental Error	2(b)	(1,208)	—
REVENUES FROM ORDINARY ACTIVITIES	2	8,402	9,502
Borrowing costs expense	3	(11)	(14)
Other expenses from ordinary activities	3	(3,371)	(3,051)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		5,020	6,437
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	4	(1,443)	(1,891)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		3,577	4,546
NET PROFIT		3,577	4,546
NET PROFIT ATTRIBUTABLE TO MEMBERS OF PRO MEDICUS LIMITED	17	3,577	4,546
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		3,577	4,546
Basic earnings per share (cents per share) - reported	22	3.6	4.5
Diluted earnings per share (cents per share) - reported	22	3.6	4.5
Basic earnings per share (cents per share) - restated	22	4.4	3.7
Diluted earnings per share (cents per share) - restated	22	4.4	3.7
Franked dividends per share (cents per share)	5	3.50	3.25

statement of financial position

AS AT 30 JUNE 2004	Notes	2004 $'000	2003 $'000
CURRENT ASSETS			
Cash assets	18 (b)	10,479	9,579
Receivables	6	2,014	2,483
Inventories	7	4	5
TOTAL CURRENT ASSETS		12,497	12,067
NON-CURRENT ASSETS			
Intangible Asset	8	75	–
Property, plant and equipment	9	229	239
Deferred tax assets	10	257	237
TOTAL NON-CURRENT ASSETS		561	476
TOTAL ASSETS		13,058	12,543
CURRENT LIABILITIES			
Payables	11	477	280
Interest-bearing liabilities	12	133	68
Current tax liabilities	4	541	556
Provisions	13	504	492
TOTAL CURRENT LIABILITIES		1,655	1,396
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	14	–	123
Deferred tax liabilities	4	12	12
Provisions	15	316	264
TOTAL NON-CURRENT LIABILITIES		328	399
TOTAL LIABILITIES		1,983	1,795
NET ASSETS		11,075	10,748
EQUITY			
Contributed equity	16	9	9
Retained profits	17	11,066	10,739
TOTAL EQUITY		11,075	10,748

statement of cash flows

YEAR ENDED 30 JUNE 2004	Notes	2004 $'000	2003 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		8,385	9,451
Payments to suppliers and employees		(3,044)	(3,158)
Interest received		502	388
Borrowing costs		(11)	(14)
Income tax paid		(1,478)	(2,191)
NET CASH FLOWS FROM OPERATING ACTIVITIES	18(a)	4,354	4,476
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(71)	(31)
Purchase of ProMed Clinical		(75)	_
Redemption/(Purchase) of commercial bills		_	6,000
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(146)	5,969
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of hire purchase borrowings		(58)	(57)
Payment of dividends on ordinary shares		(3,250)	(2,750)
NET CASH FLOWS (USED IN) FINANCING ACTIVITIES		(3,308)	(2,807)
NET INCREASE/(DECREASE) IN CASH HELD		900	7,638
Add opening cash brought forward		9,579	1,941
CLOSING CASH CARRIED FORWARD	18(b)	10,479	9,579

summary of significant accounting policies

(a) Basis of accounting

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

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

(b) Changes in accounting policies

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

(c) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies are converted to local currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date (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.

(d) Cash and cash equivalents

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

(e) Receivables

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

(f) Investments

Investments are carried at the lower of cost and recoverable amount.

(g) 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.

(h) 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.

(i) 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.

summary of significant accounting policies cont.

MAJOR DEPRECIATION PERIODS	2004	2003
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

(j) 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.

(k) Research & development costs

Research and development costs are expensed as incurred.

(l) 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.

(m) 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.

(n) Share capital

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

(o) Revenue recognition

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

Sale of goods

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

Service Income

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

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

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

Licences

Control of the right to receive licensing fees.

Interest

Control of the right to receive the interest payment.

(p) 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.

(q) Employee entitlements

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

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

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

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

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

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.
Currently, fair values of the option plan allocations are not recognised as expenses in the financial statements. Please refer to note 20(e) for further details.

