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Financial Highlights

- Profit after tax a record $6.1 million, up 11% on prior year
- Revenue a record $11.6 million, up 9.9%
- $2.3 million revenue from North America while Australian revenue grew by 9.2%
- Profit before tax of $8.6 million. Average margin of 75.4%
- Final dividend of 2 cents per share fully franked
- Special dividend of 1 cent per share fully franked
- Record total dividend for the year of 5.5 cents fully franked (up 16%)
- Strong balance sheet with cash reserves of $11.4 million and no debt (after paying previous record dividend of 4.75 cents)
- Increased market liquidity following partial selldown by founders

contents

Business Highlights

- US Agfa deal running to plan. After achieving clinical validation in August 2005, the combined Pro Medicus/Agfa offering is now being used by a growing number of sites across the US, which forms a strong base for future growth.
- Strong base also developing in Canada. Pro Medicus digital technology installed in 25 AltaPACS sites in Alberta and now large Ontario practice signed to use Agfa/Pro Medicus offering.
- Take-up of digital integration software in the Australian private radiology market continues with several new sites, including landmark Sydney site.
- Continued steady growth of promedicus.net, the company's e-health offering. Over 22,000 doctors are now registered to use the network, which carried almost 3 million transactions for the year, an increase of 8.3%.
- Further overseas potential through exclusive software supply deal with Ascent Health in the UK.

financial summary

profit

FINANCIAL SUMMARY

Year ending 30 June 2006

All figures in $A thousands unless otherwise stated

	2006 $'000	2005 $'000
Revenues from Continuing Operations	11,860 +9.7%	10,814
Revenue	11,645 +9.9%	10,593
Operating Profit Before Interest and Income Tax	8,049 +12.4%	7,160
Net Profit After Tax	6,115 +11.3%	5,493
Total Assets 30 June	15,512	15,418
Shareholders' Funds 30 June	13,206	12,818
Net Tangible Assets per Share at 30 June (cents)	12.0	12.0
Earnings per Share (cents)	6.1 +10.9%	5.5
Franked Dividends per Share (cents per share)	5.5 +15.8%	4.75

 

ceo & chairman's letter

welcome

Dear Shareholders

It is our pleasure to report on another record and highly productive year for our company. The 2005/2006 year has produced record sales, profits and dividends and has seen Pro Medicus strengthen its position as a leading provider of medical IT solutions to the local and international medical markets.

Our profit after tax of $6.1 million was clearly a record for the company, up 11% on last year, which was our previous best result. Revenue of $11.6 million, also a record, was up 10% on last year. While we are really only just starting to see revenue flowing from the Agfa North American contract, we are clearly now beginning to enjoy the benefits of our successful overseas growth strategy. Our result included $2.3 million in revenue from North America, but it is pleasing to note that our Australian business has also produced a healthy 9.2% year on year increase.

We are pleased to be able to report that we are on target with the North American market penetration of the Agfa/Pro Medicus digital imaging system. The fact that we were able to get our technology adapted for the US market, installed and officially validated in just a few months is a strong reflection on both the quality of the technology and of our people who developed and installed it. Agfa's dedicated imaging centre sales force has been able to secure sales in several different types of facilities and over a broad area of the United States.

The development work we put into our products for the United States is also paying dividends for us in other markets with the US version also introduced into Australia and Canada.

During the year we were able to increase our presence in Canada through our association with the AltaPACS group in Calgary and establish a link to supply our systems to Ascent Health in the UK. Despite all of this offshore activity, we have also been able to continue the steady growth of our digital technology in the Australian market. Our first digital client, the originally Ballarat based Lake Imaging now operates 14 practices in Western Victoria following the acquisition of several practices in Geelong. The efficiencies Lake Imaging has been able to produce from digital technology have been a key driver of their rapid growth into becoming one of the country's larger radiology providers. The year also saw us win our first Sydney digital client, the prominent North Shore Private Radiology, which will be an outstanding reference site for us in Australia's biggest market.

It is also pleasing to report that the growth in our e-health offering, promedicus.net, is continuing. We now have 22,000 Australian doctors generating three million transactions annually on the network, which is an increase of 8.3% on the previous year.

Our financial position is stronger than ever. Pro Medicus is debt free with cash reserves of $11.4 million. The Board has declared a fully franked final dividend of 2 cents per share and a special dividend of 1 cent per share, also fully franked. This brings the total dividend for the year to 5.5 cents per share fully franked, an increase of 16% on the previous year.

Looking forward, the company expects revenue from the Agfa North American alliance to increase at a steady rate over the course of this financial year as more imaging centres convert to our digital offering. It is also expected that the penetration of our digital technology into the Australian radiology market will continue to increase. Growth in both the number of doctors subscribing to promedicus.net and the number of transactions it carries is also expected to continue.

Having now established positions in digital radiology in the largest English speaking markets in the world, a key area of focus for our company this year is on building our shares in these markets. As well as working to maximise our returns from the current relationships we have in North America and Europe, we will also be looking at other growth opportunities on both sides of the Atlantic. These include segments of the North American health sector not covered by the Agfa agreement.

In closing, we would like to express our sincere thanks to our fellow directors and to the small but highly talented team at Pro Medicus for their invaluable personal contributions to what has been another outstanding year for our company.

Yours faithfully,

Dr Sam Hupert CHIEF EXECUTIVE OFFICER

Mel Ward AO CHAIRMAN

business background

enter

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

Established in 1983 by Dr Sam Hupert, and Anthony Hall, 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 Australian corporate groups 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 where it now has 17 sites. In the 2004/2005 year Pro Medicus entered the North American market with a large digital imaging contract with AltaPACS in Canada and a three-year contract with Agfa to market digital technology to the private imaging centre market. The overseas growth continued in 2005/2006 with the company gaining another digital radiology contract in the United Kingdom.

The suite of products comprises core and e-health applications and digital radiology (PACS) integration products, plus a comprehensive suite of services centred on the company's product offerings. These include training and installation, hardware configuration and ongoing technical and end user 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, 2006 can be characterised by the following revenue streams:

Core Business

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

E-health

Pro Medicus' Internet-based e-health offering, 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. Over 22,000 Australian doctors are registered users of promedicus.net.

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.

Digital imaging

Digital Radiology or PACS (Picture Archive and Communication Systems) radiology images (X-rays) are acquired digitally and viewed on high-resolution monitors without the need to convert these images to x-ray film. Images and the subsequent diagnostic report are stored and linked electronically. This new way of managing a radiology practice is forecast to 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 (PACS) integration products in conjunction with partners Agfa-Gevaert. These integration products provide a seamless interface between two market leading products: 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 licenses for the integration modules, implementation services and ongoing support. The Agfa/Pro Medicus product combination is now being offered and sold to radiology practices in Australia, USA, Canada and the United Kingdom.

Clinical desktop software

Pro Medicus acquired the ProMed Clinical technology in 2004 after a long search to find a high quality clinical desktop product that would complement its other medical IT products and leverage the user base of over 22,000 Australian doctors who currently use the company's e-health network promedicus.net.

year in review

Promedicus

return

australia

Core Business

The core business continued to perform well during the past year with the majority of core revenue coming from ongoing service and support. This has provided the company with a growing recurring revenue stream.

E-health

The company's e-health business, promedicus.net, continued to grow solidly, reinforcing its position as the largest and clearly preferred system for the electronic delivery of diagnostic imaging reports. Over 22,000 doctors now subscribe to the network, which carried over 3 million transactions for the year. Revenue from promedicus.net was $2.4 million, an increase of 6.6% on the previous year. Revenue is generated from a transaction charge for each report that is delivered as well as one-off connection fees and recurring subscriptions.

Digital imaging

The steady migration of Australian private radiology providers from an analogue to a fully digital system continued during the past financial year. Pro Medicus and its alliance partner Agfa are the clear market leaders in digital radiology technology in Australia with over 20 sites enjoying the productivity and clinical benefits that an integrated digital environment delivers.

The first client of the Pro Medicus digital imaging integration software, the originally Ballarat based Lake Imaging now operates 11 practices in Western Victoria following the acquisition of several practices in Geelong. The efficiencies Lake Imaging has been able to produce from digital technology have been one of their key reasons for their rapid growth into one of the country's larger radiology providers. The year also saw Pro Medicus win its first Sydney digital client, the prominent North Shore Private Radiology. As well as being a valuable new client, the site will serve as an outstanding reference site for Pro Medicus in Australia's biggest market.

ProMed Clinical

Australian market interest in the company's clinical desktop product ProMed Clinical is picking up gradually, although it is still a relatively small contributor to revenue at this stage.

Components of Promed clinical were also included in the US radiology offering in order to cover the US requirements for mammography tracking and follow-up.

canada

Installation of Pro Medicus digital technology into the last of the 25 AltaPACS sites in Calgary, Alberta was completed early in the 2005/2006 financial year. The balance of the $2.6 million contract was included as revenue in the year.

The Alberta provincial government is offering substantial incentives for radiology practices to adopt digital technology. It has announced that grants totalling C$189 million are available and AltaPACS has been confirmed as one of the first recipients. There are already indications that this government spending will also fuel demand from other radiology providers for the combined Pro Medicus/Agfa digital offering.

united states

The three year $10 million contract with Agfa to market digital technology to the rapidly growing North American imaging centre market is progressing to plan.

