Promedicus

annual report 2008

Highlights 2007/2008

financial highlights

- Profit after tax a record $7.93 million, up 12.5% on prior year
- Revenue, a record $15.36 million, up 17.8%
- Australian operations up by 33.1% on prior year
- Operating margins 73.9%
- Final dividend of 3.25 cents per share fully franked
- Total dividend for the year of 6.0 cents fully franked
- Strong balance sheet with cash reserves up by 15.7% to $12.89 million
- Company remains debt-free

business highlights

- A ‘tipping point’ now reached with more than 125 practices using Pro Medicus’ digital technology, up from 40 sites a year ago.
- Continued growth of promedicus.net, the company’s e-health offering. More than 27,500 doctors are now registered to use the network, which carried 3.52 million transactions for the year, an increase of 10%.
- US activities have seen ongoing successful RIS placements in the world’s biggest market comprising 8,500 imaging centres and community-based hospitals, around 30 times the Australian market.
- Launch of further technologies aimed at interfacing leading Electronic Medical Record (EMR) vendors in the US.
- New agreement signed with Agfa-Gevaert in North America. Pro Medicus to sell under its own brand directly to end users. Opens up new markets – eg orthopaedics and cardiology – where the technology is applicable.
- Continued investment in building the platform for future growth including the appointment of a new CEO and increasing investment in R&D.

Financial summary

Year ended 30 June 2008

All figures in $A thousands unless otherwise stated

	2008 $'000	2007 $'000
Revenues from Continuing Operations	15,361 +16.4%	13,199
Revenue	15,361 +17.8%	13,035
Operating Profit Before Interest and Income Tax	10,620 +16.9%	9,081
Net Profit After Tax	7,933 +12.5%	7,052
Total Assets 30 June	19,543	17,554
Shareholders' Funds 30 June	15,744	14,257
Net Tangible Assets per Share at 30 June (cents)	14.0	12.0
Earnings per Share (cents)	7.9 +11.3%	7.1
Franked Dividends per Share (cents per share)	6.0 -14.3%	7.0

CEO & Chairman's Letter

Dear Shareholders,

It is our pleasure to report on another highly successful year of record sales and profits. One that has seen Pro Medicus strengthen its position as a leading provider of medical IT solutions to the local markets and prime itself for its next phase of business growth in international markets.

Profit after tax of $7.93 million was a record for the company, up 12.5% on last year and the company's fourth successive record profit. Revenue of $15.36 million, also a record, was up 17.8% on last year.

Pro Medicus' Australian business grew very strongly during the year, with sales up 33.1% over the previous year. Pre-tax profit of $9.63 million in 2008 was up 32.4%, and second half pre-tax profit was $5.61 million, up 40.1%.

This significant growth was in line with our predictions that a "tipping point" had been reached in the rate of adoption of our technology. The number of Australian radiology practices using our digital imaging product increased to 125 as at the end of June, up from 40 a year ago. We expect this trend to continue as the industry moves towards the new efficiency and productivity benchmarks delivered by our digital product.

We are also pleased to report continued growth in our e-health offering, promedicus.net. Our growing community of more than 27,500 Australian doctors generated more than 3.52 million transactions in the year, an increase of 10% over last year. Part of this growth has been achieved by extending the network to new providers such as specialists – a trend the company is looking to encourage.

Over the past 12 months the company has continued to develop its export markets with further sales of our RIS solution primarily in the United States, where we booked pre-tax profit of $1.69 million, down from $2.46 million. This comparative result was impacted by the early renegotiation of the Agfa contract, a significantly stronger Australian dollar and the expected transition from new licence to support revenue for the Canadian AltaPACS contract.

In July the company signed a new, two-year renewable agreement with Agfa-Gevaert in North America. This new contract not only enables Pro Medicus to continue to use the extensive Agfa sales force to generate leads but will also see the company sell its own Pro Medicus-branded products directly to end users, rather than under the Agfa label as was previously the case. Importantly, the company will also be able to target new markets that were not addressed

in the previous contract, such as orthopaedics and cardiology, where the technology is applicable.

The company is now in a transition period as the new US business model is implemented. However there are new projects in our sales funnel and we would expect momentum to pick up over the next 12 to 18 months. Taking control of our North American sales effort means that the company will now get the full mark-up on the sale of our software and ongoing service rather than sharing it with Agfa. Whilst initially these higher margins will be offset by establishment costs, longer term the company believes the new model for the US will provide significantly greater upside and growth potential.

Fundamental to our business is our software technology. During the past year, we introduced a number of new capabilities for both the local and international markets. For example, in the US we have developed new interfacing technology which allows connections with leading providers of Electronic Medical Records (EMRs). We have also undertaken a major R&D effort aimed at transitioning our products to a new technology platform, designed to serve as the cornerstone for our future growth in both local and overseas markets.

Financially we remain very strong, being debt free with cash reserves of $12.89 million. The Board has declared a fully franked final dividend of 3.25 cents per share. This brings the total dividend for the year to 6.0 cents per share fully franked.

Looking forward, the company expects that radiology practices both here and abroad will continue to recognise the significant benefits that can be realised using our broad portfolio of digital technology offerings.

Although world events have presented a challenging year for most businesses we are excited to be in the healthcare industry at a time when technology is valued for its potential to make such a big difference to people's lives.

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,

David Chambers
CHIEF EXECUTIVE OFFICER

Mel Ward AO
CHAIRMAN

Business Background

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

Established in 1983 by Dr Sam Hupert 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. 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.

In 2003 the company successfully expanded overseas, completing its first installation in the UK, where it now has 20 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 company has recently entered in to a new agreement with Agfa which will see it using the Agfa sales force as a conduit, whilst selling its products directly to end users under its own brand name, rather than solely under the Agfa label. Pro Medicus will also be able to expand its offering into new markets – like orthopaedics and cardiology – where its technology is applicable, as well as being able to work with other PACS vendors where appropriate.

The activities of Pro Medicus in the financial year ending June 30, 2008 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 records, doing away with the need for double handling or manual filing.

promedicus.net currently integrates with more than 50 clinical desktop products and is supported on both Microsoft Windows and Apple Macintosh platforms. More than 27,500 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 revolutionize 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 highly modular digital imaging (PACS) integration products. These integration products provide a seamless interface between the Pro Medicus system and a range of leading PACS products, allowing large diagnostic imaging providers to incrementally implement this technology across their enterprises. Revenue is generated from the sale of software licenses for the integration modules, implementation services and ongoing support. Pro Medicus’ digital integration products are now being offered and sold to radiology practices in Australia, USA, Canada and the United Kingdom.

Year in review

australia

CORE BUSINESS

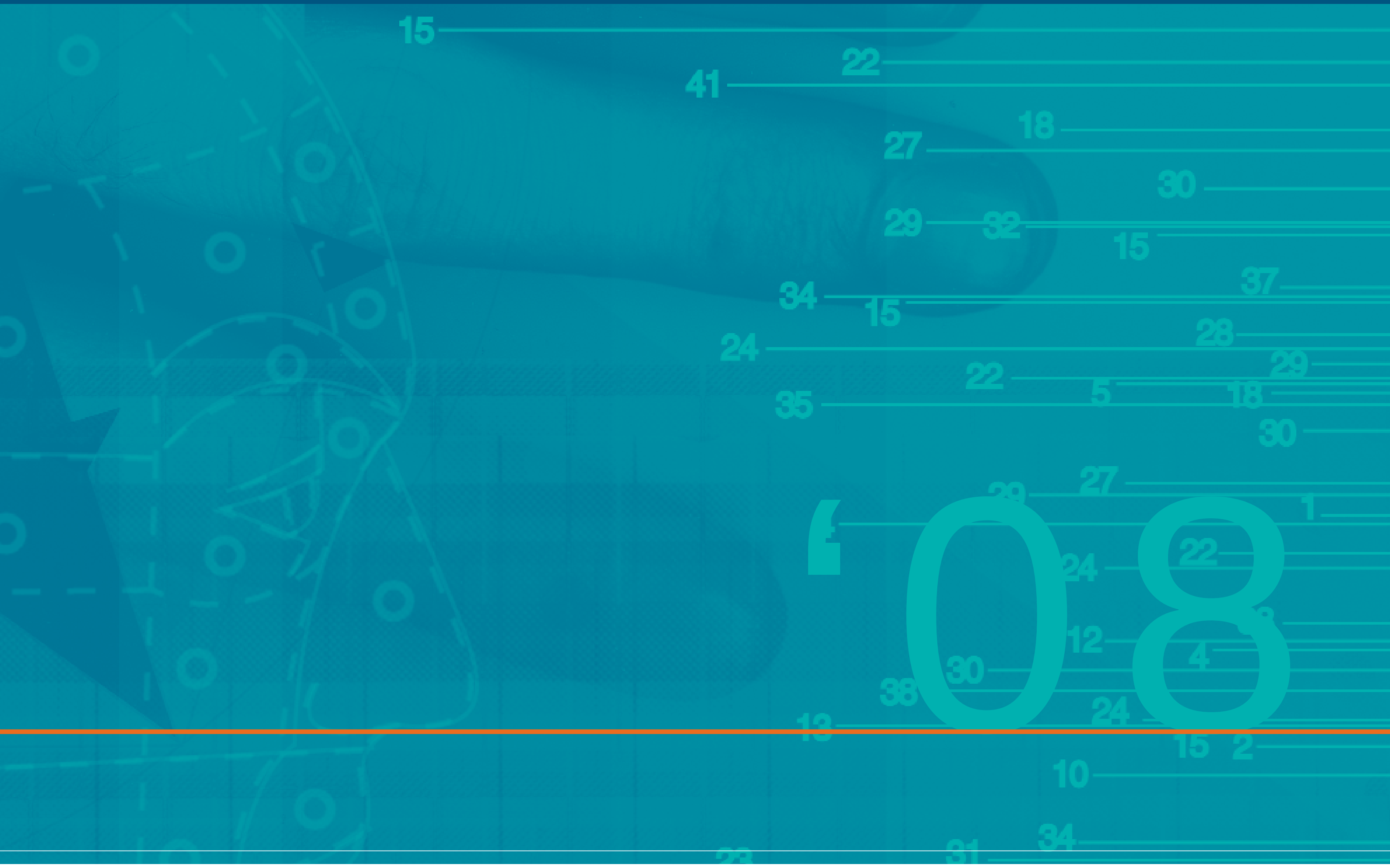
The core business continued to perform well during the past year. The key drivers were digital imaging and revenues from ongoing service and support. This has provided the company with a growing recurring revenue stream.