(r) 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.

(s) 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 capitalised at the present value of the minimum lease payments and disclosed as property plant and equipment under lease. A lease liability of equal value is also recognised.

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

(t) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures. Comparative earnings per share has been adjusted for the fundamental error. Please refer to Note 22.

notes

30 JUNE 2004	Notes	2004 $'000	2003 $'000

2 (a). REVENUE FROM ORDINARY ACTIVITIES

REVENUES FROM OPERATING ACTIVITIES			
Sale of goods		285	701
Service Income		7,302	6,116
Licence Income		1,521	2,283
Licence & Service Income fundamental error		(1,208)	—
Total revenues from operating activities		7,900	9,100
REVENUES FROM NON-OPERATING ACTIVITIES			
Interest			
Other		502	402
Total interest		502	402
Total revenues from outside the operating activities		502	402
Total revenues from ordinary activities		8,402	9,502

2 (b). FUNDAMENTAL ERROR IN ACCRUED REVENUE

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

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

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

Due to the deferral the directors, as a matter of appropriate and prudent financial reporting, reversed the accrued revenue for this Appointments system work pending final resolution of the deferral.
All costs associated with the work completed have been expensed.

30 JUNE 2004	Notes	2004 restated $'000	2003 restated $'000
Revenues from ordinary activities		9,610	8,294
Expenses from ordinary activities		(3,382)	(3,065)
Profit from ordinary activities before income tax expense		6,228	5,229
Income tax expense		(1,805)	(1,529)
Profit from ordinary activities after income tax expense		4,423	3,700
RESTATEMENT OF RETAINED PROFITS			
Previously reported retained profits at the beginning of the reporting period		10,739	7,443
Correction of fundamental error (net of income tax expense at 30%)		(846)	—
Restated retained profits at the beginning of the reporting period		9,893	7,443
Profit from Ordinary Activities after income tax expense		4,423	3,700
Less Final Dividend		(3,250)	(1,250)
Restated Retained Profits at the reporting date		11,066	9,893

notes cont.

30 JUNE 2004	Notes	2004 $'000	2003 $'000
3. EXPENSES AND LOSSES/(GAINS)			
Profit from ordinary activities has been determined after charging /(crediting) the following items:			
(a) Expenses			
Borrowing costs expensed			
Interest on Hire Purchase contracts		11	14
Total borrowing costs expensed		11	14
Accounting & Secretarial Fees		154	128
Advertising and Public Relations		122	67
Cost of Goods Sold		269	295
Depreciation and Amortisation			
Property Improvements		—	17
Motor Vehicles		35	41
Office Equipment		20	18
Furniture and Fittings		17	18
Research & Development Equipment		7	5
Total Depreciation and Amortisation Expenses		79	99
Insurance		107	96
Legal Costs		96	7
Operating Lease Expenditure		167	163
Other Expenses		155	141
Research & Development costs		755	669
Salaries and Employee Benefits Expense		1,399	1,323
Travel and Accommodation		68	63
Total Other Expenses from Ordinary Activities		3,371	3,051
(b) Losses/(gains)			
Net foreign currency (gains)/losses		(12)	(1)
Total (gains)/losses		(12)	(1)

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		1,506	1,931
Tax effect of permanent differences			
Non-deductible Entertainment		3	3
Non-deductible Legal Costs		6	—
Life and Trauma Insurance		16	13
Research & Development Concession		(88)	(85)
Non-deductible depreciation on Motor Vehicles		2	5
Other items (net)		(1)	—
Under/(over) provision of previous year		(1)	24
Income tax expense relating to ordinary activities		1,443	1,891

30 JUNE 2004	Notes	2004 $'000	2003 $'000
DEFERRED TAX ASSETS AND LIABILITIES			
Current tax payable		541	556
Provision for deferred income tax – non-current		12	12
Future income tax benefit – non-current	10	257	237