The Pro Medicus technology was adapted for the US market, installed and officially validated in just a few months. Agfa's dedicated imaging centre sales force is steadily gaining traction with the combined Pro Medicus/Agfa offering in North America a market that is over 25 times the size of the market here in Australia. They have been able to secure sales in several different types of facilities and over a large part of the United States, giving a strong and broad base for further growth. Knowledge transfer to the Agfa US team is progressing to the point where the imaging center team has started to sell and install systems by themselves which is seen as a key step in enabling Pro Medicus to leverage Agfa's considerable presence in the US.


into the
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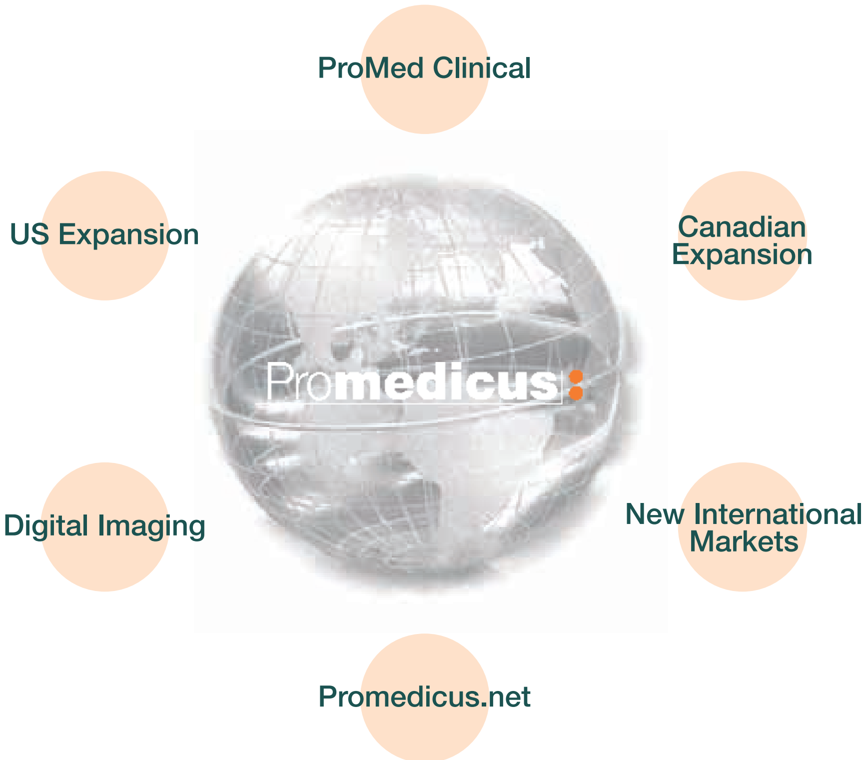
option

While overseas markets clearly represent the greatest growth opportunities for Pro Medicus, it has been encouraging that the Australian business has continued to grow strongly, with revenue increasing 9.2% in the 2005/2006 year. The local market's inevitable move towards digital technology is likely to be the major driver for Pro Medicus growth in Australia over the next few years.

Progress to date with the Agfa North American contract has been encouraging. The contract is structured such that revenue to Pro Medicus will ramp up as market penetration increases over the course of the three year $10 million contract. It is expected that the bulk of the 2006/2007 revenue from the contract will come in the second half of the financial year, in line with the seasonal sales cycle in the US.

Interest in digital technology continues to grow in Canada as the provincial and national government incentives start to take effect. Pro Medicus' existing Canadian client, AltaPACS, is one of the largest radiology providers in Alberta and is likely to be one of the leading players in driving the move to digital in that province. Canadian interest in the combined Pro Medicus/Agfa offering is also increasing with Agfa having already concluded a sale in Ontario.

As well as maximising its returns from existing overseas contracts, Pro Medicus will continue to explore other overseas opportunities, both in terms of new markets and of other products to offer into existing markets.



Key Growth Strategies for 2007

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directors' report

Your Directors submit their report for the year ended 30 June 2006.
The names and details of the company's directors in office during the financial year and until the date of this report are as follows.
Directors were all in office for this entire period.

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, Macquarie Communications Infrastructure Group, Western Australian Newspapers Holdings Limited and Transfield Services Limited.
He was also a director of AXA Asia Pacific Holdings until April 2003, and of Insurance Manufacturers of Australia until July 2006.
After a long career in the communications sector, he retired as Managing Director of Telecom Australia (Telstra) in 1992. Mel is Chairman and serves on the audit committee.

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, Australian Aerospace and Defence Innovations Ltd and Bionomics Ltd. Dr Jonson is also Chair of the Federal Government's CRC Committee.
He is a director of Village Roadshow Ltd, Sequoia Capital Management Ltd and Metal Storm Limited.
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. Peter is Deputy Chairman and serves on the audit committee.

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 and Australian National Academy of Music. He was also a director of Corps of Commissionaires (Victoria) Limited until April 2005 and a director of Sundowner Motor Inns Limited from July 2003 to June 2004.
He is also a trustee of Monash University Accident Research Foundation.
Philip is Chairman of the audit committee.

Geoffrey William Holden COMPANY SECRETARY

CA

Geoffrey Holden has been company secretary for 6 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 over 30 years.

directors' report cont.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

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

	Ordinary Shares	Options over Ordinary Shares
A. B. Hall	30,068,500	425,000
S. A. Hupert	30,072,660	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	6.1
Diluted earnings per share	6.1

DIVIDENDS

Ordinary Shares	Cents	$'000
Final dividends recommended:		
Normal dividend plan	2.00	2,000
Special Dividend	1.00	1,000
Dividends paid in the year:		
Interim for the year	2.00	2,000
Special Dividend	0.50	500
Final dividend for 2005 shown as recommended in the 2005 report:		
Normal dividend plan	2.75	2,750
Special Dividend	0.50	500

OPERATING AND FINANCIAL REVIEW

CORPORATE INFORMATION

Corporate Structure

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

Nature of operations and principal activities

The principal activities of the Company during the year were the supply of product and services to diagnostic imaging groups and a broad range of groups within the private medical market. These products and services include:

- Innovative proprietary medical software;
- Training, installation and professional services;
- Support and service products;
- Promedicus.net secure email; and
- Digital radiology integration products & services aimed at facilitating the transition from an analogue to a fully digital environment.

In addition the company has been engaged in the ongoing development of new updated products including:

- New versions of the Australian and Canadian Pro Medicus Radiology Information System;
- A US version of the Pro Medicus Radiology Information System incorporating a US billing module;
- ProMed Clinical an electronic medical record system designed for GPs and specialists; and
- New digital imaging interfaces.

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

REVIEW AND RESULTS OF OPERATIONS

Investment Activities

Surplus funds are invested by the Company in commercial bills to maximise the interest return.

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 company's local operations performed well over the past year with revenue increasing by 9.2% despite difficult market conditions.

Promedicus.net, the company's e-health offering, continued its growth in both the number of doctors registered as well as transaction volumes, which have now exceeded 11.7 million. This makes promedicus.net the leading e-health provider in Australia. The network carried 2.9 million transactions for the year, an 8.3% increase on the previous year and is now used by over 22,000 doctors Australia wide registered to use the service. 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 2007 financial year. The company intends to leverage its relationship with the 22,000 doctors on the network to promote its other products and services.

Building on the success of the first digital imaging installation at Lake Imaging, the company has now installed the technology at 25 Australian sites, covering private, large corporate and public radiology providers. In November, the company installed its full suite of digital imaging technology at North Shore Private Radiology, a high profile, leading edge radiology practice in Sydney's inner suburbs. This is the company's first digital imaging site in New South Wales. Increased levels of market interest reinforce the company's confidence that the efficiency and clinical benefits the technology offers will inevitably drive the radiology industry towards a fully digital environment.

The past year has also seen the company continue to make significant inroads into overseas markets particularly the US and Canada with revenue from overseas operations increasing to $2.3 million.

In July 2005, the company installed its first clinical validation site in the US at Hackensack Radiology Group, a high profile, four site radiology practice in New Jersey. The product was officially validated in late August 2005 and released for commercial sale in the US in early September, a significant reduction in the expected time to market for the product. Since commercialisation, Pro Medicus, through its association with Agfa, has made good progress having installed a number of systems throughout the US forming an excellent base for future sales growth. The company has also continued its program of knowledge transfer to Agfa in North America with the aim of leveraging Agfa's substantial presence in the US to achieve the desired penetration in a market of this size.

Canada has also continued to provide opportunity for the company which completed the installation of 25 sites for the AltaPACS group in Calgary. The company has extended its penetration of the Canadian market with its first sale in the province of Ontario as part of the Agfa North American agreement.

directors' report cont.

In May the company announced a strategic relationship with Health Inventures of the US and its fully owned subsidiary Ascent Health of the UK. The agreement has already resulted in the first US based sale in Greeley Colorado however the planned installation in Waterford Ireland scheduled for late in the second half of 2006 will not proceed as Ascent Health has withdrawn from taking an equity position in the project. The Oxford UK project is proceeding on course and it is envisaged that revenue from this project will be recognised in late 2007 early 2008.

Operating Results for the Period

Pro Medicus reported an after tax profit of $6.115 million which is the most profitable year in Pro Medicus history.
The company continued its focus on higher margin software sales, e-health and services. Net margin as defined by profit before tax to revenue from operating activities increased to 75.8% (2005: 74.9%).