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. More than 27,500 doctors now subscribe to the network, which carried over 3.52 million transactions for the 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 migration of Australian private radiology providers from analogue to a fully digital system increased pace during the past financial year. Pro Medicus maintained its status as the market leader in radiology digital integration technology in Australia. The company now has more than 125 sites enjoying the productivity and clinical benefits that an integrated digital environment delivers, up from 40 sites a year ago.



united states

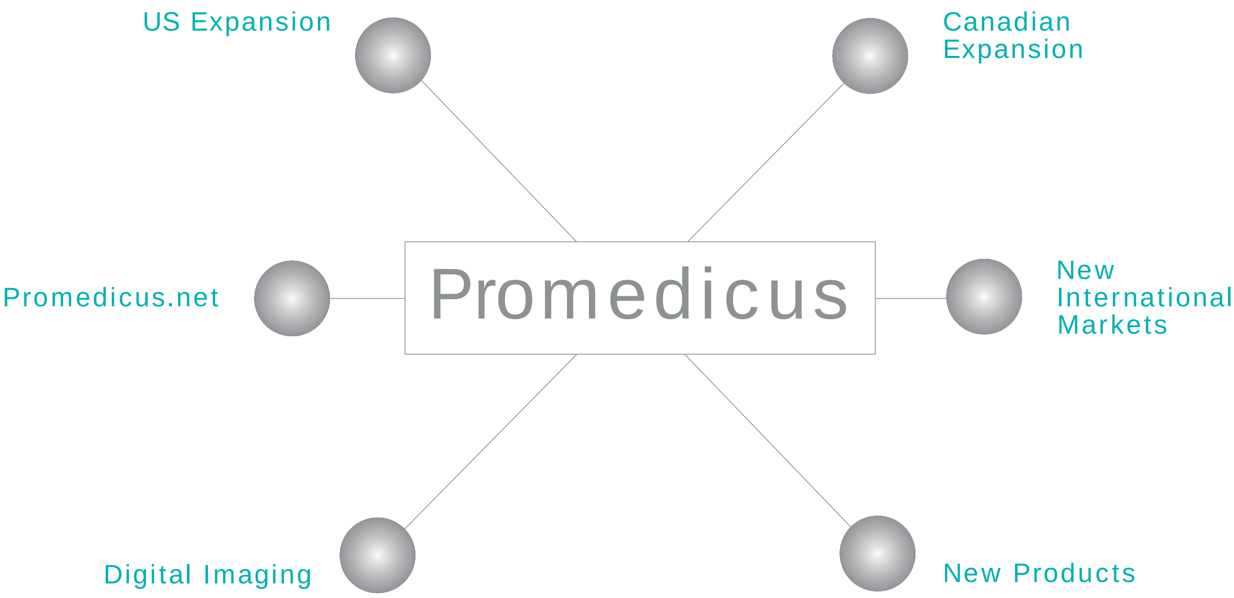
The company continued to make solid progress in the US, increasing its market penetration using Agfa’s HealthCare sales team. The sales funnel remains robust with several new wins over the last months including its first sale to a large imaging centre group incorporating integration to a leading Electronic Medical Record (EMR) product. It is expected that this and other planned integrations will broaden our reach to both the imaging centre and community based hospital market segments.

These developments, together with previous billing and transcription modules, further differentiate the product offering in a market where many imaging centres and hospitals spend large amounts outsourcing their billing and transcription.

canada

Revenue from the AltaPACS contract was derived during the period from recurring support revenue. The company expects that its longstanding relationship with this client will continue throughout the coming year, providing ongoing support revenue as well as revenue from one-off projects and licence purchases as the group looks to expand within its region.

Into the future



Key growth strategies for 2009

In the coming year Pro Medicus is looking to continue to maximise the opportunities it has created with digital imaging integration in Australia as well as the significant growth opportunities flowing from the newly re-structured Agfa North American contract.

The move to digital radiology in Australia reached a tipping point in 2008, and the company predicts that it will continue to benefit as an increasing number of practices move to this technology.

Market penetration in the US is also expected to accelerate throughout the 2009 financial year. Revenues from the combined Agfa North American and direct selling activities are expected to increase over the next 12 months as we continue to transition to the new business model and build on the solid base that has been created.

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 and opportunities in existing markets.

Financial statements

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Your Directors submit their report for the year ended 30 June 2008.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows

Directors' report

Melvyn Keith Ward AO 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 NON-EXECUTIVE DIRECTOR *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.

Dr Sam Aaron Hupert DEPUTY CHAIRMAN & EXECUTIVE DIRECTOR *M.B.B.S.*

Retired 1st October 2007. Deputy Chairman and Executive Director - Appointed 1st October 2007.

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.

On the 1st of October 2007 Dr Hupert stepped down as Managing Director and Chief Executive a position he had held for 25 years. He was appointed Deputy Chairman and Executive Director at this time and maintains an active role in the company.

Anthony Barry Hall EXECUTIVE DIRECTOR & 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 product development and plan the future technical direction of the Company.

David Chambers CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR *B.Sc. Grad Dip. Bus.*

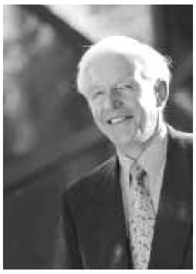
Appointed CEO on the 1st October 2007. Appointed as a director on 10th December 2008.

David Chambers joined Pro Medicus as CEO on the 1st of October 2007 and was appointed a Director on the 10th December 2007. David graduated from La Trobe University with a BSc, Chemistry and Mathematics in 1978 and went on to do a Grad Dip Bus Mgt, Marketing at the Australian Graduate School of Management.
He has extensive experience in the healthcare industry and was previously the General Manager of Agfa Healthcare Asia Pacific prior to taking on the role of Vice President Sales & Services, North America at Agfa Healthcare.

Peter Kempen NON-EXECUTIVE DIRECTOR

Appointed 12 March 2008

Peter Kempen joined Pro Medicus as a Director on 12 March 2008. He is Chairman of Patties Food Limited, Danks Holdings and Ivanhoe Grammar School.
Peter has previously been Managing Partner of Ernst & Young Corporate Finance Australia and was also heavily involved in the first corporatisation of a radiology practice and ultimate public listing of Medical Imaging Australasia Limited. Peter is a Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Australian Institute of Company Directors. Peter is Chairman of the audit committee.



Philip Gregory Molyneux AM NON-EXECUTIVE DIRECTOR *B.Econ, F.C.A.*

Retired 30 August 2007

Philip Molyneux joined Pro Medicus Limited as a Director on 4 April, 2000. Until his retirement Philip was 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 was also a trustee of Monash University Accident Research Foundation.
Philip was Chairman of the audit committee.
Phillip retired from the Pro Medicus board on the 30th of August 2007.

Alexander McKendrick COMPANY SECRETARY *B.Juris LLB; Barrister & Solicitor, Supreme Court of Victoria*

Alexander was acting Company Secretary at 30 June 2008 and subsequently became Company Secretary on 4 July 2008. Alexander is currently Company Secretary & Legal Manager for Dairy Australia Ltd. Alexander has previously been General Counsel and Chief Operating Officer of Transport Certification Australia Ltd and Legal Counsel at Nylex Limited.