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	2004 $'000	2003 $'000
(a) Dividends proposed and recognised as a liability			
Franked dividends 2004: (nil cents per share), (2003: nil cents per share)		—	—
(b) Dividends paid during the year			
(i) Current year interim			
Franked dividends (1.25c per share) (2003: 1.25c)		1,250	1,250
		1,250	1,250
(ii) Previous year final			
Franked dividends (2.0c per share) (2003: 1.5c)		2,000	1,500
(c) Dividends proposed and not recognised as a liability	21		
Franked dividend (2.25c per share) (2003: 2.0c)		2,250	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%)		4,369	4,284
- franking credits that will arise from the payment of income tax payable as at the end of the financial year		541	556
- franking debits that will arise from the payment of dividends as at the end of the financial year		—	—
- 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		—	—
		4,910	4,840

Franking credits above are reported on a “tax paid” basis.

The tax rate at which paid dividends have been franked is 30%, (2003: 30%).

Dividends proposed and not recognised as a liability at 30 June 2004 were fully franked at the rate of 30% (2003: 30%).

30 JUNE 2004	Notes	2004 $'000	2003 $'000
6. RECEIVABLES (CURRENT)			
Trade Debtors		1,973	2,432
Other Debtors and Prepayments		41	51
Total Receivables (Current)		2,014	2,483

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		4	5
Total inventories at lower of cost and net realisable value		4	5

8. INTANGIBLES

Investment in ProMed Clinical [Medibase]			
At cost		75	—
Total Intangibles		75	—

9. PROPERTY, PLANT AND EQUIPMENT

Property Improvements		184	184
Accumulated depreciation		(182)	(182)
		2	2
Motor Vehicles		34	30
Accumulated depreciation		(3)	(29)
		31	1
Motor Vehicles Under Hire Purchase		446	446
Accumulated amortisation		(338)	(306)
		108	140
Office Equipment		163	146
Accumulated depreciation		(110)	(89)
		53	57
Furniture & Fittings		216	222
Accumulated depreciation		(199)	(190)
		17	32
Research & Development Equipment		96	197
Accumulated depreciation		(78)	(190)
		18	7
Total plant and equipment		229	239
Total plant and equipment Cost		1,139	1,225
Accumulated depreciation and amortisation		(910)	(986)
Total written down amount		229	239

During the period certain assets no longer in use with a zero written down value were scrapped by offsetting the Cost and Accumulated Depreciation amounts to a value of $126,550 (2003: $172,034). There was no profit effect as a result of this adjustment.

30 JUNE 2004	Notes	2004 $'000	2003 $'000
RECONCILIATIONS			
Property Improvements			
Carrying amount at beginning		2	19
Depreciation expense		—	(17)
		2	2
Motor Vehicles			
Carrying amount at beginning		1	1
Disposals		(1)	—
Additions		34	
Depreciation expense		(3)	—
		31	1
Motor Vehicles Under Hire Purchase			
Carrying amount at beginning		140	181
Depreciation expense		(32)	(41)
		108	140
Office Equipment			
Carrying amount at beginning		57	48
Additions		16	27
Depreciation expense		(20)	(18)
		53	57
Furniture & Fittings			
Carrying amount at beginning		32	50
Additions		2	—
Depreciation expense		(17)	(18)
		17	32
Research & Development Equipment			
Carrying amount at beginning		7	8
Additions		18	4
Depreciation expense		(7)	(5)
		18	7

10. DEFERRED TAX ASSETS

Future Income Tax Benefit	4	257	237
		257	237

11. PAYABLES (CURRENT)

Trade creditors		151	37
Other creditors and accruals		111	101
Goods and services tax		177	131
		439	269
Deferred Income		38	11
		38	11
		477	280

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 2004	Notes	2004 $'000	2003 $'000

12. INTEREST-BEARING LIABILITIES (CURRENT)

Hire Purchase Liability- secured	19(a)	133	68
		133	68

TERMS AND CONDITIONS RELATING TO THE ABOVE FINANCIAL INSTRUMENTS

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

13. PROVISIONS (CURRENT)

Employee entitlements	20	504	492
		504	492

14. INTEREST-BEARING LIABILITIES (NON-CURRENT)

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%, (2003: 7.0%). Secured hire purchase liabilities are secured by a charge over the hired assets.