Shareholder Returns

The Company is pleased to report a dividend return to shareholders of a total of 5.5 cents per share which is an increase of 0.75 cents over the previous period and represents the largest dividend payout in the company's history. This is made up of a final dividend of 2.00 cents plus a special dividend of 1.00 cent per share plus the interim dividend of 2.00 cents plus a special interim of 0.5 cents.

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

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

	2006	2005	2004	2003	2002
Basic earnings per share – reported (cents)	6.1	5.5	3.6	4.5	4.8
Basic earnings per share - restated (cents)	n/a	n/a	4.4	3.7	n/a
Return on assets (%)	55.5	49.9	38.4	51.3	59.4
Return on equity (%)	46.3	42.9	32.3	42.3	64.6
Net debt / equity ratio (%)	Nil	Nil	1.2	1.8	3.3
Dividend payout ratio (%) – normal dividend plan	65.4	77.4	97.9	71.5	51.9
Dividend payout ratio (%) – total dividend	89.9	86.5	97.9	71.5	51.9
Available franking credits [tax paid basis] ($'000)	5,268	5,362	4,910	4,840	3,471

Investments for Future Performance

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

Despite significant increases in development and business activity over the past year as a result of the US and Canadian developments, staff numbers have remained unchanged at 20.

The directors express their gratitude for the efforts of all employees in achieving this year's result.
The Company remains committed to providing staff with access to appropriate training and development programs, together with the resources to complete their duties.

REVIEW OF FINANCIAL CONDITION

Capital Structure

The company has a sound capital structure with a debt/equity ratio, which has remained at zero in the current year.
The directors believe that the debt to equity ratio for the Company could increase, if the need for expansion or acquisition required extra funds sourced from borrowings.

Treasury Policy

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

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

During the financial period, surplus cash was deposited to various bank instruments and Cash Management accounts to maximise the interest earned. At balance date there was $11.4m of cash available to the company.

Cash from Operations

Net cash flows from operating activities increased from $3.921m in the previous year to $6.91m in the current period largely attributable to a higher receivables collection rate with receipts from customers increasing by 48% and the ratio of payments to suppliers and employees, as a percentage of receipts from customers decreasing by 28%.

Liquidity and Funding

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

Risk Management

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

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

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

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

Corporate Governance

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

Statement of Compliance

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Shareholders' equity increased to $13.206m from $12.818m, an increase of $0.388m or 3.0%. This movement was largely the result of higher profit and retaining cash in the business. Increased dividend payout has limited the growth in cash funds this year but directors consider funds on hand sufficient to cover any anticipated requirements.

directors' report cont.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

A Final Dividend of 2.00 cents per share has been declared post 1 July. Please refer Note 7. This Final Dividend was based on the Directors' decision to maintain a dividend payout policy of 60 to 70% of Profit after Tax.
In addition a Special dividend of 1.00 cent per share has been declared post 1 July. Please refer Note 7.
No other significant post balance date events have been identified.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors foresee that the 2007 financial year will be a year of growth in both local and overseas markets following successful implementation and sale of both the Canadian and US products.

It is anticipated this will result from:

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

As a result, it is anticipated that the 2007 financial year will show improvement in profits. However, this is dependant on many market factors over which the directors have no control.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SHARE OPTIONS

Un-issued Shares

As at the date of this report, there were 2,450,000 un-issued ordinary shares under options (2,450,000 at balance date). Refer to Notes 13 and 22 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, 20,000 options were exercised by an ex employee. No directors or key management personnel 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. All options are now fully vested.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company did not indemnify any person for any reason.
During or since the financial year, the Company has paid premiums in respect of a contract for Directors' & Officers'/Company Re-Imbursement Liability insurance for directors, officers and Pro Medicus Limited for costs incurred in defending proceedings against them.
Terms of this cover are confidential and are not disclosed per Corporations Act 2001.

REMUNERATION REPORT

Remuneration Report

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

Remuneration philosophy

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

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

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

Remuneration committee

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

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

In order to maintain good corporate governance the Non-Executive Directors assume responsibility for determining and reviewing compensation arrangements for the Chief Executive Officer and Technology Director. The Executive Directors in turn are responsible for determining and reviewing the compensation arrangements for the Non-Executive Directors. The full Board reviews the terms of employment for the Company Secretary and the Board has delegated the responsibility of executive remuneration to the executive management.
The assessment considers the appropriateness of the nature and amount of remuneration of such directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure

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

Non-executive director remuneration

Objective

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

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed.
The latest determination was at the Annual General Meeting held on 4 November 2005 when shareholders approved an aggregate remuneration of $500,000 per year.

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

Each director receives a fee for being a director of the company. No additional fee is paid for time spent on Audit Committee business.
Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market).

It is considered good governance for the directors to have a stake in the company on whose board he sits. The non-executive directors of the company participate in the Employee Share Incentive Scheme [Option based] which was established in 2000 to provide incentive for participants.

The remuneration of non-executive directors for the period ending 30 June 2006 is detailed in Table 1 page 24 of this report.

Senior manager and executive director remuneration

Objective

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

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

Structure

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

Employment Contracts have been entered into with the Chief Executive Officer and the Technology Director. No other employment contracts have been executed. Details of these contracts are provided on page 23.

Remuneration consists of the following key elements:

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

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

A STI variable component has been implemented for 2007 and is based on strict performance hurdles. This arrangement replaced the Performance Based Incentive Share Plan which was never activated and has been cancelled effective June 2006.

Fixed Remuneration

Objective

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

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

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

The fixed remuneration component of the 2 relevant most highly remunerated senior managers is detailed in Table 2 page 24.

directors' report cont.

Variable Pay – Long Term Incentive (LTI)

Objective

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

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

Structure

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

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

Subsequent to this an executive [non-directors] Performance Based Incentive Share Plan was set up but to date no grants have been made and effective 30 June this plan has been cancelled. A cash payout is proposed based on performance hurdles.

Employment Contracts

Executive Service Contracts, on similar terms and conditions, have been prepared for the Chief Executive Officer and Technology Director. These agreements provide the following major terms:

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

Table 1: Director remuneration for the year ended 30 June 2006

Name		Primary Benefits		Post Employment	Equity	Total	Performance related
		Salary & Fees	Non monetary	Superannuation	Options		
		$	$	$	$	$	%
A B Hall	2006	223,217	10,721	56,783	1,168	291,889	0.4%
TECHNOLOGY DIRECTOR	2005	268,415	6,648	11,585	8,940	295,588	3.0%
S A Hupert	2006	223,217	6,566	56,783	1,168	287,734	0.4%
CHIEF EXECUTIVE	2005	268,415	8,629	11,585	8,940	297,569	3.0%
M K Ward	2006	80,000		7,200	1,099	88,299	1.2%
NON-EXECUTIVE CHAIRMAN	2005	70,000		6,300	8,414	84,714	9.9%
P D Jonson	2006	40,000		3,600	550	44,150	1.2%
NON-EXECUTIVE DEPUTY CHAIRMAN	2005	35,000		3,150	4,207	42,357	9.9%
P G Molyneux	2006	40,000		3,600	550	44,150	1.2%
NON-EXECUTIVE CHAIRMAN AUDIT COMMITTEE	2005	35,000		3,150	4,207	42,357	9.9%

Table 2: Remuneration of the named executives who receive the highest remuneration for the year ended 30 June 2006

Name		Primary Benefits			Post Employment	Equity	Total	Performance related
		Salary & Fees	LTI	Non monetary	Superannuation	Options		
		$	$	$	$	$	%	
D Tauber	2006	262,861	100,375		12,139	962	376,337	26.9%
OPERATIONS OFFICER	2005	263,415	—	—	11,585	7,362	282,362	2.6%
G W Holden	2006	95,000	20,075		45,000	234	160,309	12.7%
CHIEF FINANCIAL OFFICER COMPANY SECRETARY	2005	95,000	—	—	45,000	1,788	141,788	1.3%

No options have been granted nor have any options lapsed in the year ended 30 June 2006 .

DIRECTORS' MEETINGS

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

	Directors' Meetings	Audit Committee
Number of meetings held:	13	3
Number of meetings attended:		
A. B. Hall	13	3
S. A. Hupert	13	3
M. K. Ward	13	3
P. D. Jonson	11	3
P. G. Molyneux	13	3

Committee membership

As at the date of this report, the company had an Audit Committee comprising the 3 non-executive directors.
The Audit Committee decided, based on the company ownership structure to invite the 2 major shareholder executive directors to be present at the committee meetings as non-voting attendees.

ROUNDING

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

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

NON-AUDIT SERVICES

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

Professional services rendered in respect to taxation and research & development matters $15,221

Signed in accordance with a resolution of the Directors.

M K Ward
DIRECTOR
Melbourne, 24 August 2006.