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
D. Chambers	50,000	NIL
P. T. Kempen	30,000	200,000

EARNINGS PER SHARE

	Cents
Basic earnings per share	7.9
Diluted earnings per share	7.9

DIVIDENDS

Ordinary Shares	Cents	$'000
Final dividends recommended:		
Normal dividend plan	3.25	3,259
Dividends paid in the year:		
Interim for the year	2.75	2,757
Final dividend for 2007 shown as recommended in the 2007 report:		
Normal dividend plan	3.00	3,008
Special dividend	1.00	1,002

OPERATING AND FINANCIAL REVIEW

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 ongoing new product development:

A number of new capabilities have been introduced into the US product offering throughout the year including the integration to a number of 3rd party billing modules as well as integration to a leading US electronic medical record (EMR) provider.

The company has also increased its R&D effort with a number of projects underway including the development of a new technology platform designed to underpin the company's future growth in both local and overseas markets.

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 Australian operations performed very strongly over the past year with revenue increasing by 33.1% from $9.4M to $12.51M largely driven by the increasing uptake of our digital imaging technology. Over 125 practices now use the technology, up from 40 practices last year.

The significant growth confirms the company's belief that our digital imaging interface technology is the market leader in Australia and is a key component for future ongoing success both here and abroad.

Promedicus.net, the company's e-health offering, continued to hold its leading market position with growth in both the number of doctors registered (25,300 doctors to 27,776, an increase of 10%) as well as transaction volumes which climbed 10% to 3.52 million transactions. Revenue increased 1% from $2.38 million to $2.41 million despite margin pressure from competitors.

Whilst the company continued to see good uptake of its technology in the North American market, total revenue for the period decreased from $3.093M in 2007 to $2.19M. This was largely due to a number of one off factors including the early renegotiation of the Agfa North America contract, the strengthening of the AUD$ against both the US$ and Canadian dollar and the expected transition from new licence to support revenue with the Canadian Alta PACS contact.

In July the company announced the renegotiation of its Agfa North American contract which will provide the company with greater control of the sale and servicing of its products in North America.

Under the new agreement, Pro Medicus will have its own presence in the US and will be able to sell products under its own name rather than under the Agfa brand.
Pro Medicus will also not be confined to the imaging centre market, but can now expand into new markets – like orthopaedics and cardiology – where its technology is applicable. It can also collaborate with other PACS vendors where appropriate. The company believes that these initiatives will better position it for future growth in this market.

Operating Results for the Period

Pro Medicus reported an after tax profit of $7.933 million, up 12.5% making this the most profitable year in Pro Medicus history. Revenue also rose to a record $15.36 million, an increase of 17.8% on the previous year.

Net margin as defined by profit before tax to revenue from operating activities decreased marginally from 77.6% in 2007 to 73.9% in 2008 as the company continued to build the platform for future growth which included the appointment of a new CEO as well as increased investment in research and development.

Shareholder Returns

The Company is pleased to report a dividend return to shareholders of a total of 6.0 cents per share. This is made up of a final dividend of 3.25 cents plus the interim dividend of 2.75.

The directors are confident that the holdings of reserve cash after paying out the second half dividend is sufficient to underpin the development and expansion needs of the company as the business looks to increase its penetration of existing markets and new product development.

Directors' report cont.

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.

	2008	2007	2006	2005	2004
Basic earnings per share – reported (cents)	7.9	7.1	6.1	5.5	3.6
Basic earnings per share - restated (cents)	n/a	n/a	n/a	n/a	4.4
Return on assets (%)	57.9	55.5	55.5	49.9	38.4
Return on equity (%)	50.4	49.5	46.3	42.9	32.3
Net debt / equity ratio (%)	Nil	Nil	Nil	Nil	1.2
Dividend payout ratio (%) – normal dividend plan	75.8	77.5	65.4	77.4	97.9
Dividend payout ratio (%) – total dividend	75.8	98.5	89.9	86.5	97.9
Available franking credits ($'000)	5,102	5,582	5,268	5,362	4,910

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, and the expansion of Promedicus.net. It is anticipated this will translate into an increase and improvement in the bottom line of the operation. The company is also undertaking a major redevelopment aimed at transitioning some of the company's core technology to the latest software platforms.

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 relatively unchanged.

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 has limited exposure to foreign exchange rate fluctuations as a consequence of contracts written in and cash being held in foreign currencies. For larger overseas transactions the Company uses derivative financial instruments in the form of forward currency contracts, to hedge its risk associated with foreign currency fluctuations.

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.

Cash from Operations

Net cash flows from operating activities was a positive $8.81m for the current period, attributed by a $16.19m collection of receipts from customers compared with payments of $4.16m to suppliers and employees. The company continued to hold total cash assets of $12.89 million.

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 by 10.43% from $14.257m to $15.744m. This movement was largely the result of higher profit and retaining cash in the business.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

A Final Dividend of 3.25 cents per share has been declared post 1 July. Please refer Note 8.

Pro Medicus appointed Alexander McKendrick; B.Juris LLB; Barrister & Solicitor, Supreme Court of Victoria as Company Secretary on 4 July 2008.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors foresee that the 2009 financial year will be a year of growth in both the local and overseas markets.
It is anticipated this will result from:

- Continued penetration of the Radiology Information System and digital imaging integration products in the Australian market, and there is evidence that the Australian Market has reached the tipping point in the take-up of digital radiology.

- Continued installation and use of the Promedicus.net secure email product and Specialist Report Sender;

- 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 2009 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 2,300,000 un-issued ordinary shares under options Refer to Notes 17 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, 260,000 share options were exercised by ex employees and a further 90,000 shares expired during the year. No directors or key management personnel in the current year, have exercised any option to acquire fully paid ordinary shares in Pro Medicus Limited.

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.

Directors' report cont.

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

REMUNERATION REPORT (AUDITED)

Remuneration Report

This report outlines the remuneration arrangements in place for directors and executives of Pro Medicus Limited in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) of Pro Medicus Limited are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the company, and includes the three executives in the company receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives, general managers and secretaries of the company.

DETAILS OF KEY MANAGEMENT PERSONNEL

(i) Directors

Melvyn Keith Ward	Chairman (non-executive)
Dr Peter David Jonson	Deputy Chairman (non-executive)
Dr Sam Aaron Hupert	Executive Director and Deputy Chairman
Anthony Barry Hall	Executive Director and Technology Director
David Chambers - Appointed	Managing Director and CEO – appointed 10 December 2007
Peter Terence Kempen - Appointed	Non Executive Director and Chairman Audit Committee – appointed 12 March 2008
Philip Gregory Molyneux - Resigned	Chairman Audit Committee (non executive – retired 30 August 2007)

(ii) Executives

Geoffrey William Holden - Retired	Chief Financial Officer & Company Secretary – retired 6 July 2007
Sean Collins - Resigned	Chief Financial Officer & Company Secretary – resigned 18 February 2008
Clinton Cooper – Appointed & Resigned	Chief Financial Officer & Company Secretary – appointed 18 February 2008 and resigned 2 June 2008
Danny Tauber	Chief Operating Officer
Bernard Duscher - Resigned	Senior Developer – resigned 20 June 2008

Remuneration committee

Remuneration and nomination issues are handled at the full Board level. The Board due to the small number of directors decided this. 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, Executive Director 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 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 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 2008 is detailed in Table 1 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, Executive Director and the Technology Director. No other employment contracts have been executed. Details of these contracts are provided on page 12.

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.

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 consisting 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 company conducting the review has access to external advice independent of management.

Directors' report cont.

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 3 relevant most highly remunerated senior managers is detailed in Table 1 of this report.

Variable Remuneration – Long Term Incentive (LTI)

The LTI described below relates to the prior year.

Objective

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

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

Structure

LTI grants to executives were 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.

Variable Pay – Short Term Incentive (STI)

Short term incentives in the form of cash bonuses were paid to key staff based on a mix of company based and personal performance targets.

STI bonus for 2008

For the 2008 financial year, there were no STI bonuses paid to staff.

Key Performance Indicators

Actual STI payments granted to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. The targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial, corporate and individual measures of performance. Included are measures such as contribution to net profit after tax, sales targets, customer service, risk management, product development, and leadership/team contribution. These measures were chosen as they represent the key drivers for short term success of the business and provide a framework for delivering long term value.

Senior management with responsibility for the particular business function assess the achievement of conditions based on performance appraisals against predefined goals.

Company performance

For details of the company's performance (as measured by Earnings Per Share and other relevant measures) for the current financial year and previous four financial years, refer to page 3 of the Directors' Report.