15. PROVISIONS (NON-CURRENT)

Employee entitlements	20	316	264
		316	264

16. CONTRIBUTED EQUITY

(a) Issued and paid up capital

Ordinary shares fully paid		9	9
		9	9

16(b) Movements in shares on issue

	2004 Number of Shares	2004 $'000	2003 Number of Shares	2003 $'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 (2003: nil) options were cancelled due to option holding staff leaving employment with Pro Medicus Ltd. The options have an exercise price of $1.15 and each option converts to one fully paid share. Details are provided in Note 20.

At the end of the year there were 2,470,000 (2003: 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.

17. RESERVES AND RETAINED PROFITS

	Notes	2004 $'000	2003 $'000
RETAINED PROFITS		11,066	10,739
(a) Retained profits			
Balance at the beginning of year		10,739	7,443
Net profit attributable to members of Pro Medicus Limited		3,577	4,546
Adjustment arising from adoption of revised accounting standards;			
AASB 1044 Provisions, Contingent Liabilities and Contingent Assets		–	1,500
Total available for appropriation		14,316	13,489
Dividends provided for or paid		(3,250)	(2,750)
BALANCE AT END OF YEAR		11,066	10,739

30 JUNE 2004	Notes	2004 $'000	2003 $'000

18. STATEMENT OF CASH FLOWS

(a) Reconciliation of the profit from ordinary activities after tax to the net cash flows from operating activities

	Notes	2004 $'000	2003 $'000
Profit from ordinary activities after tax		3,577	4,546
Non-Cash Items			
Depreciation of non-current assets		79	99
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables		460	411
(Increase)/decrease in inventory		1	5
(Increase)/decrease in future income tax benefit		(20)	(12)
(Increase)/decrease in prepayments		9	7
(Decrease)/increase in deferred income		27	(71)
(Decrease)/increase in trade and other creditors		126	(140)
(Decrease)/increase in tax provision		(15)	(285)
(Decrease)/increase in deferred income tax liability		—	(2)
(Decrease)/increase in goods and services tax payable		46	(121)
(Decrease)/increase in employee entitlements		64	39
Net cash flow from operating activities		4,354	4,476

(b) Reconciliation of cash

	Notes	2004 $'000	2003 $'000
Cash balance comprises:			
- cash on hand		10,479	9,579
Closing cash balance		10,479	9,579

19. EXPENDITURE COMMITMENTS

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

	Notes	2004 $'000	2003 $'000
- not later than one year		134	68
- later than one year and not later than five years		—	134
- aggregate lease expenditure contracted for at balance date		134	202
Less: Future finance charges		(1)	(11)
		133	191
AGGREGATE EXPENDITURE COMMITMENTS COMPRISE:			
- current (Note 12)		133	68
- non-current (Note 14)		—	123
		133	191

(b) Non-Cancellable Operating Lease expenditure commitments

	Notes	2004 $'000	2003 $'000
Minimum lease payments			
- not later than one year		188	184
- later than one year and not later than five years		32	216
- aggregate lease expenditure contracted for at balance date		220	400

Operating lease payments are rental for operating premises at Swan Street Richmond.

Please refer Note 25 Related Party Disclosures.

30 JUNE 2004	Notes	2004 $'000	2003 $'000

20. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

EMPLOYEE ENTITLEMENTS

	Notes	2004 $'000	2003 $'000
The aggregate employee entitlement liability is comprised of:			
Provisions (current)	13	504	492
Provisions (non-current)	15	316	264
		820	756

EMPLOYEE SHARE INCENTIVE SCHEME

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

	2004 Number of Options	Weighted average exercise price	2003 Number of Options	Weighted average exercise price
Balance at beginning of the year	2,470,000	$1.15	2,470,000	$1.15
- granted	—	—	—	—
- forfeited	—	—	—	—
- exercised	—	—	—	—
Balance at end of year	2,470,000	$1.15	2,470,000	$1.15
Exercisable at end of year	1,482,000	$1.15	988,000	$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 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

(b) Options granted during the reporting period:

No options (2003 nil) were granted during the year.