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

ERNST & YOUNG

Ernst & Young Building
8 Exhibition Street
Melbourne VIC 3000
Australia

GPO Box 67
Melbourne VIC 3001

Tel 61 3 9288 8000
Fax 61 3 8650 7777

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

In relation to our audit of the financial report of Pro Medicus Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

David Petersen
Partner
Date: 24 August 2006

income statement

YEAR ENDED 30 JUNE 2006	Notes	2006 $'000	2005 $'000
CONTINUING OPERATIONS			
Sale of Goods	4(a)	305	244
Cost of Sales		(215)	(221)
GROSS PROFIT		90	23
Rendering of Services	4(a)	7,346	7,267
Licence Revenue	4(a)	3,647	2,763
Finance Revenue	4(a)	562	540
REVENUE		11,645	10,593
Other Income	4(b)	121	2
Accounting & Secretarial Fees		(174)	(162)
Advertising and Public Relations		(90)	(117)
Consulting Expenses		—	(101)
Depreciation & Amortisation	4(c)	(82)	(86)
Insurance		(129)	(111)
Finance costs	4(c)	—	(1)
Legal Costs		(13)	(76)
Operating Lease Expenditure - minimum lease payments		(149)	(171)
Other Expenses		(62)	(93)
Research & Development Costs (incl amortisation)	4(c)	(710)	(394)
Salaries and Employee Benefits Expense	4(c)	(1,608)	(1,448)
Travel and Accommodation		(138)	(136)
PROFIT BEFORE INCOME TAX		8,611	7,699
Income tax expense	5	(2,496)	(2,206)
NET PROFIT FOR THE PERIOD	16	6,115	5,493
Earnings per share (cents per share)	6		
- Basic for net profit for the year		6.1¢	5.5¢
- Diluted –for net profit for the year		6.1¢	5.5¢
- Franked dividends per share (cents per share)		5.5¢	4.75¢
Dividends per share (cents per share)	7		
- Interim dividend paid per share		2.00¢	1.50¢
- Special interim dividend paid per share		0.50¢	—
- Final dividend per share		2.00¢	2.75¢
- Special final dividend per share		1.00¢	0.50¢

balance sheet

AS AT 30 JUNE 2006	**Notes**	**2006 $'000**	2005 $'000
CURRENT ASSETS			
Cash and cash equivalents	8	11,441	10,406
Trade and other receivables	9	2,346	3,835
Inventories	10	31	18
Prepayments		40	11
TOTAL CURRENT ASSETS		13,858	14,270
NON-CURRENT ASSETS			
Deferred income tax asset	5	281	279
Plant and equipment	11	228	190
Intangible assets	12	1,145	679
TOTAL NON-CURRENT ASSETS		1,654	1,148
TOTAL ASSETS		15,512	15,418
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	14	619	693
Income tax payable		470	840
Provisions	15	637	754
TOTAL CURRENT LIABILITIES		1,726	2,287
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5	321	181
Provisions	15	259	132
TOTAL NON-CURRENT LIABILITIES		580	313
TOTAL LIABILITIES		2,306	2,600
NET ASSETS		13,206	12,818
EQUITY			
Contributed equity	16	32	9
Retained earnings	16	13,174	12,809
TOTAL EQUITY		13,206	12,818

statement of **changes in equity**

FOR THE YEAR ENDED 30 JUNE 2006	Issued Capital $'000	Retained Earnings $'000	Total Equity $'000
AT 1 JULY 2004	9	11,066	11,075
Profit for the year	—	5,493	5,493
Equity dividends	—	(3,750)	(3,750)
AT 30 JUNE 2005	9	12,809	12,818
AT 1 JULY 2005	9	12,809	12,818
Profit for the year	—	6,115	6,115
Conversion of Options to Shares	23	—	23
Equity dividends	—	(5,750)	(5,750)
AT 30 JUNE 2006	32	13,174	13,206

cash flow statement

YEAR ENDED 30 JUNE 2006	Notes	2006 $'000	2005 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		12,764	8,611
Payments to suppliers and employees		(3,127)	(2,929)
Borrowing costs		—	(1)
Income tax paid		(2,727)	(1,760)
NET CASH FLOWS FROM OPERATING ACTIVITIES	8	6,910	3,921
CASH FLOWS FROM INVESTING ACTIVITIES			
Capitalised Development Costs	12	(605)	(619)
Interest received	4(a)	562	540
Purchase of property, plant and equipment	11	(105)	(32)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(148)	(111)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of hire purchase borrowings		—	(133)
Proceeds from issue of shares	16	23	—
Payment of dividends on ordinary shares	7	(5,750)	(3,750)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(5,727)	(3,883)
Net increase/(decrease) in cash and cash equivalents		1,035	(73)
Cash and cash equivalents at beginning of period		10,406	10,479
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8	11,441	10,406

notes to the financial statements
for the year ended 30 June 2006

1. CORPORATE INFORMATION

The financial report of Pro Medicus Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of directors on 24 August 2006.

Pro Medicus Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Company are described in note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first annual financial report prepared based on AIFRS and comparatives for year ended 30 June 2005 have been restated accordingly. Reconciliation of AIFRS equity and profit for June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 23.

Except for the revised AASB 119 *Employee Benefits* (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

AASB Amendment	Affected Standard(s)	Expected impact	Application date of standard*	Application date for Company
2005-1	AASB 139: *Financial Instruments: Recognition and Measurement*	Impact has not yet been determined	1 January 2006	1 July 2006
2005-5	AASB 1 *First-time adoption of AIFRS*, AASB 139: *Financial Instruments: Recognition and Measurement*	Impact has not yet been determined	1 January 2006	1 July 2006
2005-9	AASB 4: *Insurance Contracts*, AASB 1023: *General Insurance Contracts*, AASB 139: *Financial Instruments: Recognition and Measurement* and AASB 132: *Financial Instruments: Disclosure and Presentation*	Impact has not yet been determined	1 January 2006	1 July 2006
2005-10	AASB 132: *Financial Instruments: Disclosure and Presentation*, AASB 101: *Presentation of Financial Statements*, AASB 114: *Segment Reporting*, AASB 117: *Leases*, AASB 133: *Earnings per Share*, AASB 139: *Financial Instruments: Recognition and Measurement*, AASB 1: *First-time adoption of AIFRS*, AASB 4: *Insurance Contracts*, AASB 1023: *General Insurance Contracts* and AASB 1038: *Life Insurance Contracts*	Impact has not yet been determined	1 January 2007	1 July 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

AASB Amendment	Affected Standard(s)	Expected impact	Application date of standard*	Application date for Company
New Standard	AASB 7: *Financial Instruments: Disclosures*	Impact has not yet been determined	1 January 2007	1 July 2007
UIG 4	*Determining whether an Arrangement contains a Lease*	Impact has not yet been determined	1 May 2006	1 July 2006
UIG 8	*Scope of AASB 2*	Impact has not yet been determined	1 May 2006	1 July 2006

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

The following amendments are not applicable to the Company and therefore have no impact.

AASB Amendment	Affected Standard(s)
2005-2	AASB 1023: *General Insurance Contracts*
2005-4	AASB 139: *Financial Instruments: Recognition and Measurement*, AASB 132: *Financial Instruments: Disclosure and Presentation*, AASB 1: *First-time adoption of AIFRS*, AASB 1023: *General Insurance Contracts* and AASB 1028: *Life Insurance Contracts*
2005-12	AASB 1038: *Life Insurance Contracts* and AASB 1023: *General Insurance Contracts*
2005-13	AAS 25: *Financial Reporting by Superannuation Plans*
2006-2	*Amendments to Australian Accounting Standards* [AASB 1]
UIG 5	*Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds*
UIG 7	*Applying the Restatement Approach under AASB 129 "Financial Reporting in Hyperinflationary Economies"*
UIG 9	*Reassessment of Embedded Derivatives*

(c) Significant accounting judgements, estimates and assumptions

(i) Significant accounting estimates and assumptions

The carrying amounts of certain assets are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets within the next annual reporting period are:

- Impairment of intangibles with indefinite useful lives

The company determines whether intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the intangibles with the indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of intangibles with indefinite useful lives are discussed in note 12.

(d) 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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Rendering of services

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.

Service 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

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(e) Government Grants

Government grants are recognised when there is a reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Export Market Development Grant income is brought to account in the period after the costs, that the grant is intended to compensate, were incurred.

(f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependant on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Company as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(g) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

(h) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that Pro Medicus will not be able to collect the debts. Bad debts are written off when identified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(i) Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of finished goods represents the purchase cost. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(j) Derivative financial instruments and hedging

Commencing from September 2005, the Company used derivative financial instruments in the form of forward currency contracts, to hedge its risk associated with foreign currency fluctuations. Fair value adjustments are deemed to be immaterial and any gains or losses arising from changes in the fair value are taken directly to net profit or loss for that year.

(k) Derecognition of financial Instruments

The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(l) Foreign currency translation

Both the functional and presentation currency of Pro Medicus Limited is Australian dollars (A$)

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

(m) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(n) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(o) Property, plant and equipment

Property plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	2006	2005
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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(p) Intangible assets

Separately acquired intangible assets

Intangible assets acquired separately are capitalised at cost.

Amortisation is calculated on a straight-line basis over the estimated useful life of the asset. The useful life of the capitalised software licence was assessed to be 5 years.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, either individually or at the cash generating level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

(q) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

(r) 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.

(s) Employee leave benefits

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.

(i) Wages salaries, annual leave and sick leave

Liabilities for wages and salaries and annual leave, expected to be settled within twelve months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and measured at the rates paid.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

(ii) Long Service Leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible the estimated future cash outflows.

(t) Share based payment transactions

The company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity settled transactions').

