pro medicus

OUR SUPPORT. YOUR SUCCESS.

annual report

2011

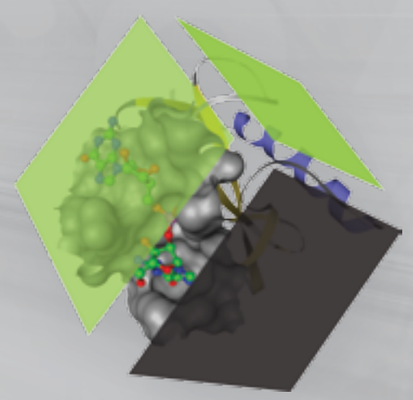
highlights 2010 ▲▼ 2011

financial summary

- Profit after tax of $0.50 million.
- Revenue of $14.07 million.
- Cash reserves of $3.26 million.
- Company remains debt free.

business highlights

- New management structure — co-founder Dr Sam Hupert returning as CEO in October 2010.
- New General Manager with significant industry experience for North America.
- Visage 7.0 — technology leader in the evolving 3-D PACS market.
- Continued investment in R&D with 'next generation' RIS technology platform due for release in late 2011.
- Increased opportunities in both Europe and North America.
- Gaining sales momentum in the US.



financial summary

year ended 30 June 2011

All figures in $A thousands unless otherwise stated

	2011 $'000	2010 $'000
Revenues from Continuing Operations	14,070 -27.7%	19,464
Revenues	14,070 -27.7%	19,464
Operating Profit Before Interest and Income Tax	599 -88.9%	5,435
Net Profit After Tax	503 -87.2%	3,920
Total Assets 30 June	23,108	23,983
Shareholders' Funds 30 June	15,198	16,662
Net Tangible Assets per Share at 30 June (cents)	2.0	7.0
Earnings per Share (cents)	0.5 -87.2%	3.9
Franked Dividends per Share (cents per share)	0.0	2.0

ceo & chairman's letter


Dr Sam Hupert


Peter Kempen

Dear Shareholders,

The past financial year was a difficult period for the company with both revenue and profit negatively impacted. This was due to a number of factors including fewer new sales than anticipated caused by the delay in the release of our new RIS technology platform as well as difficult market conditions in both Australia and the US. In addition, a number of one-off factors including one-time payouts and foreign exchange fluctuations combined to further reduce the company's profit by approximately $1.0 million (after tax) resulting in a net profit of $0.5 million. As a result, no dividend was declared for the year.

Your directors believe that the 2011 financial year will turn out to be the bottom of the cycle for the company and will form a turning point for the company's prospects. To facilitate this turnaround, the company made a number of significant changes during the past year including the return of co-founder Dr Sam Hupert as CEO in October of 2010 as well as changes to the company's management structure and cost base in North America. Despite several one-off costs referred to above, the company has lowered its overall cost structure, which in the short term has enabled it to conserve cash resources and in the long term will provide a sound base for the future.

The company has already seen some early benefits resulting from these changes particularly in the second half of the financial year and we anticipate these will continue to be instrumental in steering the company back to a course of profitable growth.

Whilst significant progress was made on the development of the company's new RIS technology platform, delays in releasing the product impacted new sales, particularly in Australia. The company has undertaken a review of the R&D process for this product and has implemented a number of measures to ensure a more streamlined path to market. Feedback from client demonstrations of our new technology both in Australia and overseas has been very positive and has confirmed our view that this new system represents a quantum improvement over anything currently in the market, either locally or overseas.

We have also continued investing in ongoing R & D of the Visage 7 Universal Viewer which is based on the company's unique thin client technology. In addition to being able to combine conventional 2D x-ray imaging with the new 3D volume rendering of images without the need to move and duplicate the large image data sets. This has positioned the company to take advantage of the growing market for 3D PACS which is rapidly replacing 2D PACS as the system of choice for radiologists throughout the world.

Our aim has always been to integrate our new RIS technology platform with visage 7.0 thereby creating the first fourth-generation end-to-end single-vendor 'thin client' PACS/RIS solution in the market. With the anticipated release of our new technology platform towards the end of 2011, we believe we will have achieved that aim. This will enable us to address the needs of a much broader market which includes both private imaging groups and hospitals of all sizes in the three global regions we service.