Employment Contracts

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

These agreements provide the following major terms:

- Each executive will receive a remuneration package per annum 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: REMUNERATION OF KEY MANAGEMENT PERSONNEL FOR THE YEAR ENDED 30 JUNE 2008

	Short-Term			Post Employment	Long Term	Share-Based Payment		Total	Total Performance Related
30 June 2008	Salary & Fees	Cash Bonus	Non-Monetary benefits	Superannuation	Incentive Plans	Shares	Options		
Directors									
M K Ward	80,000			7,200				87,200	
P D Jonson				43,600				43,600	
P G Molyneux	6,667			600				7,267	
S A Hupert	180,472		3,321	99,528				283,321	
A B Hall	180,472		3,475	99,528				283,475	
D Chambers	313,193			42,307		69,064		424,564	
P T Kempen	12,134			1,092			21,701	34,927	
Executives									
G W Holden	30,798			3,278				34,076	
S Collins	85,627			7,706				93,333	
C Cooper	54,058			3,979				58,037	
D Tauber	251,871			13,129				265,000	
B. Duscher	136,973			14,959				151,932	
	1,192,580		6,796	325,221		69,064	21,701	1,766,732	

TABLE 2: REMUNERATION OF KEY MANAGEMENT PERSONNEL FOR THE YEAR ENDED 30 JUNE 2007

	Short-Term			Post Employment	Long Term	Share-Based Payment		Total	Total Performance Related
30 June 2007	Salary & Fees	Cash Bonus	Non-Monetary benefits	Superannuation	Incentive Plans	Shares	Options		
Directors									
M K Ward	80,000			7,200				87,200	
P D Jonson	29,999			13,601				43,600	
P G Molyneux	40,000			3,600				43,600	
S A Hupert	174,887		8,486	105,113				288,486	
A B Hall	174,887		5,623	105,113				285,623	
Executives									
G W Holden	69,125	5,625		80,875				155,625	5,625
D Tauber	282,314	47,075		12,686				342,075	47,075
B. Duscher	123,853	35,000		11,147				170,000	35,000
	975,065	87,700	14,109	339,335				1,146,209	87,700

Directors' report cont.

Compensation options granted, vested and exercised during the year as part of remuneration

During the financial year 200,000 options were granted to Peter Kempen. The options had a grant date of 12 March 2008 and an exercise price of $1.25. The fair value of the options at grant date was $66,000 ($0.33 per option). The options have a first exercise date of 12 March 2009 and an expiry date of 12 March 2018. No options were granted during the previous financial year.

During the financial year B. Duscher exercised 30,000 options with an exercise price of $1.15 and G. W. Holden exercised 85,000 options with an exercise price of $1.15 for a total amount of $132,250. No options were exercised during the previous financial year.

A further 90,000 options from B. Duscher lapsed during the year.

For details of the valuation of options, including models and assumptions used please refer to Note 16.

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	Eligible to attend	Audit Committee	Eligible to attend
Number of meetings held:	**11**		**3**	**3**
Number of meetings attended:				
A. B. Hall	11	11	3	3
S. A. Hupert	11	11	3	3
M. K. Ward	11	11	3	3
P. D. Jonson	10	11	3	3
P. T. Kempen	3	3	0	0
D Chambers	9	9	0	0
P. G. Molyneux	2	2	1	1

Committee membership

As at the 30 June 2008, the company had an Audit Committee comprising the 3 non-executive directors and 3 executive directors.

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 (refer page 15).

NON-AUDIT SERVICES

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

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

Professional services rendered in respect to taxation matters and share incentive work	$37,535

Signed in accordance with a resolution of the Directors.

M K Ward
DIRECTOR

Melbourne, 26 August 2008.

Auditor's Independence Declaration

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
www.ey.com/au

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 2008, 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

Painter

Stuart Painter
Partner
26 August 2008

Income Statement

FOR THE YEAR ENDED 30 JUNE 2008	Notes	2008 $'000	2007 $'000
Sale of Goods	5(a)	**83**	347
Cost of Sales		**(45)**	(164)
Gross Profit		**38**	183
Rendering of Services	5(a)	**9,074**	7,673
Licence Revenue	5(a)	**5,544**	4,519
Finance Revenue	5(a)	**705**	660
Revenue		**15,361**	13,035
Other Income	5(b)	**—**	9
Accounting and Secretarial Fees		**(371)**	(167)
Advertising and Public Relations		**(63)**	(48)
Depreciation and Amortisation	5(c)	**(92)**	(87)
Insurance		**(191)**	(150)
Finance Costs	5(c)	**—**	—
Legal Costs		**(13)**	(4)
Operating Lease Expenditure - minimum lease payments	5(c)	**(169)**	(179)
Other Expenses		**(377)**	(80)
Research and Development Costs (incl amortization)	5(c)	**(568)**	(746)
Salaries and Employee Benefits Expense	5(c)	**(2,074)**	(1,670)
Travel and Accommodation		**(118)**	(172)
Profit before income tax		**11,325**	9,741
Income tax expense	6	**(3,392)**	(2,689)
Net Profit for the period	15	**7,933**	7,052
Earnings per share (cents per share)	7		
- Basic for net profit for the year		**7.9¢**	7.1¢
- Diluted – for net profit for the year		**7.9¢**	7.0¢
- Franked dividends per share (cents per share)		**6.0¢**	7.0¢
Dividends per share (cents per share)	8		
- Interim dividend paid per share		**2.75¢**	2.5¢
- Special interim dividend paid per share		**—**	0.5¢
- Final dividend per share		**3.25¢**	3.0¢
- Special final dividend per share		**—**	1.0¢

Balance Sheet

AS AT 30 JUNE 2008	Notes	2008 $'000	2007 $'000
Current Assets			
Cash and cash equivalents	9	**12,885**	11,135
Trade and other receivables	10	**3,792**	4,335
Prepayments		**76**	53
Total Current Assets		**16,753**	15,523
Non-current Assets			
Deferred income tax asset	6	**282**	294
Plant and equipment	11	**199**	214
Intangible assets	12	**2,309**	1,523
Total Non-current Assets		**2,790**	2,031
TOTAL ASSETS		**19,543**	17,554
LIABILITIES			
Current Liabilities			
Trade and other payables	13	**996**	613
Income tax payable		**1,235**	1,413
Provisions	14	**850**	644
Total Current Liabilities		**3,081**	2,670
Non-current Liabilities			
Deferred income tax liabilities	6	**670**	331
Provisions	14	**48**	296
Total Non-current Liabilities		**718**	627
TOTAL LIABILITIES		**3,799**	3,297
NET ASSETS		**15,744**	14,257
EQUITY			
Contributed equity	15	**331**	32
Share reserve	15	**21**	—
Retained earnings	15	**15,392**	14,225
TOTAL EQUITY		**15,744**	14,257

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2008	Issued Capital $'000	Share Reserve $'000	Retained Earnings $'000	Total Equity $'000
At 1 July 2006	32	—	13,174	13,206
Profit for the year	—	—	7,052	7,052
Conversion of Options to Shares	—	—	—	—
Equity dividends	—	—	(6,001)	(6,001)
At 30 June 2007	32	—	14,225	14,257
At 1 July 2007	32	—	14,225	14,257
Profit for the year	—	—	7,933	7,933
Conversion of Options to Shares	299	—	—	299
Share Based Payment	—	21	—	21
Equity dividends	—	—	(6,766)	(6,766)
At 30 June 2008	331	21	15,392	15,744

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2008	Notes	2008 $'000	2007 $'000
Cash flows from operating activities			
Receipts from customers		**16,192**	10,512
Payments to suppliers and employees		**(4,163)**	(2,957)
Borrowing costs		**—**	—
Income tax paid		**(3,219)**	(1,750)
Net cash flows from operating activities	9	**8,810**	5,805
Cash flows from investing activities			
Capitalised Development Costs	12	**(1,236)**	(712)
Interest received	5(a)	**705**	660
Purchase of property, plant and equipment	11	**(61)**	(58)
Net cash flows used in investing activities		**(592)**	(110)
Cash flows from financing activities			
Proceeds from issue of shares	15	**299**	—
Payment of dividends on ordinary shares	8	**(6,767)**	(6,001)
Net cash flows used in financing activities		**(6,468)**	(6,001)
Net increase/(decrease) in cash and cash equivalents		**1,750**	(306)
Cash and cash equivalents at beginning of period		**11,135**	11,441
Cash and cash equivalents at end of period	9	**12,885**	11,135

Notes to the Financial Statements
For the Year ended 30 June 2008

1. CORPORATE INFORMATION

The financial report of Pro Medicus Limited (the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of directors on 26 August 2008.