(c) Options exercised:

No options (2003 nil) were exercised during the year.

20(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 2004:

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

(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	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

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 $109,127 for the 2004 financial year (2003: $187,237). Note that no adjustments to these amounts have been made to reflect estimated or actual forfeitures (i.e., options that do not vest).

Superannuation Commitments

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

Executive [non-directors] Performance Based Employee Incentive Share Plan

A performance based employee incentive share plan is being established to provide fully paid shares to nominated executives for achieving various performance hurdles.
At the date of this report the structure to manage this has not been completed nor have any allocations of shares been made.

21. SUBSEQUENT EVENTS

(a) 2004

(i) A Final Dividend of 2.25 (2003: 2.0) 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 at least 60 to 70% of Profit after Tax.

(ii) On 13 August 2004 HCN Limited was ordered to pay the costs (including reserved costs) of Pro Medicus Limited of and incidental to both Federal Court proceedings N1004 of 2004 and V755 of 2004, to be taxed if not agreed. Directors estimate costs incurred since balance date to be $75,000.

(iii) An Executive [non-directors] Performance Based Incentive Share Plan is to be implemented. At the date of this report the structure to manage this has not been completed nor have any allocations of shares been made.
No other significant post balance date events have been identified.

(b) 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 at least 60 to 70% of Profit after Tax. Previously dividend payment was based on a payout of 50% of Profit after Tax.
No other significant post balance date events have been identified.

30 JUNE 2004	Notes	2004 $	2003 $
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		3,576,846	4,546,396
Earnings base used in calculating Basic & Diluted earnings per share - reported in Financial Statements		3,576,846	3,700,421
Net Profit		3,576,846	4,546,396
Adjustments			
Effect of Fundamental Error		845,975	(845,975)
Earnings base used in calculating Basic & Diluted earnings per share - restated for effect of fundamental error		4,422,821	3,700,421
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share.		100,000,000	100,000,000
Effect of potential ordinary shares:			
Number of potential ordinary shares outstanding that are not considered dilutive		2,470,000	2,470,000
Weighted average number of ordinary shares used in the calculation of diluted earnings per share.		100,000,000	100,000,000

(a) Conversions, calls, subscription or issues after 30 June 2004

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.

30 JUNE 2004	Notes	2004 $	2003 $
23. AUDITORS' REMUNERATION			
Amounts received or due and receivable by Ernst & Young for:			
- an audit or review of the financial report of the Company		59,500	56,000
- other services in relation to the Company		8,360	3,500
		67,860	59,500

24(a) DETAILS OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

(i) Specified directors

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

(ii) Specified executives

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

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

Given the small number of Directors the board decided it was more appropriate to handle board nomination and remuneration issues at board level. In order to maintain good corporate governance the non-executive directors have assumed authority for determining and reviewing compensation arrangements for the Chief Executive Officer and Technology Director who will in turn review remuneration for the non-executive directors. The full board is responsible for the review of the Company Secretary remuneration and the board has delegated the responsibility of executive remuneration to the management.

The assessment process includes the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment and market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

To assist in achieving these objectives, the reviewing parties link the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance. All directors and executives have the opportunity to qualify for participation in the Employee Share Option Plan and the Executive Share Incentive Plan which currently provides incentives where specified criteria are met including criteria related to profitability, cash flow, share price growth and environmental performance.

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

These agreements provide the following major terms:

- Each executive will receive a remuneration package to the value of $320,000 pa which is to be reviewed annually;
- The agreements protect the Company's confidential information and provide that any inventions or discoveries of an executive become the property of the Company;
- Non-competition during employment and for a period of 12 months thereafter; and
- Termination by the Company on six months notice or payment of six months remuneration in lieu of notice or a combination of both (or without notice or payment in lieu in the event of misconduct or other specified circumstances). The agreements may be terminated by the executives on the giving of six months notice.