In line with this, we expect stronger performances from our European and North American operations in the coming year as we develop our presence in these markets. Early signs in the US have been positive and with our recent organizational changes believe we are well placed to build on these early successes. Key to this is the adoption of a pay per use pricing model that has been well received in the US. Whilst this does not have the same degree of upfront payment /profitability as an outright purchase model, it provides a growing revenue stream which longer term will provide greater predictability of future earnings.

In Europe we are refining our sales model. Whilst still continuing with our indirect sales channels we have put a greater focus on direct sales channels which we believe will lead to higher margins.

Pro Medicus has cash of $3.26 million as at the end of June 2011, down from $3.79 million in June 2010. This drop is largely as a result of the ongoing investment in R&D. Importantly, this still leaves sufficient reserves to fund the anticipated growth of the business from internal sources. The company remains debt free.

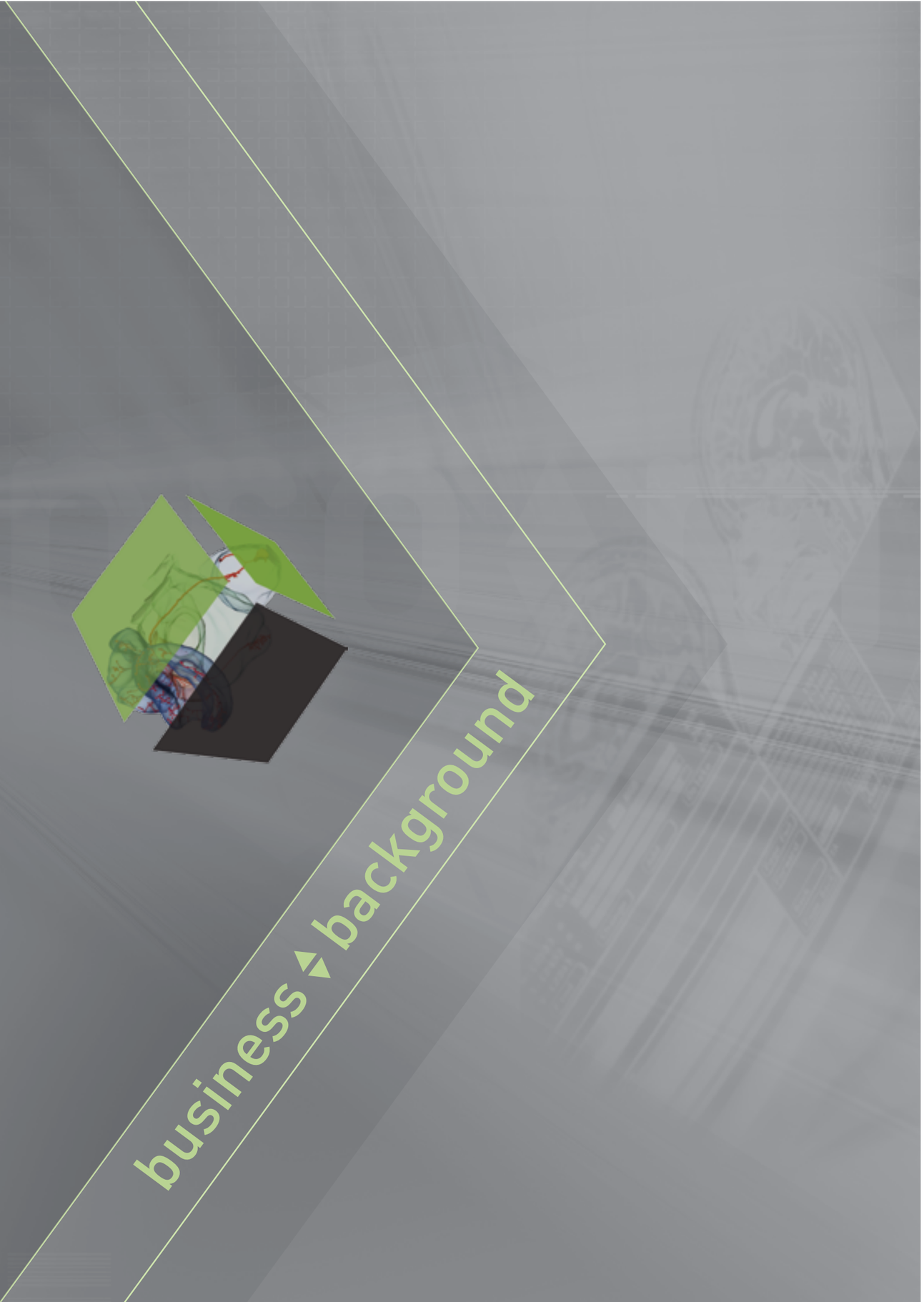
Looking to the future, we believe the past year has seen the company reposition itself to move into a more positive business phase. We are looking to build on the early success we have now had with Visage 7.0 in the US and expand that into Europe as well as other parts of North America.