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 with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ending 30 June 2008. These are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on company financial report	Application date for company*
AASB Int. 12 and AASB 2007-2	Service Concession Arrangements and consequential amendments to other Australian Accounting Standards	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2008	Unless the Company enters into service concession arrangements or public-private-partnerships (PPP), the amendments are not expected to have any impact on the Company's financial report.	1 July 2008
AASB Int. 4 (Revised)	Determining whether an Arrangement contains a Lease	The revised Interpretation specifically scopes out arrangements that fall within the scope of AASB Interpretation 12.	1 January 2008	Refer to AASB Int. 12 and AASB 2007-2 above.	1 July 2008
AASB Int. 129	Service Concession Arrangements: Disclosures	Requires disclosure of provisions or significant features necessary to assist in assessing the amount, timing and certainty of future cash flows and the nature and extent of the various rights and obligations involved. These disclosures apply to both grantors and operators.	1 January 2008	Refer to AASB Int. 12 and AASB 2007-2 above.	1 July 2008

Notes to the Financial Statements
For the Year ended 30 June 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

Reference	Title	Summary	Application date of standard	Impact on company financial report	Application date for company*
AASB Int. 13	Customer Loyalty Programmes	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1 January 2008	The Company does not have any customer loyalty programmes and as such this interpretation is not expected to have any impact on the Company's financial report.	1 July 2008
AASB Int. 14	AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	The Company does not have a defined benefit pension plan and as such this interpretation is not expected to have any impact on the company's financial report.	1 July 2008
AASB 2007-9**	Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31	The amendments were issued as a result of the review of AAS 27 Financial Reporting by Local Governments, AAS 29 Financial Reporting by Government Departments and AAS 31 Financial Reporting by Governments and largely relocates these industry-based standards to topic-based standards.	1 January 2008	These amendments are only applicable to the public sector and as such are not expected to have any impact on the Company's financial report.	1 July 2008
AASB 1004 (revised)	Contributions	This standard contains the original requirements on contributions from AASB 1004 as issued in July 2004, as well as the requirements on contributions from AASs 27, 29 and 31 substantively unamended (with some exceptions).	1 January 2008	Refer to AASB 2007-9 above.	1 July 2008
AASB Int. 1038 (Revised)	Contributions by Owners Made to Wholly-Owned Public Sector Entities	This interpretation has been revised as a consequence of revised AASB 1004.	1 January 2008	Refer to AASB 2007-9 above.	1 July 2008
AASB 1049	Whole of Government and General Government Sector Financial Reporting	New standard to address differences between Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS).	1 January 2008	Refer to AASB 2007-9 above.	1 July 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

Reference	Title	Summary	Application date of standard	Impact on company financial report	Application date for company*
AASB 1050	Administered Items	This standard contains the requirements for the disclosure of administered items from AAS 29, substantively unamended (with some exceptions).	1 January 2008	Refer to AASB 2007-9 above.	1 July 2008
AASB 1051	Land Under Roads	This standard contains the specific transitional requirements relating to land under roads. It applies to general purpose financial reports of local governments, government departments and whole of governments and financial statements of GGSs.	1 January 2008	Refer to AASB 2007-9 above.	1 July 2008
AASB 1052**	Disaggregated Disclosures	This standard contains the requirements for the reporting of disaggregated information by local governments from AASs 27 and 29, substantively unamended (with some exceptions).	1 January 2008	Refer to AASB 2007-9 above.	1 July 2008
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Company's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. In addition, the amendments may have an impact on the Company's segment disclosures.	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Company has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Company's financial report.	1 July 2009

Notes to the Financial Statements
For the Year ended 30 June 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

Reference	Title	Summary	Application date of standard	Impact on company financial report	Application date for company*
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Company's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Company has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Company has share-based payment arrangements that may be affected by these amendments. However, the Company has not yet determined the extent of the impact, if any.	1 July 2009
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	1 January 2009	These amendments are not expected to have any impact on the Company's financial report as the Company does not have on issue or expect to issue any puttable financial instruments as defined by the amendments.	1 July 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

Reference	Title	Summary	Application date of standard	Impact on company financial report	Application date for company*
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising good-will relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 January 2009	These amendments are not expected to have any impact on the Company's financial report as the Company does not have on issue or expect to issue any puttable financial instruments as defined by the amendments.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 January 2009	If the Company changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Company's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 January 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009

Notes to the Financial Statements
For the Year ended 30 June 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

Reference	Title	Summary	Application date of standard	Impact on company financial report	Application date for company*
AASB 2008-7	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	These amendments are not expected to have any impact on the company's financial report as the Company does not have any Subsidiaries, Joint Controlled Entities or Associates.	1 July 2009
AASB 2008-5 and 2008-6	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The Company has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

Reference	Title	Summary	Application date of standard	Impact on company financial report	Application date for company*
IFRIC 15	Agreements for the Construction of Real Estate	This interpretation proposes that when the real estate developer is providing construction services to the buyer's specifications, revenue can be recorded only as construction progresses. Otherwise, revenue should be recognised on completion of the relevant real estate unit.	1 January 2009	The Company does not enter into agreements to provide construction services to the buyer's specifications and as such this interpretation is not expected to have any impact on the Company's financial report.	1 July 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	This interpretation proposes that the hedged risk in a hedge of a net investment in a foreign operation is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches.	1 January 2009	The Interpretation is unlikely to have any impact on the Company since it does not hold any hedges of a Net Investment in a Foreign operation.	1 July 2009

** designates the beginning of the applicable annual reporting period unless otherwise stated*

(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:

Recovery of deferred tax assets:

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Capitalisation of Development costs:

Development costs are only capitalised by the company when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

(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:

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

Revenue from the installation and ongoing support of software applications and services is recognised by reference to the stage of completion of a contract or contracts in progress. 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

Notes to the Financial Statements
For the Year ended 30 June 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

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
License revenue is recognised when control of the right to be compensated for the license can be reliably measured. License revenue is recognised when ownership of the goods have passed to the buyer, which is usually after the software application has been installed and is ready for use by the buyer.

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.

(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 initially at fair value and subsequently measured at amortised cost less an allowance for any uncollectable amounts.

A provision for impairment 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.

(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
The Company uses derivative financial instruments in the form of forward currency contracts; to hedge its risk associated with foreign currency fluctuations. Certain derivative instruments are also held for trading for the purpose of making short term gains. These derivatives do not qualify for hedge accounting and changes in fair value are recognised immediately in profit or loss in income or expenses.

(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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

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.

(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:

	2008	2007
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

Notes to the Financial Statements
For the Year ended 30 June 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

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.

(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.

An intangible asset arising from development expenditure on an internal project is recognised only when the company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for sale or use, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following initial recognition of the development expenditure, the cost model is applied requiring the asset be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

Development expenditure includes costs of materials and services and salaries and wages and other employee related costs arising from the generation of the intangible asset.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

(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.

(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

(i) Equity settled transactions:
The company provides benefits to its employees (including KMP) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There are currently two plans in place to provide these benefits:

- The Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives; and
- 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 cost of these equity-settled transactions with employees (for awards granted after 7 November 2002 that were unvested at 1 January 2005) is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 16.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Pro Medicus Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:
(i) The grant date fair value of the award;
(ii) The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
(iii) The expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 7).

Notes to the Financial Statements
For the Year ended 30 June 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continue)

(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. 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 provide 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. 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.

Foreign currency risk
The Company has transactional currency exposure, which arise from sales made in currencies other than the company's functional currency. 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 (2007: nil).

Approximately 15% (2007: 25%) of the Company's sales are denominated in currencies other than the functional currency but there are no significant currency risk exposures on costs.

At 30 June, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower) 2008 $'000	Post Tax Profit Higher/(Lower) 2007 $'000	Equity Higher/(Lower) 2008 $'000	Equity Higher/(Lower) 2007 $'000
AUD/USD +10%	**169**	246	**—**	—
AUD/USD – 5%	**(84.5)**	(123)	**—**	—

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continue)

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

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.

Interest risk
The Company exposure to market interest rates relates primarily to the company's cash and cash equivalents.

At balance date, the company had the following financial assets exposed to Australian Variable interest rate risk that are not designated in cash flow hedges:

Cash and Cash equivalents ($'000's) $12,885 (2007: $11,135).

The Company's policy is to place cash balances in 30 day term deposits that earn higher interest rates.

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post Tax Profit Higher/(Lower) 2008 $'000	Post Tax Profit Higher/(Lower) 2007 $'000	Equity Higher/(Lower) 2008 $'000	Equity Higher/(Lower) 2007 $'000
+1% (100 basis points)	**129**	111	**—**	—
– 2% (200 basis points)	**(258)**	(222)	**—**	—

Liquidity risk
The Company has minimal liquidity risk as it has significant cash reserves.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognized financial assets and liabilities. Cash flows for financial assets and liabilities without fixed amount of timing are based on the conditions existing at 30 June 2008.

The remaining contractual maturities of the company's financial liabilities are:

	2008 $'000	2007 $'000
<30 days	**969**	572
31-60 days	**—**	33
61-90 days	**9**	—
Over 90 days	**18**	8
TOTAL	**996**	613

Notes to the Financial Statements
For the Year ended 30 June 2008

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continue)

Maturity analysis of financial assets and liability based on management's expectation.

The risk implied from the values show in the table below, reflect a balanced view of cash inflows and outflows. The company's financial instruments mainly originate directly from the operations of the company.