24(b) (ii) Remuneration of Specified Directors and Specified Executives

	Primary		Post Employment	Equity	Total
	Salary & Fees	Non Monetary benefits	Super-annuation	Options	
SPECIFIED DIRECTORS					
M K Ward	60,000	—	5,400	17,672	83,072
P D Jonson	30,000	—	2,700	8,836	41,536
P G Molyneux	30,000	—	2,700	8,836	41,536
S A Hupert	268,998	9,674	11,002	18,777	308,451
A B Hall	268,998	8,491	11,002	18,777	307,268
TOTAL REMUNERATION: SPECIFIED DIRECTORS	657,996	18,165	32,804	72,898	781,863
SPECIFIED EXECUTIVES					
G W Holden	95,000	—	38,333	3,755	137,088
D Tauber	255,665	—	11,002	15,463	282,130
TOTAL REMUNERATION: SPECIFIED EXECUTIVES	350,665	—	49,335	19,218	419,218

24(c) REMUNERATION OPTIONS: GRANTED AND VESTED DURING THE YEAR

During the year no new options were granted

		TERMS & CONDITIONS FOR EACH GRANT					
	Vested Number	Granted Number	Grant date	Value per option at grant date $	Exercise Price per share $	First Exercise Date	Last Exercise Date
SPECIFIED DIRECTORS							
M K Ward	80,000	—	—	$0.44	$1.15	25 Aug 2001	25 Aug 2010
P D Jonson	40,000	—	—	$0.44	$1.15	25 Aug 2001	25 Aug 2010
P G Molyneux	40,000	—	—	$0.44	$1.15	25 Aug 2001	25 Aug 2010
S A Hupert	85,000	—	—	$0.44	$1.15	25 Aug 2001	25 Aug 2010
A B Hall	85,000	—	—	$0.44	$1.15	25 Aug 2001	25 Aug 2010
SPECIFIED EXECUTIVES							
G W Holden	17,000	—	—	$0.44	$1.15	25 Aug 2001	25 Aug 2010
D Tauber	70,000	—	—	$0.44	$1.15	25 Aug 2001	25 Aug 2010
TOTAL	417,000						

(d) Shares issued on exercise of remuneration options

No shares have been issued during the year.

notes cont.

(e) Option holdings of specified directors and specified executives

	Balance at beginning of period 1 July 2003	Granted as Remuneration	Options Exercised	Net Change Other #	Balance at end of period 30 June 2004	Vested at 30 June 2004 Total	Not exercisable	Exercisable
SPECIFIED DIRECTORS								
M K Ward	400,000	—	—	—	400,000	240,000	—	240,000
P D Jonson	200,000	—	—	—	200,000	120,000	—	120,000
P G Molyneux	200,000	—	—	—	200,000	120,000	—	120,000
S A Hupert	425,000	—	—	—	425,000	255,000	—	255,000
A B Hall	425,000	—	—	—	425,000	255,000	—	255,000
SPECIFIED EXECUTIVES								
G W Holden	85,000	—	—	—	85,000	51,000	—	51,000
D Tauber	350,000	—	—	—	350,000	210,000	—	210,000
TOTAL	2,085,000	—	—	—	2,085,000	1,251,000	—	1,251,000

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

24(f) SHAREHOLDINGS OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

Shares held in Pro Medicus Limited (number)	Balance 1 July 03 Ordinary	Granted as Remuneration Ordinary	On Exercise of Options Ordinary	Net Change Other Ordinary	Balance 30 June 04 Ordinary
SPECIFIED DIRECTORS					
M K Ward	50,000	—	—	—	50,000
P D Jonson	50,000	—	—	—	50,000
P G Molyneux	25,000	—	—	—	25,000
S A Hupert	^40,172,660	—	—	—	40,172,660
A B Hall	#40,259,000	—	—	—	40,259,000
SPECIFIED EXECUTIVES					
G W Holden	35,000	—	—	—	35,000
D Tauber	—	—	—	—	—
TOTAL	80,591,660	—	—	—	80,591,660

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

Personally Related shareholdings included in total:

^ 100,000 shares #190,500 shares

25. RELATED PARTY DISCLOSURES

Other related party transactions

Directors and director-related entity transactions

Director-related entity

Lease payments of $167,476 (2003 $162,718) 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.