We express our sincere thanks to our fellow directors and to the energetic team we have at both Pro Medicus and Visage Imaging, each of whom has contributed to a year that will put us on a solid path for the future.

Yours faithfully,

Peter Kempen
CHAIRMAN

Dr Sam Hupert
CHIEF EXECUTIVE OFFICE



Pro Medicus is a leading provider of IT products and services to the healthcare industry. Working together with our more than 3,000 clients worldwide, Promedicus is helping to solve our client's daily challenge of delivering improved levels of health care by making sure our users have the right information at the right time, and are able to put it to use in the most efficient manner. Building on our clinical and practice work flow expertise, we have found increasingly innovative ways to deliver value to our clients.

The suite of Promedicus solutions which previously comprised of practice management, e-health and digital imaging integration products now includes 2-D digital radiology (PACS) and advanced 3-D clinical products plus a comprehensive range of services centred on the company's numerous offerings. These include training and installation, hardware configuration and ongoing technical and end user support.

In February of 2009, the company acquired Visage Imaging in the US which has expanded the Pro Medicus product portfolio into the clinical imaging space as well as providing the company with its own presence in both Europe and the US.

In addition to the 2-D PACS and 3-D/advanced visualisation products, the Visage Imaging acquisition brought with it a number of other revenue streams including OEM (original equipment manufacturer) and dealer relationships as well as to the Amira business which provides a 3-D imaging toolkit to educational and research institutions in the life sciences field throughout the world.

The activities of Pro Medicus in the financial year ending June 30, 2011 can be characterised by the following revenue streams:

Practice Management

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

E-health

Pro Medicus' Internet-based e-health offering, promedicus.net, enables referring doctors to receive encrypted clinical reports via the Internet to a centralised "In-Tray" run on a doctor's computer. These reports are then electronically incorporated into the patients' medical record, doing away with the need for double handling or manual filing. Over 26,000 Australian doctors are registered users of promedicus.net.

Integration products

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 the images to x-ray film. Images and the subsequent diagnostic report are stored and linked electronically.

Pro Medicus has developed a range of highly modular integration products which provide a seamless interface between the Pro Medicus system and a number of 3rd party PACS/digital imaging products allowing large diagnostic imaging providers to incrementally implement this technology across their enterprise.

Revenue is generated from the sale of software licenses for the integration modules, implementation services and ongoing support.

Digital Imaging — 3D PACS

With the acquisition of Visage Imaging the company now has its own digital imaging/PACS offering which had previously been sold primarily via OEM and third-party dealer channels.

The company has successfully integrated the Pro Medicus RIS with the Visage PACS and is now selling this as a complete, single vendor solution to imaging centres in Australia, with sights set on North America and select countries within Europe. The Visage technology can be successfully deployed in any radiology environment, including not just imaging centres but also hospitals, which open up a market previously only partially accessible to us. The market is just beginning to recognise the value of our 3D PACS (2D + 3D) on a thin client platform, which allows very large data sets to be transmitted in spite of bandwidth limitations and gives practitioners better access to the full imaging capabilities of the latest CT and MRI scanners.

3-D Advanced Visualisation

Advanced visualisation allows CT and MRI images to be reconstructed in 3D and 4D (3D with motion). A number of specialist areas have been revolutionised by this technology including cardiology, where it provides 3-D reconstruction of coronary arteries from high definition CT images, PET CT and advanced areas of neuro-radiology and oncology.

The Visage 7 product (combining 2D, 3D and 4D) is a one of the world's leading thin client, 3-D advanced visualisation products. This product can be sold as a 3-D "plug in appliance" or as a "universal viewing platform" interfaced to a broad range of third-party PACS Systems. Revenue is generated from licence sales and ongoing support. The Visage 3-D technology is also sold through OEM and dealer channels in both the US and Europe.

A promising trend has been the adoption of a pay per use licensing model for the Pro Medicus/Visage technology. This is building growing annuity revenue streams for the company in both the US and Europe.