Year ended 30 June 2008	< 30 days $'000	31-60 days $'000	61-90 days $'000	Over 90 days $'000	Total $'000
Financial Assets					
Cash and cash equivalents	12,885	—	—	—	12,885
Trade and other receivables	2,109	137	199	1,347	3,792
Financial Liabilities					
Trade and other payables	969	—	9	18	996
Net Maturity	**14,025**	**137**	**190**	**1,329**	**15,681**

Year ended 30 June 2007	< 30 days $'000	31-60 days $'000	61-90 days $'000	Over 90 days $'000	Total $'000
Financial Assets					
Cash and cash equivalents	11,135	—	—	—	11,135
Trade and other receivables	2,721	193	215	1,206	4,335
Financial Liabilities					
Trade and other payables	572	33	—	8	613
Net Maturity	**13,284**	**160**	**215**	**1,198**	**14,857**

4. 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	
	2008 $'000	2007 $'000	**2008 $'000**	2007 $'000	**2008 $'000**	2007 $'000
Revenue						
Sales to customers outside the company	**12,511**	9,455	**2,190**	3,093	**14,701**	12,548
Total segment revenue	**12,511**	**9,455**	**2,190**	**3,093**	**14,701**	**12,548**
Results						
Segment Result	**8,930**	6,618	**1,690**	2,463	**10,620**	9,081
Interest Revenue					**705**	660
Non segment expenses						
Income Tax Expense					**(3,392)**	(2,689)
Net Profit					**7,933**	7,052
Assets						
Segment Assets	**17,550**	12,618	**1,711**	4,642	**19,261**	17,260
Non segment assets						
Income Tax Assets					**282**	294
Total Assets					**19,543**	17,554
Liabilities						
Segment Liabilities	**1,894**	1,553	**—**	—	**1,894**	1,553
Non segment liabilities						
Tax Liabilities					**1,905**	1,744
Total Liabilities					**3,799**	**3,297**
Other segment information						
Capital expenditure	**1,297**	770	**—**	—	**1,297**	770
Depreciation and amortisation	**527**	406	**—**	—	**527**	406

Notes to the Financial Statements
For the Year ended 30 June 2008

	Notes	2008 $'000	2007 $'000

5. INCOME AND EXPENSES

Income and expenses

	Notes	2008 $'000	2007 $'000
5 (a) Revenue			
Sale of goods		**83**	347
Rendering of services		**9,074**	7,673
Licence revenue		**5,544**	4,519
Finance revenue		**705**	660
		15,406	13,199
Breakdown of finance revenue			
Bank and deposit interest receivable		**705**	660
		705	660
5 (b) Other income			
Government Grants		**—**	9
		—	9

An Export Market Development Grant [EMDG] was received in 2006/07 for expenses incurred in 2004/5 in developing overseas markets.

	Notes	2008 $'000	2007 $'000
(c) Other Expenses			
Finance costs		**—**	—
Total borrowing costs expensed		**—**	—
Depreciation and Amortisation			
Motor Vehicles		**16**	20
Office Equipment		**22**	21
Furniture and Fittings and Property Improvements		**12**	11
Research & Development Equipment		**27**	20
Intangible Asset		**15**	15
Total Depreciation and Amortisation Expenses		**92**	87
Research and Development Expense			
Research expenses		**133**	427
Amortization on capitalized development costs	12	**435**	319
Total Research & Development Expense		**568**	746
Salaries and Employee Benefits Expense			
Wages & Salaries		**1,898**	1,532
Long service leave provision		**(45)**	54
Defined contribution plan expense		**221**	84
Total Salaries and Employee Benefits Expense		**2,074**	1,670
Operating Lease Expense		**169**	179
Foreign Exchange Loss			
Foreign exchange losses on transactions		**134**	40
Total Foreign Exchange Loss		**134**	40

	Notes	2008 $'000	2007 $'000

6. INCOME TAX

The major components of income tax expense are:

Income Statement			
Current income tax			
Current income tax charge		**3,121**	2,881
Adjustments in respect of current income tax of previous years		**(80)**	(189)
Deferred income tax			
Relating to origination and reversal of temporary differences		**351**	(3)
Income tax expense reported in the income statement		**3,392**	2,689

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		**11,325**	9,741
At the Company's statutory income tax rate of 30% (2007: 30%)		**3,397**	2,922
Adjustments in respect of current income tax of previous years		**(80)**	(189)
Expenditure not allowable for income tax purposes		**109**	42
Other		**(34)**	(86)
Income tax expense reported in the income statement		**3,392**	2,689

Deferred income tax			
Deferred income tax at 30 June relates to the following:			
Deferred tax liabilities			
Capitalised development expenses		**670**	331
Deferred income tax liabilities		**670**	331
Deferred tax assets			
Employee Entitlements		**270**	282
Audit Fee Accrual		**12**	12
Deferred income tax assets		**282**	294

7. 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	**7,932,452**	7,051,732

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	100,280,000	100,020,000
Effect of dilution:		
Share options	149,790	362,963
Weighted average number of ordinary shares adjusted for the effect of dilution	100,429,790	100,382,963

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

Notes to the Financial Statements
For the Year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
8. DIVIDENDS PAID AND PROPOSED			
Declared and paid during the year:			
Dividends on ordinary shares			
Final franked dividend for 2007: 3.00 cents (2006: 3.00 cents)		**3,008**	3,000
Final franked special dividend for 2007: 1.0 cent (2006: nil)		**1,002**	—
Interim franked dividend for 2008: 2.75 cents (2007: 3.00 cents)		**2,757**	3,001
		6,767	6,001
Proposed for approval by directors (not recognised as a liability as at 30 June):			
Dividends on ordinary shares:			
Final franked dividend for 2008: 3.25 cents (2007: 3.00 cents)		**3,259**	3,000
Final franked special dividend for 2008: nil (2007: 1.0 cent)		**—**	1,000
Total dividends proposed		**3,259**	4,000
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% (2007: 30%)		**4,281**	4,169
– franking credits that will arise from the payment of income tax payable as at the end of the financial year		**1,235**	1,413
– 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		**—**	—
		5,516	5,582
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		**(1,397)**	(1,715)
		4,119	3,867

The tax rate at which paid dividends have been franked is 30% (2007: 30%).
Dividends proposed will be fully franked.

		2008 $'000	2007 $'000
9. CASH AND CASH EQUIVALENTS			
Cash at bank and in hand		**3,841**	1,793
Short-term deposits		**9,044**	9,342
		12,885	11,135

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 $12,885,000 (2007: $11,135,000). The fair value approximates carrying value due to the short term nature of cash at bank and short term deposits.

	Notes	2008 $'000	2007 $'000

9. CASH AND CASH EQUIVALENTS (continue)

Reconciliation of net profit after tax to net cash flows from operations			
Net profit		**7,933**	7,052
Adjustments for:			
Depreciation of non-current assets		**77**	72
Amortisation of Intangible Asset		**450**	334
Interest Received classified in Investing Activities		**(705)**	(660)
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables		**543**	(1,989)
(Increase)/decrease in inventory		**—**	31
(Increase)/decrease in future income tax benefit		**12**	(13)
(Increase)/decrease in prepayments		**(23)**	(13)
(Decrease)/increase in deferred income		**(24)**	9
(Decrease)/increase in trade and other creditors		**355**	(94)
(Decrease)/increase in tax provision		**(178)**	943
(Decrease)/increase in deferred income tax liability		**339**	10
(Decrease)/increase in goods and services tax payable		**73**	79
(Decrease)/increase in employee entitlements		**(42)**	44
Net cash flow from operations		**8,810**	5,805

10. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables		**3,792**	4,335
Provision for impairment		**—**	—
		3,792	4,335

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.

a) Allowance for impairment loss
No provision for impairment loss is recognised at 30 June 2008 (2007: nil) as all bad debts have been written of at balance date. All remaining debts are considered collectable.