26. SEGMENT INFORMATION

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

27. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

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

Impairment of Assets

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

Intangible Assets

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

Research & Development

Under the Australian equivalent to IAS 38 Research & Development costs are written off as incurred, except where they meet very strict criteria for deferral. Pro Medicus has adopted a conservative policy and has previously charged R & D costs to the P & L as incurred.
IAS 38 requires recognition of an intangible asset arising from development if the entity can satisfy a set of parameters set out in the standard. It is probable that some R & D project costs, incurred in future will be capitalised and amortised as required under the new standard.

Share based payments

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

Income taxes

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

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	
	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000	2004 $'000	2003 $'000
(i) Financial assets														
Cash	10,479	9,579	–	–	–	–	–	–	–	–	10,479	9,579	3.8	3.2
Trade and other receivables	–	–	–	–	–	–	–	–	2,014	2,483	2,014	2,483	N/A	N/A
Total financial assets	10,479	9,579	–	–	–	–	–	–	2,014	2,483	12,493	12,062	5.0	4.3
(ii) Financial liabilities														
Trade creditors and accruals	–	–	–	–	–	–	–	–	439	269	439	269	N/A	N/A
Hire Purchase Liability	–	–	133	68	–	123	–	–	–	–	133	191	7.0	7.0
Total Financial Liabilities	–	–	133	68	–	123	–	–	439	269	572	460	7.0	7.0

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	**2004**	2003	**2004**	2003
Diagnostic Imaging	100	100	1,973	2,432
	100	100	1,973	2,432

* 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 2004 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, 26 August 2004

ASX additional information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows.
The information is current as at 31 August 2004

(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	131	96,484
1,001 – 5,000	609	1,934,337
5,001 – 10,000	303	2,496,317
10,001 – 100,000	249	6,774,343
100,001 AND OVER	12	88,698,519
	1,304	100,000,000

The number of shareholders holding less than a marketable parcel of 658 shares are:	54	22,226

(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	40.10%
2	A Hall	40,068,500	40.10%
3	Citicorp Nominees Pty Ltd <CFS Developing Companies	7,203,373	7.20%
4	Queensland Investment Corporation	409,746	0.41%
5	Mr M Roth & Ms B Roth	222,000	0.22%
6	Mrs Tung Yueh-Ying Tsai	146,000	0.15%
7	Mr S H Dunn	137,400	0.14%
8	Almargem Pty Ltd	125,000	0.13%
9	Crosbie Holdings A/S	120,000	0.12%
10	Mrs R P Hall	115,000	0.12%
11	S G Hannes	110,000	0.11%
12	Miss P Pringle	110,000	0.11%
13	Mr J & Mrs R Hupert	100,000	0.10%
14	J P Morgan Nominees Australia Limited	90,483	0.09%
15	G E Moir	80,000	0.08%
16	Prodin Management Services Pty Ltd	80,000	0.08%
17	Sovereign Asset Management Limited	80,000	0.08%
18	Skeet Nominees Pty Ltd	79,875	0.08%
19	Mr M Wu	76,000	0.08%
20	The Mega Bike Store Pty Ltd	75,500	0.08%
		89,501,537	89.50%

(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	7,203,373

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

independent auditor's report

ERNST & YOUNG

120 Collins Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 9654 6166
DX 293 Melbourne

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 2004.

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.

ERNST & YOUNG

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*. In addition to our audit of the full financial report, we were engaged to undertake the services disclosed in the notes to the financial statements of the full financial report. The provision of these services has not impaired our independence.