There is currently one plan in place to provide these benefits being the Employee Share Incentive Scheme, which provides benefits to directors and staff by way of options to shares in the Company
As these options were granted prior to 7 November 2002 they are exempted from the requirements of AASB 2 *"Share-based Payment".* As such no expense has been recorded in the income statement.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(v) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Company, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the Company adjusted for

- Costs of servicing equity (other than dividends)
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenue or expenses during the period that would result from the dilution of potential ordinary shares

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus element.

(w) Comparatives

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

3. SEGMENT INFORMATION

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

Geographic Segments

	Australia		North America		Pro Medicus Ltd	
	2006	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
REVENUE						
Sales to customers outside the company	9,110	8,269	2,309	2,007	11,419	10,276
Total segment revenue	9,110	8,269	2,309	2,007	11,419	10,276
Interest Revenue					562	540
Total Revenue					11,981	10,816
RESULTS						
Segment Result	6,932	6,215	1,679	1,484	8,611	7,699
Non segment expenses						
Income Tax Expense					(2,496)	(2,206)
Net Profit					6,115	5,493
ASSETS						
Segment Assets	10,876	12,398	4,355	2,741	15,231	15,139
Non segment assets						
Income Tax Assets					281	279
Total Assets					15,512	15,418
LIABILITIES						
Segment Liabilities	1,515	1,334	—	245	1,515	1,579
Non segment liabilities						
Tax Liabilities					791	1,021
Total Liabilities					2,306	2,600

	Australia		North America		Pro Medicus Ltd	
	2006	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Other segment information						
Internally generated intangible assets	235	167	865	452	1,100	619
Capital Expenditure	105	32	—	—	105	32
Depreciation	(67)	(71)	—	—	(67)	(71)
Amortisation	(48)	(15)	(91)	—	(139)	(15)

	Notes	2006 $'000	2005 $'000
4. INCOME AND EXPENSES			
Income and expenses from continuing operations			
(a) Revenue			
Sale of goods		305	244
Rendering of services		7,346	7,267
Licence revenue		3,647	2,763
Finance revenue		562	540
		11,860	10,814
Breakdown of finance revenue			
Bank and deposit interest receivable		562	540
		562	540
(b) Other income			
Government Grants		60	—
Net Foreign Exchange Differences		61	2
		121	2
An Export Market Development Grant [EMDG] has been received for expenses incurred in 2004/5 in developing overseas markets.			
(c) Other Expenses			
Finance costs			
Interest on Hire Purchase contracts		—	1
Total borrowing costs expensed		—	1
Depreciation and Amortisation			
Motor Vehicles		24	29
Office Equipment		21	21
Furniture and Fittings		4	11
Research & Development Equipment		18	10
Intangible Asset		15	15
Total Depreciation and Amortisation Expenses		82	86
Costs of inventories recognised as an expense		18	4
Research and Development Expense			
Research expenses		586	394
Amortisation on capitalised development costs	12	124	—
		710	394
Salaries and Employee Benefits Expense			
Wages & Salaries		1,475	1,303
Long service leave provision		18	43
Defined contribution plan expense		115	102
Total Salaries and Employee Benefits Expense		1,608	1,448

	Notes	2006 $'000	2005 $'000
5. INCOME TAX			
The major components of income tax expense are:			
Income Statement			
Current income tax			
Current income tax charge		2,583	2,310
Adjustments in respect of current income tax of previous years		(9)	(1)
Deferred income tax			
Relating to origination and reversal of temporary differences		(78)	(103)
Income tax expense reported in the income statement		2,496	2,206
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Company's applicable income tax rate is as follows:			
Accounting profit before tax from continuing operations		8,611	7,699
At the Company's statutory income tax rate of 30% (2005: 30%)		2,583	2,310
Adjustments in respect of current income tax of previous years		(9)	(1)
Expenditure not allowable for income tax purposes		52	22
Other		(130)	(125)
Income tax expense reported in the income statement		2,496	2,206
Deferred income tax			
Deferred income tax at 30 June relates to the following:			
Deferred tax liabilities			
Capitalised development expenses		367	186
Amortisation of Intangible		(46)	(5)
Deferred income tax liabilities		321	181
Deferred tax assets			
Employee Entitlements		269	266
Audit Fee Accrual		12	13
Deferred income tax assets		281	279

	Notes	2006 $	2005 $
6. EARNINGS PER SHARE			
The following reflects the income and share data used in the basic and diluted earnings per share computations:			
Net Profit attributable to ordinary equity holders from continuing operations		6,114,959	5,492,904
Weighted average number of ordinary shares for basic earnings per share		100,000,603	100,000,000
Effect of dilution:			
Share options		727,184	—
Weighted average number of ordinary shares adjusted for the effect of dilution		100,727,787	100,000,000
There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements			

	2006 $'000	2005 $'000
7. DIVIDENDS PAID AND PROPOSED		
Declared and paid during the year:		
Dividends on ordinary shares		
Final franked dividend for 2005: 3.25 cents (2004: 2.25 cents)	3,250	2,250
Interim franked dividend for 2006: 2.50 cents (2005: 1.50 cents)	2,500	1,500
	5,750	3,750
Proposed for approval by directors (not recognised as a liability as at 30 June):		
Dividends on ordinary shares:		
Final franked dividend for 2006: 2.0 cents (2005: 2.75 cents)	2,000	2,750
Final franked special dividend for 2006: 1.0 cent (2005: 0.5 cent)	1,000	500
Total dividends proposed	3,000	3,250
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% (2005: 30%)	4,793	4,522
- franking credits that will arise from the payment of income tax payable as at the end of the financial year	475	840
- franking debits that will arise from the payment of dividends as at the end of the financial year	—	—
- franking credits that the entity may be prevented from distributing in the subsequent financial year	—	—
	5,268	5,362
The amount of franking credits available for future reporting periods:		
- impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	(1,286)	(1,393)
	3,982	3,969

The tax rate at which paid dividends have been franked is 30%, (2005: 30%).
Dividends proposed will be fully franked.

	Notes	2006 $'000	2005 $'000
8. CASH AND CASH EQUIVALENTS			
Cash at bank and in hand		2,901	10,368
Short-term deposits		8,540	38
		11,441	10,406

Cash at bank earns interest at floating rates based on daily bank deposit rates

Short term deposits are made for varying periods of between 20 days and 35 days, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is $11,441,000 (2005: $10,406,000) The fair value approximates carrying value due to the short term nature of cash at bank and short term deposits.

	2006 $'000	2005 $'000
Reconciliation of net profit after tax to net cash flows from operations		
Net profit	6,115	5,493
Adjustments for:		
Depreciation of non-current assets	66	71
Amortisation of Intangible Asset	139	15
Interest Received classified in Investing Activities	(562)	(540)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	1,491	(1,851)
(Increase)/decrease in inventory	(13)	(14)
(Increase)/decrease in future income tax benefit	(2)	(22)
(Increase)/decrease in prepayments	(29)	19
(Decrease)/increase in deferred income	(138)	187
(Decrease)/increase in trade and other creditors	80	35
(Decrease)/increase in tax provision	(365)	299
(Decrease)/increase in deferred income tax liability	135	169
(Decrease)/increase in goods and services tax payable	(16)	(6)
(Decrease)/increase in employee entitlements	9	66
Net cash flow from operations	6,910	3,921

	Notes	2006 $'000	2005 $'000

9. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables		2,346	3,835
Allowance for doubtful debts		—	—
		2,346	3,835

Terms and conditions relating to the above financial instruments

Trade receivables are on 30 day trading terms.

Fair value approximates carrying value due to the short term nature of trade receivables.

10. INVENTORIES (CURRENT)

Finished goods			
At cost		31	18
Total inventories at lower of cost and net realisable value		31	18

11. PLANT AND EQUIPMENT

Property Improvements

Year ended 30 June 2006			
As at 1 July 2005,			
Net of accumulated depreciation and impairment		2	2
Additions		54	—
Disposals		—	—
Depreciation charge for the year		—	—
At 30 June 2006, net of accumulated depreciation and impairment		56	2
At 1 July 2005			
Cost		184	184
Accumulated depreciation and impairment		(182)	(182)
Net carrying amount		2	2
At 30 June 2006			
Cost		238	184
Accumulated depreciation and impairment		(182)	(182)
Net carrying amount		56	2

Motor Vehicles

Year ended 30 June 2006			
As at 1 July 2005,			
Net of accumulated depreciation and impairment		110	139
Additions		—	—
Disposals		—	—
Depreciation charge for the year		(24)	(29)
At 30 June 2006, net of accumulated depreciation and impairment		86	110

	Notes	2006 $'000	2005 $'000
11. PLANT AND EQUIPMENT (CONT)			
At 1 July 2005			
Cost		480	480
Accumulated depreciation and impairment		(370)	(341)
Net carrying amount		110	139
At 30 June 2006			
Cost		480	480
Accumulated depreciation and impairment		(394)	(370)
Net carrying amount		86	110
Office Equipment			
Year ended 30 June 2006			
As at 1 July 2005,			
Net of accumulated depreciation and impairment		41	53
Additions		35	9
Disposals		—	—
Depreciation charge for the year		(21)	(21)
At 30 June 2006, net of accumulated depreciation and impairment		55	41
At 1 July 2005			
Cost		172	163
Accumulated depreciation and impairment		(131)	(110)
Net carrying amount		41	53
At 30 June 2006			
Cost		207	172
Accumulated depreciation and impairment		(152)	(131)
Net carrying amount		55	41
Furniture & Fittings			
Year ended 30 June 2006			
As at 1 July 2005,			
Net of accumulated depreciation and impairment		6	17
Additions		—	—
Disposals		—	—
Depreciation charge for the year		(4)	(11)
At 30 June 2006, net of accumulated depreciation and impairment		2	6
At 1 July 2005			
Cost		216	216
Accumulated depreciation and impairment		(210)	(199)
Net carrying amount		6	17