Life Sciences — Research

Amira, acquired as part of Visage Imaging, is a division that sells software toolkits via a Web store to universities and research institutions working in the life sciences area. The product enables these institutions to produce complex 3-D models via the toolkit. Revenue is derived from the sale of the licences and ongoing support contracts.

2010–2011 review

Australia

The Australian business recorded fewer than anticipated sales largely due to the delays in the release of the company's new technology platform which is now due for release in late 2011. These delays also impacted sales of Visage technology as groups looked to purchase fully integrated Practice Management / Digital Imaging solutions. Sales are expected to improve following the anticipated release of the Pro Medicus new technology platform in late 2011.

E-health revenues were slightly down, but overall this segment held up very well in a highly competitive environment.

United States

Results from this region improved significantly with the previous years $2.1Million loss reduced to $0.5Million a $1.6 Million turnaround. This was due to increased OEM and Amira sales as well as an ongoing cost reduction. A further encouraging sign was sales of Visage 7.0 technology in the second half with the first of three US sales being recorded in June of 2011. The past year has also seen a number of changes in the company's management in the US with the recruitment of Brad Levin, the new General Manager for North America and Global Head of Marketing in September of 2011.

Europe

The European segment booked 35% of total company income with a pre-tax profit $1.9 million for 2011, making it a solid contributor to our overall result. This is primarily due to the increased revenue from OEM, Amira and some direct sales. We are optimistic about the future growth potential in Europe with the appointment of new dealer channels and a stronger focus on direct sales.

Company Offices

In addition to the Melbourne-based Australian operation and head office, the company now has two offshore offices:

- Visage GmbH — Berlin
  This is the company's European headquarters and houses 41 staff, the majority which are involved in product research and development and ongoing product support. This office also forms the base of the company's European operations including order administration and both direct and indirect sales activities.
- Visage Imaging Inc — San Diego
  This is the company's US headquarters and is the base for 10 staff who are involved in sales, marketing, training/implementation and applications support for both the Visage Imaging offerings and the existing Pro Medicus products.

Key Personnel

Danny Tauber
General Manager Australia

After graduating in 1986 Danny Tauber started his career with chartered accountants Warnocks gaining experience in taxation and general accounting. He then started his own property development company and spent a number of years gaining project management and general finance skills. An interest in IT led Danny into the computer industry where he worked for a company producing hotel management systems.

Danny joined Pro Medicus in 1993 and has been with the company 18 years. Danny has progressed through the company to his current position of General Manager — Australia which he assumed on the 1st of January 2011.

Malte Westerhoff
General Manager Europe

Malte Westerhoff is the General Manager for Visage Imaging GmbH, the European branch of Visage Imaging. He is also the Chief Technical Officer and is responsible for product management and the R&D groups of Visage Imaging globally. He has more than ten years of experience in medical imaging and software development, holding positions in research and industry. Dr. Westerhoff holds a master's degree in physics from Technical University, Berlin, and a PhD in computer science and mathematics from Free University, Berlin.

Mr. Westerhoff is one of the founders of Indeed - Visual Concepts GmbH and author and co-author of many scientific papers in scientific visualization and high-performance computing as was instrumental in developing many of the patented and patent pending technologies that for the basis of Visage Imaging's product portfolio. Prior to joining the Pro Medicus group, he has served at Mercury Computer Systems and Indeed — Visual Concepts in senior positions. Before that, he has worked at Zuse Institute Berlin (ZIB) as scientist in brain research.

Brad Levin
General Manager North America

Brad Levin's broad experience has spanned a variety of leadership roles, including government, consulting, and marketing. While in government, Brad worked as a PACS subject matter expert for the renowned US Department of Defence's Digital Imaging Network–Picture Archiving and Communications System (DIN-PACS) initiative, as well as consulting for top healthcare institutions across the US.

After leaving his consulting role, Brad went on to spearhead marketing for two web-based PACS start-ups, first AMICAS, and then Dynamic Imaging. Both firms experienced rapid commercial growth leading to acquisition, by Vitalworks and GE Healthcare, respectively. In his most recent role, Brad was GE Healthcare's commercial Marketing Director, where he had radiology and cardiology marketing responsibility for their RIS, PACS and CVIT product portfolios.

Expanded Portfolio

US and European Expansion

Visage Imaging Continuing Integration

Penetrate Hospital Market

New Technology Platform

New Sales Channels

into the future

The Board and Management believe that the 2010–2011 financial year will be a turning point for the company. Significant changes during the past year including the return of co-founder Dr Sam Hupert as CEO in October of 2010 as well as changes to the company's management structure and cost base in North America are helping re-establish the company on a path to improved revenue and profit. During this period, management has also lowered the overall cost structure enabling the company to continue its investment in on-going R&D and in so doing become a leading technology provider in its key markets of Australia, Europe and North America.