At June 30, the ageing analysis of trade debtors is as follows:

	Total	0-30 days	31-60 days PDNI*	61-90 days PDNI*	+91 days PDNI*
2008	**3,792**	**2,109**	**137**	**199**	**1,347**
2007	4,335	2,721	193	215	1,206

** Past due not impaired ('PDNI')*

Notes to the Financial Statements
For the Year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
11. PLANT AND EQUIPMENT			
Property Improvements			
Year ended 30 June			
As at 1 July			
Net of accumulated depreciation and impairment		**44**	55
Additions		**4**	—
Disposals		**—**	—
Depreciation charge for the year		**(11)**	(11)
At 30 June net of accumulated depreciation and impairment		**37**	44
At 1 July			
Cost		**238**	238
Accumulated depreciation and impairment		**(194)**	(182)
Net carrying amount		**44**	56
At 30 June			
Cost		**242**	238
Accumulated depreciation and impairment		**(205)**	(194)
Net carrying amount		**37**	44
Motor Vehicles			
Year ended 30 June			
As at 1 July			
Net of accumulated depreciation and impairment		**67**	87
Additions		**—**	—
Disposals		**—**	—
Depreciation charge for the year		**(16)**	(20)
At 30 June net of accumulated depreciation and impairment		**51**	67
At 1 July			
Cost		**480**	480
Accumulated depreciation and impairment		**(413)**	(394)
Net carrying amount		**67**	86
At 30 June			
Cost		**480**	480
Accumulated depreciation and impairment		**(429)**	(413)
Net carrying amount		**51**	67
Office Equipment			
Year ended 30 June			
As at 1 July			
Net of accumulated depreciation and impairment		**41**	55
Additions		**45**	6
Disposals		**—**	—
Depreciation charge for the year		**(22)**	(20)
At 30 June net of accumulated depreciation and impairment		**64**	41
At 1 July			
Cost		**213**	207
Accumulated depreciation and impairment		**(172)**	(152)
Net carrying amount		**41**	55

	Notes	2008 $'000	2007 $'000

11. PLANT AND EQUIPMENT (continue)

	Notes	2008 $'000	2007 $'000
At 30 June			
Cost		**258**	213
Accumulated depreciation and impairment		**(194)**	(172)
Net carrying amount		**64**	41
Furniture & Fittings			
Year ended 30 June			
As at 1 July			
Net of accumulated depreciation and impairment		**4**	2
Additions		**—**	3
Disposals		**—**	—
Depreciation charge for the year		**(1)**	(1)
At 30 June net of accumulated depreciation and impairment		**3**	4
At 1 July			
Cost			219216
Accumulated depreciation and impairment		**(215)**	(214)
Net carrying amount		**4**	2
At 30 June			
Cost		**219**	219
Accumulated depreciation and impairment		**(216)**	(215)
Net carrying amount		**3**	4
Research & Development Equipment			
Year ended 30 June			
As at 1 July			
Net of accumulated depreciation and impairment		**58**	29
Additions		**13**	49
Disposals		**—**	—
Depreciation charge for the year		**(27)**	(20)
At 30 June net of accumulated depreciation and impairment		**44**	58
At 1 July			
Cost			184135
Accumulated depreciation and impairment		**(126)**	(106)
Net carrying amount		**58**	29
At 30 June			
Cost			196184
Accumulated depreciation and impairment		**(152)**	(126)
Net carrying amount		**44**	58
TOTAL PLANT AND EQUIPMENT			
Year ended 30 June			
As at 1 July			
Net of accumulated depreciation and impairment		**214**	228
Additions		**62**	58
Disposals		**—**	—
Depreciation charge for the year		**(77)**	(72)
At 30 June net of accumulated depreciation and impairment		**199**	214

Notes to the Financial Statements
For the Year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
11. PLANT AND EQUIPMENT (continue)			
At 1 July			
Cost		**1,334**	1,276
Accumulated depreciation and impairment		**(1,120)**	(1,048)
Net carrying amount		**214**	228
At 30 June			
Cost		**1,395**	1,334
Accumulated depreciation and impairment		**(1,196)**	(1,120)
Net carrying amount		**199**	214

	Notes	$'000	$'000	$'000
12. INTANGIBLE ASSETS				
		Development Costs $'000	**Software Licences $'000**	**Total $'000**
At 1 July				
Cost (gross carrying amount)		1,936	75	2,011
Accumulated amortisation and impairment		(443)	(45)	(488)
Net carrying amount		1,493	30	1,523
Year ended 30 June				
At 1 July net of accumulated amortisation and impairment		1,493	30	1,523
Additions – internal development		1,236	—	1,236
Amortisation		(435)	(15)	(450)
At 30 June net of accumulated amortisation and impairment		2,294	15	2,309
At 30 June				
Cost (gross carrying amount)		3,172	75	3,247
Accumulated amortisation and impairment		(878)	(60)	(938)
Net carrying amount		2,294	15	2,309

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 10 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.

	Notes	$'000	$'000	$'000

12. INTANGIBLE ASSETS (continue)

	Development Costs $'000	Software Licences $'000	Total $'000
At 1 July 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
Year ended 30 June 2007			
At 1 July 2006, net of accumulated amortisation and impairment	1,100	45	1,145
Additions – internal development	712	—	712
Amortisation	(319)	(15)	(334)
At 30 June 2007, net of accumulated amortisation and impairment	1,493	30	1,523
At 30 June 2007			
Cost (gross carrying amount)	1,936	75	2,011
Accumulated amortisation and impairment	(443)	(45)	(488)
Net carrying amount	1,493	30	1,523

13. TRADE AND OTHER PAYABLES (CURRENT)

Trade payables	188	93
Other creditors and accruals	736	424
	924	517
Deferred Income	72	96
	996	613

(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 30 days.
Fair value approximates carrying value due to the short term nature of trade and other payables

Notes to the Financial Statements
For the Year ended 30 June 2008

14. PROVISIONS

	Annual Leave $'000	Long Service Leave $'000	Total $'000
At 1 July 2007			
Arising during the year	59	33	92
Utilised	(56)	(78)	(134)
	512	386	898
Current 2008	512	338	850
Non-current 2008	—	48	48
	512	386	898
Current 2007	509	135	644
Non-current 2007	—	296	296
	509	431	940

	2008 $'000	2007 $'000

15. CONTRIBUTED EQUITY AND RESERVES

	2008 $'000	2007 $'000
(i) *Ordinary shares*	**331**	32
Issued and fully paid	**331**	32

Fully paid ordinary shares carry one vote per share and carry the right to dividends

(ii) *Movements in shares on issue*

	Number of Shares	**2008 $'000**
At 1 July 2007	**100,020,000**	**32**
Issued on 4 July 2007 for cash on exercise of options	**260,000**	**299**
At 30 June 2008	**100,280,000**	**331**

	Number of Shares	2007 $'000
At 1 July 2006	100,020,000	32
At 30 June 2007	100,020,000	32

	2008 $'000	2007 $'000
Share Reserve*		
Balance 1 July 2007	**—**	—
Share options expensed	**21**	—
Balance 30 June 2008	**21**	—
Retained earnings		
Balance 1 July 2007	**14,225**	13,174
Net profit for the year	**7,933**	7,052
Dividends	**(6,767)**	(6,001)
Balance 30 June 2008	**15,392**	14,225

15. CONTRIBUTED EQUITY AND RESERVES (continue)

*** Share Reserve**
The share reserve is used to record the value of share based payments provided to employees, including KMP, as part of their remuneration. Refer to note 16 for further details of these plans.

Capital Management
When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management review the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, or issue new shares.

During the year, the company paid dividends of $6,767,000 (2007: $6,001,000).

16. 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, 3 executive directors and 3 non-executive directors eligible for this scheme.

A further 200,000 shares were granted as options to Peter Kempen on becoming a Director of the company under a separate agreement. The shares have an exercise price of $1.25 and they vest at 20% per annum commencing on the first anniversary of issue.

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

	2008 Number of Options	**Weighted average exercise price**	2007 Number of Options	Weighted average exercise price
Outstanding at the beginning of the year	**2,450,000**		2,450,000	$1.15
- granted	**200,000**	**$1.25**	—	—
- forfeited	**(90,000)**	**$1.15**	—	—
- exercised	**(260,000)**	**$1.15**	—	—
- expired	**—**	**—**	—	—
Outstanding at the end of the year	**2,300,000**	**$1.16**	2,450,000	$1.15
Exercisable at end of year	**2,300,000**	**$1.16**	2,450,000	$1.15

All options above, except 200,000 granted during the year to Peter Kempen, 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.

The outstanding balance as at 30 June 2008 is represented by:

- 2,100,000 options over ordinary shares with an exercise price of $1.15 each and
- 200,000 options over ordinary shares with an exercise price of $1.25 each, exercisable until 12 March 2018.

Weighted average remaining contractual life
The weighted average remaining contractual life for share options outstanding at 30 June 2008 is 2.9 years (2007: 3.2 Years)

Range of exercise price
The range of exercise prices for options outstanding at the end of the year was $1.15 - $1.25 (2007: $1.15).

Weighted average fair value
The weighted average fair value of options granted during the year was $1.15 (2007: $1.15).

Notes to the Financial Statements
For the Year ended 30 June 2008

16. SHARE BASED PAYMENT PLAN (continue)

Option pricing model

The fair value of the equity-settled share options granted is estimated as at the date of the grant using a Binomial Model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the models used for the year ended 30 June 2008 (2007: nil):

Dividend yield	5.13%
Expected volatility	40.0%
Risk-free interest rate	7.0%
Expected life of options	10 years
Option exercise price	$1.25
Weighted average share price at measurement date	$1.15

17. COMMITMENTS AND CONTINGENCIES

a) 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.