	Notes	2006 $'000	2005 $'000
11. PLANT AND EQUIPMENT (CONT)			
At 30 June 2006			
Cost		216	216
Accumulated depreciation and impairment		(214)	(210)
Net carrying amount		2	6
Research & Development Equipment			
Year ended 30 June 2006			
As at 1 July 2005,			
Net of accumulated depreciation and impairment		31	18
Additions		16	23
Disposals		—	—
Depreciation charge for the year		(18)	(10)
At 30 June 2006, net of accumulated depreciation and impairment		29	31
At 1 July 2005			
Cost		119	96
Accumulated depreciation and impairment		(88)	(78)
Net carrying amount		31	18
At 30 June 2006			
Cost		135	119
Accumulated depreciation and impairment		(106)	(88)
Net carrying amount		29	31
TOTAL PLANT AND EQUIPMENT			
Year ended 30 June 2006			
As at 1 July 2005,			
Net of accumulated depreciation and impairment		190	229
Additions		105	32
Disposals		—	—
Depreciation charge for the year		(67)	(71)
At 30 June 2006, net of accumulated depreciation and impairment		228	190
At 1 July 2005			
Cost		1,171	1,139
Accumulated depreciation and impairment		(981)	(910)
Net carrying amount		190	229
At 30 June 2006			
Cost		1,276	1,171
Accumulated depreciation and impairment		(1,048)	(981)
Net carrying amount		228	190

	$'000 Development Costs	$'000 Software Licences	$'000 Total
12. INTANGIBLE ASSETS			
At 1 July 2005			
Cost (gross carrying amount)	619	75	694
Accumulated amortisation and impairment	—	(15)	(15)
Net carrying amount	619	60	679
Year ended 30 June 2006			
At 1 July 2005, net of accumulated amortisation and impairment	619	60	679
Additions – internal development	605	—	605
Amortisation	(124)	(15)	(139)
At 30 June 2006, net of accumulated amortisation and impairment	1,100	45	1,145
At 30 June 2006			
Cost (gross carrying amount)	1,224	75	1,299
Accumulated amortisation and impairment	(124)	(30)	(154)
Net carrying amount	1,100	45	1,145

Development costs have been capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 5 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount. Software licences have been assessed as having a finite life and are amortised using the straight line method over a period of 5 years.

At 1 July 2004			
Cost (gross carrying amount)	—	75	75
Accumulated amortisation and impairment	—	—	—
Net carrying amount	—	75	75
Year ended 30 June 2005			
At 1 July 2004, net of accumulated amortisation and impairment	—	75	75
Additions – internal development	619	—	619
Amortisation	—	(15)	(15)
At 30 June 2005, net of accumulated amortisation and impairment	619	60	679
At 30 June 2005			
Cost (gross carrying amount)	619	75	694
Accumulated amortisation and impairment	—	(15)	(15)
Net carrying amount	619	60	679

13. SHARE BASED PAYMENT PLAN

Employee Share Option 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 on 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:

	2006 Number of Options	**Weighted average exercise price**	2005 Number of Options	Weighted average exercise price
Outstanding at the beginning of the year	2,470,000	$1.15	2,470,000	$1.15
- granted	—	—	—	—
- forfeited	—	—	—	—
- exercised	(20,000)	$1.15	—	—
- expired	—	—	—	—
Outstanding at the end of the year	2,450,000	$1.15	2,470,000	$1.15
Exercisable at end of year	2,450,000	$1.15	1,976,000	$1.15

All options above 2,450,000 (2005: 1,976,000) have not been recognised in accordance with AASB 2 as the options were granted before 7 November 2002. These options have not subsequently been modified and therefore do not need to be accounted for in accordance with AASB 2.

	Notes	**2006 $'000**	2005 $'000
14. TRADE AND OTHER PAYABLES (CURRENT)			
Trade payables		110	93
Other creditors and accruals		422	376
		532	469
Deferred Income		87	224
		619	693

(i) Trade payables 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.
Fair value approximates carrying value due to the short term nature of trade and other payables

15. PROVISIONS

	Annual Leave $'000	Long Service Leave $'000	Total $'000
At 1 July 2005	527	359	886
Arising during the year	149	18	167
Utilised	(157)	—	(157)
	519	377	896
Current 2006	519	118	637
Non-current 2006	—	259	259
	519	377	896
Current 2005	527	227	754
Non-current 2005	—	132	132
	527	359	886

16. CONTRIBUTED EQUITY AND RESERVES

	2006 $'000	2005 $'000
(i) *Ordinary shares*	32	9
Issued and fully paid	32	9
Fully paid ordinary shares carry one vote per share and carry the right to dividends		

(ii) *Movements in shares on issue*

	Number of shares	2006 $'000
At 1 July 2005	100,000,000	9
Issued on 20 June 2006 for cash on exercise of options	20,000	23
At 30 June 2006	100,020,000	32

	Number of shares	2005 $'000
At 1 July 2004	100,000,000	9
At 30 June 2005	100,000,000	9

	2006 $'000	2005 $'000
Retained earnings		
Balance 1 July	12,809	11,066
Net profit for the year	6,115	5,493
Dividends	(5,750)	(3,750)
Balance 30 June 2006	13,174	12,809

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's principal financial instruments are cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Company also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Company's operations and its source of finance. It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the applicable item's note.

Foreign currency risk

The Company has transactional currency exposure, which arise from sales made in currencies other than the company's functional currency. The company is economically hedging but does not qualify for hedge accounting. As a result gains and losses on re-measurement of forward currency contracts to fair value are recognised directly in the income statement.

As at 30 June, the company had no forward currency contracts outstanding with a material fair value.

Approximately 22% of the Company's sales are denominated in currencies other than the functional currency but there are no significant currency risk exposures on costs.

Forward Exchange contracts are established for amounts in excess of $50,000 at the time the transaction is recognised in the books.

The forward currency contract must be in the same currency as the hedged item.

It is the Company's policy not to enter into forward contracts until a firm commitment is in place.

It is the Company's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Credit risk

The Company trades only with recognised, credit worthy third parties.

It is the Company's policy that all customers who wish to trade on credit terms are subject to credit assessment.

In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

As the Company trades predominantly within the Diagnostic Imaging market there is a concentration of credit risk. Given the underlying Government funding support for Radiology, recent amalgamations and the commercial successes achieved, credit risk is considered to be minimal.

Liquidity risk

The Company has no liquidity risk as it has significant cash reserves.

18. FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments recognised in the financial statements.

Interest Rate Risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

Year ended 30 June 2006	< 1 year	Total	Weighted Average Effective Interest Rate
	$'000	$'000	%
FINANCIAL ASSETS			
Floating rate			
Cash assets	11,441	11,441	
Weighted average effective interest rate	5.3%		5.3%

Year ended 30 June 2005	< 1 year	Total	Weighted Average Effective Interest Rate
	$'000	$'000	%
FINANCIAL ASSETS			
Floating rate			
Cash assets	10,406	10,406	
Weighted average effective interest rate	5.2%		5.2%

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. The other financial instruments of the company not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

19. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Company as lessee

The Company has entered into a commercial property lease for office premises. This lease has a life of 5 years with an option for a further 5 year period. There is no restriction placed upon the lessee by entering into this lease. Please refer Note 22(h) Director and Executive Disclosures.

	2006	2005
(a) *Future minimum rentals payable under non-cancellable operating lease as at 30 June are as follows:*		
- Within one year	176	178
- After one year and not more than five years	557	704
- More than five years	—	29
	733	911

20. EVENTS AFTER THE BALANCE SHEET DATE

On 24 August 2006, the directors of Pro Medicus Limited declared a final dividend on ordinary shares in respect of the 2006 financial year. This dividend comprises a normal dividend of 2.0 cents per share and a special dividend of 1.0 cent per share. The total amount of the dividend is $3,000,600 which represents a fully franked dividend of a total of 3.0 cents per share. The dividend has not been provided for in the 30 June 2006 financial statements.

21. AUDITORS' REMUNERATION

	2006 **$**	2005 $
Amounts received or due and receivable by Ernst & Young for:		
- an audit or review of the financial report of the Company	66,105	63,400
- other services in relation to the Company	15,221	4,900
	81,326	68,300

22. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) 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) Executives

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

(b) Compensation of Key Management Personnel

(i) Compensation Policy

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

To this end, the Company embodies the following principles in its compensation framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Portion of executive compensation 'at risk', dependent upon meeting pre-determined performance benchmarks;
- Establish appropriate, demanding performance hurdles in relation to variable executive compensation; and
- Mandatory requirement for directors to acquire shares in the Company at market price

(A) Remuneration Committee

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.

22. DIRECTOR AND EXECUTIVE DISCLOSURES (CONT)

(b) Compensation of Key Management Personnel (cont)

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 reviewing the appropriateness of the nature and amount of compensation of key management personnel 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 which currently provides incentives where specified criteria are met including criteria related to profitability, cash flow and share price growth.