Audit opinion

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

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

  (i) giving a true and fair view of the financial position of Pro Medicus Limited at 30 June 2004 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: 26 August 2004

corporate governance

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

To ensure the Board is well equipped to discharge its responsibilities it supports, and has adopted where considered appropriate, the principles set out in the ASX Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations dated March 2003. Pro Medicus Limited corporate governance practices were in place throughout the year ended 30 June 2004 and except where noted in this report, were compliant with the Council's best practice recommendations.

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

Structure of the Board

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

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

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

Directors of Pro Medicus Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.
In the context of director independence, "materiality" is considered from both the company and individual director perspective.
The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the company's loyalty.

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

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

The board has codified a list of its responsibilities consistent with the recommendations and details are disclosed on the company website. The Board wishes to advise that it continues to maintain responsibility for the actions of the chief executive officer and any tasks delegated to the management by the Board.

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

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

Code of Conduct and Securities Trading Policy

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

Committees

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

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

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

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

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

Audit Committee

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

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

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

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

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

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

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

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:

- approval of strategic plans, which encompass the entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk;

- involvement in developing the strategic plan (a dynamic document) and approving initiatives and strategies designed to ensure the continued growth and success of the entity;

- overseeing implementation of operating plans and budgets by management and monitoring of progress against budget - this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes; and

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

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

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

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

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

Shareholder Communication

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

- the annual report which is distributed to all shareholders registered to receive copies;

- the annual general meeting and other meetings so called to obtain approval for Board action as appropriate;

- an up to date website - www.promedicus.com.au;

- email contact with registered users; and

- special written communications to shareholders distributed with the dividend notifications.

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

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

Risk Management Policies

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.

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

Westpac Banking Corporation

Share Register

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

Auditors

Ernst & Young

Internet Address

www.promedicus.com.au
www.promedicus.com

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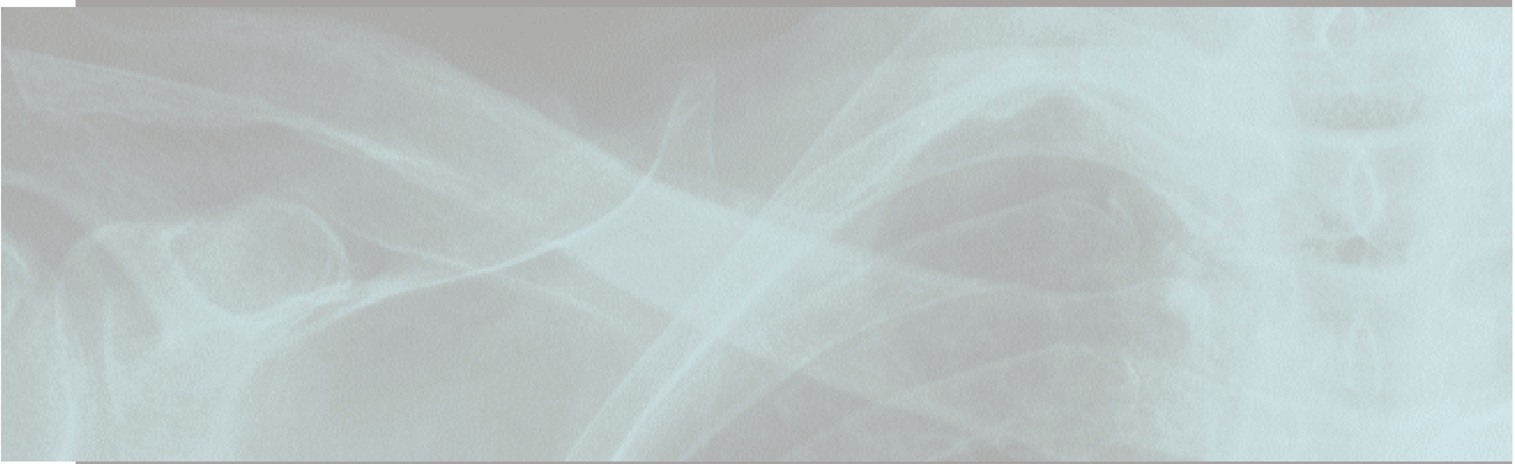

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