Future minimum rentals payable under non-cancellable operating lease as at 30 June are as follows:

	2008	2007
- Within one year	**169**	182
- After one year and not more than five years	**678**	731
- After more than five years	**—**	—
TOTAL	**847**	913

b) Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

	2008 $'000	2007 $'000
Within one year	**435**	—
After one year but not more than 5 years	**1,051**	—
After more than 5 years	**—**	—
TOTAL	**1,486**	—

18. EVENTS AFTER THE BALANCE SHEET DATE

On 26 August 2008, the directors of Pro Medicus Limited declared a final dividend on ordinary shares in respect of the 2008 financial year. This dividend comprises a normal dividend of 2.75.cents per share. The total amount of the dividend is $3,259,100 which represents a fully franked dividend of a total of 3.25 cents per share. The dividend has not been provided for in the 30 June 2008 financial statements.

19. AUDITORS' REMUNERATION

	2008 $	2007 $
Amounts received or due and receivable by Ernst & Young for:		
- an audit or review of the financial report of the Company	**85,000**	71,000
- other services in relation to the Company	**37,535**	5,500
	122,535	76,500

20. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Compensation for key management personnel

	2008 $	2007 $
Short-term employee benefits	**1,199,376**	1,076,874
Post-employment benefits	**325,221**	339,335
Other long-term benefits	**—**	—
Termination benefits	**—**	—
Share-based payment	**90,765**	—
Total compensation	**1,703,062**	1,416,209

20. DIRECTOR AND EXECUTIVE DISCLOSURES (continue)

(b) Option holdings of Key Management Personnel

30 June 2008	Balance at beginning of year 1 July 2007	Granted as Remuneration	Options Exercised	Net Change Other #	Balance at end of year 30 June 2008	Vested at 30 June 2008 Total	Not exercisable	Exercisable
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
D Chambers	—	—	—	—	—	—	—	—
P T Kempen	—	200,000	—	—	200,000	200,000	—	200,000
Executives								
B Duscher	120,000	—	(30,000)	(90,000)	—	—	—	—
G W Holden	85,000	—	(85,000)	—	—	—	—	—
D Tauber	350,000	—	—	—	350,000	350,000	—	350,000
Total	**2,205,000**	**200,000**	**(115,000)**	**(90,000)**	**2,200,000**	**2,200,000**	**—**	**2,200,000**

 # Includes forfeitures

30 June 2007	Balance at beginning of year 1 July 2006	Granted as Remuneration	Options Exercised	Net Change Other #	Balance at end of year 30 June 2007	Vested at 30 June 2007 Total	Not exercisable	Exercisable
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								
B Duscher	120,000	—	—	—	120,000	120,000	—	120,000
G W Holden	85,000	—	—	—	85,000	85,000	—	85,000
D Tauber	350,000	—	—	—	350,000	350,000	—	350,000
Total	**2,205,000**	**—**	**—**	**—**	**2,205,000**	**2,205,000**	**—**	**2,205,000**

 # Includes forfeitures

Notes to the Financial Statements
For the Year ended 30 June 2008

20. DIRECTOR AND EXECUTIVE DISCLOSURES (continue)

(c) Shareholdings of Key Management Personnel

Shares held in ProMedicus Limited (number)	Balance 1 July 2007	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2008
30 June 2008	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
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	30,072,660	—	—	—	30,072,660
A B Hall	30,068,500	—	—	—	30,068,500
D Chambers	—	50,000	—	—	50,000
P T Kempen	—	—	—	30,000	30,000
Executives					
B Duscher	—		30,000	(30,000)	—
G W Holden	35,000	—	85,000	(120,000)	—
D Tauber	150,000	—	—	—	150,000
Total	**60,451,160**	**50,000**	**115,000**	**(120,000)**	**60,496,160**

Shares held in ProMedicus Limited (number)	Balance 1 July 2006	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2007
30 June 2007	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
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	30,072,660	—	—	—	30,072,660
A B Hall	30,068,500	—	—	—	30,068,500
Executives					
G W Holden	35,000	—	—	—	35,000
D Tauber	413,453	—	—	(263,453)	150,000
Total	**60,714,613**	**—**	**—**	**(263,453)**	**60,451,160**

(d) Loans to Key Management Personnel

No loans are made to Key Personnel or staff.

(e) Other transactions and balances with Key Management Personnel

Purchases

During the year lease payments of $168,931 (2007: $178,507) 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.

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 2008 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 2008.

On behalf of the Board

M K Ward
CHAIRMAN

Melbourne, 26 August 2008

Independent Audit Report
For the Year ended 30 June 2008

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
www.ey.com/au

Independent auditor's report to the members of Pro Medicus Limited

Report on the Financial Report

We have audited the accompanying financial report of Pro Medicus Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration. 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.

Auditor's Opinion

In our opinion:

1. the financial report of Pro Medicus Limited is in accordance with the *Corporations Act 2001*, including:
   - (i) giving a true and fair view of the financial position of Pro Medicus Limited at 30 June 2008 and of its performance for the year ended on that date; and
   - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 13 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Pro Medicus Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Painter

Stuart Painter
Partner
Melbourne
26 August 2008

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows.

(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	178	124,380
1,001 – 5,000	540	1,725,841
5,001 – 10,000	314	2,530,292
10,001– 100,000	361	9,771,520
100,001 and Over	22	86,127,967
	1,415	100,280,000
The number of shareholders holding less than a marketable parcel of 224 shares are:	**38**	**8,516**

(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 (multiple shareholdings)	**30,072,660**	29.99%
2	Mr A Hall (multiple shareholdings)	**30,068,500**	29.98%
3	RBC Dexia Investor Services Australia Nominees P/L <PIIC a/c>	**8,465,935**	8.44%
4	Citicorp Nominees Pty Ltd <CFS Developing Companies a/c>	**6,605,439**	6.59%
5	RBC Dexia Investor Services Australia Nominees P/L <PIPOOLED a/c>	**5,963,602**	5.95%
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	ANZ Nominees Limited <Cash Income a/c>	**303,800**	0.30%
9	Mr Peter Propert Birrell Mrs Dinny Mary Birrell <Birrell Super Fund a/c>	**227,000**	0.23%
10	Narlack Pty Ltd<Piperoglou Pension A/C	**226,699**	0.23%
11	Mr S G Wilson & Ms D A Prandi <Prandi-Wilson Super a/c>	**203,000**	0.20%
12	Mrs Tung Yueh-Ying Tsai	**173,500**	0.17%
13	Mrs Nelly Michelle Cunningham	**172,742**	0.17%
14	Mr D Tauber	**150,000**	0.15%
15	Mr John Charles Plummer	**150,000**	0.15%
16	Mr E P Clucas & Mr L J Weston <Kuranga Nursery Super A/C>	**146,500**	0.15%
17	Mr Simon Gautier Hannes <Sgh Super Fund A/C>	**146,250**	0.15%
18	Mr Timothy John Hannigan & Mrs Kerrie Helen Hannigan<Clubnet Super Fund A/C	**140,000**	0.14%
19	Mellett Super Pty Ltd <Mellett A Fund A/C>	**125,000**	0.12%
20	Crosbie Holding A/S	**120,000**	0.12%
		86,035,027	**85.80%**

(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	**14,429,537**
Commonwealth Bank of Australia	**6,605,439**

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

Corporate governance

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

To ensure the Board is well equipped to discharge its responsibilities it supports, and has adopted where considered appropriate, the principles set out in the ASX Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations" dated March 2003. Pro Medicus Limited corporate governance practices were in place throughout the year ended 30 June 2008 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	NON-EXECUTIVE DIRECTOR
P T Kempen	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.

Mr. Ward and Mr. Peter Jonson have been directors of Pro Medicus Limited since it's ASX listing in 2000 however Mr. Sam Hupert and Mr. Anthony Hall were directors in Pro Medicus Pty Ltd since incorporation in 1983. Mr D Chambers was appointed in December 2007 and Mr. Peter Kempen was appointed in March 2008.

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 bench-marking 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.
The members of the audit committee are:
P T Kempen Chairman
M K Ward
P D Jonson
S A Hupert
A B Hall
D Chambers

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

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

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

Board Responsibilities

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

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

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

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

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

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

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

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

Shareholder Communication

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

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

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

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

Risk Management Policies

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

The Board oversees appropriate backup procedures for important company data.

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

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

Corporate information

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 NON-EXECUTIVE DIRECTOR
Dr Sam Aaron Hupert DEPUTY CHAIRMAN & EXECUTIVE DIRECTOR
Anthony Barry Hall EXECUTIVE DIRECTOR & TECHNOLOGY DIRECTOR
David Chambers CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR
Peter Kempen NON-EXECUTIVE DIRECTOR

Company Secretary

Alexander McKendrick
B.Juris LLB; Barrister & Solicitor, Supreme Court of Victoria
Registered Office
450 Swan Street
Richmond, VIC, 3121
(03) 9429 8800

Internet Address

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

Solicitors

Innovation Law

Bankers

Westpac Banking Corporation

Auditors

Ernst & Young

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
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

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
450 Swan Street, Richmond Victoria 3121 Australia
T: 03 9429 8800 F: 03 9429 9455 E: info@promedicus.com.au
www.promedicus.com.au