(B) Compensation Structure

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

(C) Non-executive Director Compensation

Objective

The executive directors seek to set the aggregate compensation at a level that provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 4 November 2005 when shareholders approved an aggregate remuneration of $500,000 per year.

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

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

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for the directors to have a stake in the company on whose board they sit.
The non-executive directors of the company participate in the Employee Share Incentive Scheme [Option based] which was established in 2000 to provide incentive for participants.

The remuneration of non-executive directors for the period ending 30 June 2006 is detailed on page 52 of this report.

22. DIRECTOR AND EXECUTIVE DISCLOSURES (CONT)

(b) Compensation of Key Management Personnel (cont)

(D) Executive Compensation

Objective

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

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

Structure

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

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

Compensation consists of the following key elements:

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

The proportion of fixed compensation and variable compensation (potential short term and long term incentives) is established for key management personnel as described under (A) Remuneration Committee section above. Note 22 below details the variable component of the remuneration of key management personnel of the Company.

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

(E) Fixed Compensation

Objective

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

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

Structure

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

The fixed compensation component of the 2 relevant most highly remunerated senior managers is detailed below.

22. DIRECTOR AND EXECUTIVE DISCLOSURES (CONT)

(b) Compensation of Key Management Personnel (cont)

(F) Variable Pay – Long Term Incentive (LTI)

Objective

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

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

Structure

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

The company granted these options in 2000 and at the time there was no performance hurdle for this long term incentive plan. Subsequent to this an executive [non-directors] Performance Based Incentive Share Plan has been set up but to date no share allocations have been made. See Table under (ii) below for details reference #.

Employment Contracts

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

These agreements provide the following major terms:

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

(ii) Compensation of Key Management Personnel for the year-ended 30 June 2006.

	Short-Term			Post Employment	Long-Term	Share-based Payment	Total	Total Performance Related
30 June 2006	**Salary & Fees**	**Cash Bonus**	**Non Monetary Benefits**	**Super-annuation**	**Incentive Plans**	**Options**		
DIRECTORS								
M K Ward	80,000			7,200		1,099	88,299	
P D Jonson	40,000			3,600		550	44,150	
P G Molyneux	40,000			3,600		550	44,150	
S A Hupert	223,217		6,566	56,783		1,168	287,734	
A B Hall	223,217		10,721	56,783		1,168	291,889	
EXECUTIVES								
G W Holden	95,000			45,000	20,075	234	160,309	20,075
D Tauber	262,861			12,139	100,375	962	376,337	100,375
	964,295		17,287	185,105	#120,450	5,731	1,292,868	120,450

22. DIRECTOR AND EXECUTIVE DISCLOSURES (CONT)

(b) Compensation of Key Management Personnel (cont)

	Short-Term			Post Employment	Long-Term	Share-based Payment	Total	Total Performance Related
30 June 2005	**Salary & Fees**	**Cash Bonus**	**Non Monetary Benefits**	**Super-annuation**	**Incentive Plans**	**Options**		
DIRECTORS								
M K Ward	70,000			6,300		8,414	84,714	
P D Jonson	35,000			3,150		4,207	42,357	
P G Molyneux	35,000			3,150		4,207	42,357	
S A Hupert	268,415		8,629	11,585		8,940	297,569	
A B Hall	268,415		6,648	11,585		8,940	295,588	
EXECUTIVES								
G W Holden	95,000			45,000		1,788	141,788	
D Tauber	263,415			11,585		7,362	282,362	
	1,035,245		15,277	92,355		43,858	1,186,735	—

	2006	2005
Short –Term	1,102,032	1,050,522
Post Employment	185,105	92,355
Other Long-Term	—	—
Share-based payment	5,731	43,858
	1,292,868	1,186,735

This is a cash payout to replace entitlements for three senior people under the Executive Share Plan which was never activated. No grants were ever made under this plan. Management decided to discontinue this arrangement effective 30 June 2006. Payout criteria were Company profit after tax growth, commencing at 10% year on year, scaled to full entitlement at 15%. In one case the entitlement was split to include personal achievement targets.
The payout above includes personal achievement success for all three periods, full qualification for all participants in 2005 and partial qualification in 2006, based on the year on year profit growth measure.

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
Weighted average fair value	$0.44
Option expiry date	25 August 2010

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. No options were exercised until late in the 2006 financial year so 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.

22. DIRECTOR AND EXECUTIVE DISCLOSURES (CONT)

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

During the year no new options were granted.

Please refer to Executive Share Option Plan details as shown above.

	Vested 30 June 2006 No	Vested 30 June 2005 No
DIRECTORS		
M K Ward	80,000	80,000
P D Jonson	40,000	40,000
P G Molyneux	40,000	40,000
S A Hupert	85,000	85,000
A B Hall	85,000	85,000
EXECUTIVES		
G W Holden	17,000	17,000
D Tauber	70,000	70,000
TOTAL	417,000	417,000

Share Options

The Option Plan Rules state options are exercisable from the first anniversary from the date of issue with an issue term of 5 years.

During the financial year nil (2005: 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 13.

At the end of the year there were 2,450,000 (2005: 2,470,000) unissued ordinary shares in respect of which options were outstanding.

(d) Shares issued on Exercise of Compensation Options

No options were exercised for Directors & Executives in either 2005 or 2006.

(e) Option holdings of Key Management Personnel

	Balance at beginning of year 1 July 2005	**Granted as Remuneration**	**Options Exercised**	**Net Change Other #**	**Balance at end of year 30 June 2006**	**Vested at 30 June 2006 Total**	**Not exercisable**	**Exercisable**
30 June 2006								
DIRECTORS								
M K Ward	400,000	—	—	—	400,000	400,000	—	400,000
P D Jonson	200,000	—	—	—	200,000	200,000	—	200,000
P G Molyneux	200,000	—	—	—	200,000	200,000	—	200,000
S A Hupert	425,000	—	—	—	425,000	425,000	—	425,000
A B Hall	425,000	—	—	—	425,000	425,000	—	425,000
EXECUTIVES								
G W Holden	85,000	—	—	—	85,000	85,000	—	85,000
D Tauber	350,000	—	—	—	350,000	350,000	—	350,000
Total	2,085,000	—	—	—	2,085,000	2,085,000	—	2,085,000

Includes forfeitures

22. DIRECTOR AND EXECUTIVE DISCLOSURES (CONT)

(e) Option holdings of Key Management Personnel (cont)

	Balance at beginning of year 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other #	Balance at end of year 30 June 2005	Vested at 30 June 2005 Total	Not exercisable	Exercisable
30 June 2006								
DIRECTORS								
M K Ward	400,000	—	—	—	400,000	320,000	—	320,000
P D Jonson	200,000	—	—	—	200,000	160,000	—	160,000
P G Molyneux	200,000	—	—	—	200,000	160,000	—	160,000
S A Hupert	425,000	—	—	—	425,000	340,000	—	340,000
A B Hall	425,000	—	—	—	425,000	340,000	—	340,000
EXECUTIVES								
G W Holden	85,000	—	—	—	85,000	68,000	—	68,000
D Tauber	350,000	—	—	—	350,000	280,000	—	280,000
Total	2,085,000	—	—	—	2,085,000	1,668,000	—	1,668,000

Includes forfeitures

(f) Shareholdings of Key Management Personnel

Shares held in Pro Medicus Limited (number)	Balance 1 July 05 Ordinary	Granted as Remuneration Ordinary	On Exercise of Options Ordinary	Net Change Other Ordinary	Balance 30 June 06 Ordinary
30 June 2006					
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	40,072,660	—	—	(10,000,000)	30,072,660
A B Hall	40,068,500	—	—	(10,000,000)	30,068,500
EXECUTIVES					
G W Holden	35,000	—	—	—	35,000
D Tauber	268,000	—	—	145,453	413.453
TOTAL	80,569,160	—	—	(19,854,547)	60,714,613

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.

22. DIRECTOR AND EXECUTIVE DISCLOSURES (CONT)

(f) Shareholdings of Key Management Personnel (cont)

Shares held in Pro Medicus Limited (number)	Balance 1 July 04 Ordinary	Granted as Remuneration Ordinary	On Exercise of Options Ordinary	Net Change Other Ordinary	Balance 30 June 05 Ordinary
30 June 2005					
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	40,072,660	—	—	—	40,072,660
A B Hall	40,068,500	—	—	—	40,068,500
EXECUTIVES					
G W Holden	35,000	—	—	—	35,000
D Tauber	—	—	—	268,000	268,000
TOTAL	80,301,160	—	—	268,000	80,569,160

(g) Loans to Key Management Personnel

No loans are made to Key Personnel or staff.

(h) Other transactions and balances with Key Management Personnel

Purchases

During the year lease payments of $148,642 (2005: $171,255) in respect of the Company's operating premises at 450 Swan Street Richmond were 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.

23. TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Company prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Company is required to prepare in accordance with Australian equivalents to International Reporting Standards (AIFRS).

Accordingly, the Company has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Company has started from an opening balance sheet as at 1 July 2004, the Company's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS*.

This note explains the principal adjustments made by the Company in restating its AGAAP balance sheet at at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirements to apply AIFRS retrospectively.

The Company has taken the following exemptions:

- AASB 2 *Share-based Payment* has not been applied to any equity instruments that were granted on or before 7 November 2002.

Explanation of material adjustments to the cash flow statement.

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

23. TRANSITION TO AIFRS (CONT)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 1 July 2004

	Notes	AGAAP $'000	AIFRS Impact $'000	AIFRS $'000
CURRENT ASSETS				
Cash and cash equivalents		10,479	—	10,479
Trade and other receivables		1,974	—	1,974
Inventories		4	—	4
Prepayments		40	—	40
TOTAL CURRENT ASSETS		12,497	—	12,497
NON-CURRENT ASSETS				
Deferred income tax asset		257	—	257
Property, plant and equipment		229	—	229
Intangible assets		75	—	75
TOTAL NON-CURRENT ASSETS		561	—	561
TOTAL ASSETS		13,058	—	13,058
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		477	—	477
Interest-bearing liabilities		133	—	133
Income tax payable		541	—	541
Provisions		504	—	504
TOTAL CURRENT LIABILITIES		1,655	—	1,655
NON-CURRENT LIABILITIES				
Deferred income tax liabilities	(i)	12	(11)	1
Provisions		316	—	316
TOTAL NON-CURRENT LIABILITIES		328	(11)	317
TOTAL LIABILITIES		1,983	(11)	1,972
NET ASSETS		11,075	11	11,086
EQUITY				
Contributed equity		9	—	9
Retained profits	(i)	11,066	11	11,077
TOTAL EQUITY		11,075	11	11,086

(i) AASB 112 *Income Taxes* requires the company to use a balance sheet liability method, rather than the current income statement method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. This would result in the recognition of a deferred tax liability in relation to any re-valued assets.

23. TRANSITION TO AIFRS (CONT)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 1 July 2005

	Notes	AGAAP $'000	AIFRS Impact $'000	AIFRS $'000
CURRENT ASSETS				
Cash and cash equivalents		10,406	—	10,406
Trade and other receivables		3,835	—	3,835
Inventories		18	—	18
Prepayments		11	—	11
TOTAL CURRENT ASSETS		14,270	—	14,270
NON-CURRENT ASSETS				
Deferred income tax asset		279	—	279
Property, plant and equipment		190	—	190
Intangible assets		679	—	679
TOTAL NON-CURRENT ASSETS		1,148	—	1,148
TOTAL ASSETS		15,418	—	15,418
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables		693	—	693
Interest-bearing liabilities		—	—	—
Income tax payable		840	—	840
Provisions		754	—	754
TOTAL CURRENT LIABILITIES		2,287	—	2,287
NON-CURRENT LIABILITIES				
Deferred income tax liabilities		181	—	181
Provisions		132	—	132
TOTAL NON-CURRENT LIABILITIES		313	—	313
TOTAL LIABILITIES		2,600	—	2,600
NET ASSETS		12,818	—	12,818
EQUITY				
Contributed equity		9	—	9
Retained profits		12,809	—	12,809
TOTAL EQUITY		12,818	—	12,818

Income Statement

There were no differences which affected the Income Statement for this period.

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 report and the additional disclosures included in the directors' report designated as audited, 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 2006 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

On behalf of the Board

M K Ward
CHAIRMAN

Melbourne, 24 August 2006

independent auditor's report

ERNST & YOUNG

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Australia

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Melbourne VIC 3001

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Independent audit report to members of Pro Medicus Limited

Scope

The financial report and directors responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Pro Medicus Limited (the company), for the year ended 30 June 2006.

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 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.

independent auditor's report

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*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1. 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 2006 and of its performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

David Petersen
Partner
Melbourne
Date: 24 August 2006

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 2006

(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	186	140,781
1,001 – 5,000	781	2,530,044
5,001 – 10,000	413	3,369,320
10,001 – 100,000	417	11,432,845
100,001 AND OVER	26	82,547,010
	1,823	100,020,000
The number of shareholders holding less than a marketable parcel of 371 shares are:	18	2,502

(b) Twenty largest shareholders

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

		Listed ordinary shares Number of shares	Percentage of ordinary shares
1	Dr S Hupert	30,072,660	30.07%
2	Mr A Hall	30,068,500	30.06%
3	Citicorp Nominees Pty Ltd <CFS Developing Companies a/c>	5,734,581	5.73%
4	RBC Dexia Investor Services Australia Nominees P/L <PIIC a/c>	5,459,542	5.46%
5	RBC Dexia Investor Services Australia Nominees P/L <PIPOOLED a/c>	4,295,420	4.29%
6	Mirrabooka Investments Limited	1,500,000	1.50%
7	Invia Custodian Pty Limited<Wilson Invmt Fund Ltd a/c>	1,075,000	1.07%
8	Invia Custodian Pty Limited <WAM Capital Limited a/c>	797,300	0.80%
9	National Nominees Limited	449,000	0.45%
10	Mr D Tauber	433,453	0.43%
11	ANZ Nominees Limited <Cash Income a/c>	358,240	0.36%
12	Invia Custodian Pty Limited <WAM Equity Fund a/c>	341,700	0.34%
13	Summerbay Investments Pty Ltd <Morry Wroby Family no 2 a/c>	300,000	0.30%
14	Mr Peter Propert Birrell Mrs Dinny Mary Birrell <Birrell Super Fund a/c>	200,000	0.20%
15	Mr S G Wilson & Ms D A Prandi <Prandi-Wilson Super a/c>	181,000	0.18%
16	Crosbie Holdings A/S	180,000	0.18%
17	Mrs Tung Yueh-Ying Tsai	173,500	0.17%
18	UBS Nominees Pty Ltd	136,000	0.14%
19	Mr M Roth & Ms B Roth <Gefilta Fish S/F a/c>	130,000	0.13%
20	Mellett Super Pty Ltd <Mellett A Fund A/C>	125,000	0.12%
		82,010,896	81.99%

(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	30,072,660
A Hall	30,068,500
Perpetual Limited RBC Dexia Investor Services Australia Nominees P/L	9,754,962
Commonwealth Bank of Australia	5,734,581

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

corporate governance

control

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 2006 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 6 years however Mr. Sam Hupert and Mr. Anthony Hall were directors in Pro Medicus Pty Ltd since incorporation in 1983. Code of Conduct and Securities Trading Policy.

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

Committees

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

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

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

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

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

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

Audit Committee

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

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

The members of the audit committee are:

- P G Molyneux Chairman
- M K Ward
- P D Jonson

The audit committee is also responsible for nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half yearly audit review. A copy of the Audit Committee Charter is posted on the company website.

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

Board Responsibilities

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

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

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

- approval of strategic plans, which encompass the entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk;
- involvement in developing the strategic plan (a dynamic document) and approving initiatives and strategies designed to ensure the continued growth and success of the entity;
- overseeing implementation of operating plans and budgets by management and monitoring of progress against budget - this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes; and
- utilising appropriately skilled professionals to provide advice on relevant discussion topics and procedures to allow Directors, in the furtherance of their duties, to seek independent professional advice at the Company's expense.

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

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

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

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

Shareholder Communication

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

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

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

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

Risk Management Policies

The Company has transactional currency exposure from the increase in overseas operations as a consequence of contracts written in and cash being held in foreign currencies. This change in risk profile has been noted by the board and action has been taken to manage this risk.

The Board oversees appropriate backup procedures for important company data.

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

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

corporate **information**

ABN 25 006 194 752

Directors

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

Melvyn Keith Ward	CHAIRMAN
Dr Peter David Jonson	DEPUTY CHAIRMAN
Dr Sam Aaron Hupert	MANAGING DIRECTOR
Anthony Barry Hall	TECHNICAL DIRECTOR
Philip Gregory Molyneux	NON-EXECUTIVE DIRECTOR

Company Secretary

Geoffrey William Holden CA

Registered Office

450 Swan Street
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(03) 9429 8800

Internet Address

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

Solicitors

Madgwicks
Innovation Law

Bankers

Westpac Banking Corporation

Auditors

Ernst & Young

Share Registry

Link Market Services Limited
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Australia

Mailing address:
Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

Telephone	+612 8280 7111
Toll free	1300 554 474
Facsimile	+612 9287 0303
Facsimile (proxy forms only)	+612 9287 0309
E-mail	registrars@linkmarketservices.com.au
Website:	www.linkmarketservices.com.au

your notes

your notes

you can do so much more

online

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

Visit Link Market Services' website www.linkmarketservices.com.au and access a wide variety of holding information, make some changes online or download forms. You can:

- Check your current and previous holding balances
- Choose your preferred annual report delivery option
- Update your address details
- Update your bank details
- Lodge, or confirm lodgement of, your Tax File Number (TFN), Australian Business Number (ABN) or exemption
- Check transaction and dividend history
- Enter your email address
- Check the share prices and graphs
- Download a variety of instruction forms
- Subscribe to email announcements

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

Don't miss out on your dividends

Dividend cheques that are not banked are required to be handed over to the State Trustee under the Unclaimed Monies Act.
You are reminded to bank cheques immediately.

Better still, why not have us do your banking for you

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

Top 5 tips for Pro Medicus Limited investors visiting Link's (our registry) website

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

Contact Information

You can also contact the Pro Medicus Limited share registry by calling:
612 8280 7111 or Toll Free 1300 554 474

Pro Medicus Limited
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