Key factors predicted to drive growth include:

Expanded geographical footprint

The company has a presence in North America and Europe as well as an established presence in Australia. Despite a difficult year last year, it is envisaged that we will continue to develop parallel business streams in each of these market segments decreasing our dependence on any one geography. It is anticipated that in the coming year, a relatively higher proportion of the company's revenues will be generated in geographies with higher populations such as North America and Europe.

New 4th Generation fully integrated product offering.

With the anticipated release of our new RIS technology platform in late 2011, we will fulfill our aim of integrating our new RIS technology platform with Visage 7.0 thereby creating the first fourth-generation end-to-end single-vendor 'thin client' PACS/RIS solution in the market. This will enable us to address the needs of a much broader market which includes both private imaging groups and hospitals of all sizes in the three global regions we service.

Multiple channels and licencing models

In both the European and North American markets, the company has adopted a hybrid of direct and indirect channels to market. The company looks to enhance both its direct as well as third-party distribution channels entering into discussions with a number of new third-party channels in both North America and Europe that can provide cost-effective means of product distribution in areas not addressable by a direct sales force.

As a result of recent management changes in the US, the company has begun to re-engineer its sales, marketing and services efforts in North America. Early results have been positive with the announcement of three new orders in the US which the company anticipates will form the basis of future sales growth.

A promising trend has also been the pay per use licensing model which is being applied to Pro Medicus/Visage technology in both Europe and North America. This the potential to build growing annuity revenue streams for the company which will supplement the upfront capital licence model that the company has traditionally used.

Release of New Technology

Following some product development delays, the company is now planning the release of its New Technology RIS Platform at the end of the 2011 calendar year. This platform, the culmination of four years of intense R & D effort will see Pro Medicus cement its position at the forefront of radiology information system and practice management technology. The product, built utilising the latest in software development tools will not only provide greatly increased functionality and scalability, it will deliver significant efficiencies in programming and ongoing product development.

The company is looking to release the next version of its flagship Visage 7.0 3-D PACS system which the company believes will further help differentiate the offering in both the 2-D PACS and 3-D advanced visualisation space.

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directors' report

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

Peter Terence Kempen

F.C.A, F.A.I.C.D

Chairman

Peter Kempen joined Pro Medicus as a Director on 12 March 2008. He is Chairman of Ivanhoe Grammar School and Chairman of Australasian Leukaemia and Lymphoma Group.

Peter has previously been Chairman of Patties Food Limited, Chairman of Danks Holdings Limited and 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 became Chairman in August 2010 before which he served as a non executive Director of the company.

Peter is also Chairman of the audit committee.

Dr Sam Aaron Hupert

M.B.B.S.

Managing Director and Chief Executive Officer

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 Group.

Sam served as CEO from the time he co-founded the company until October 2007 at which time he stepped down to become an executive director. Sam resumed full time CEO activities in October of 2010.

Anthony Barry Hall

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

Executive Director and Technology Director

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 Group.

Roderick Lyle

LL.B., B.Com, LL.M (Lond), MBA (Melb)

Non Executive Director
Appointed
23 November 2010

Roderick joined Pro Medicus Limited as a Director on 23 November 2010. He is a Senior Partner of Clayton Utz and is former Managing Partner of the Melbourne office.

Roderick is a member of the Law Institute of Victoria, a member of the Law Society of New South Wales and a member of the Law Society London.

Roderick is recognised as one of Australia's leading commercial lawyers. He has been a key advisor in a large number of significant mergers and acquisitions and equity capital.

Roderick also serves on the audit committee.

Clayton James Hatch

B.Comm, ASA

Company Secretary

Clayton was appointed Company Secretary on 1 July 2009.

Clayton has strong experience in financial and management accounting having worked as Financial Manager for several years.

Clayton joined Pro Medicus as Finance Manager in June 2008.

RETIRED DIRECTORS

Melvyn Keith Ward

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

Deceased 1 October 2010

The Board and staff of Pro Medicus mourn the loss of our esteemed colleague Melvyn Ward AO

Mel served as chairman until August of 2010 and then as a non- executive until his passing away in October of that year.

Mel was an inspirational leader who chaired the company with great distinction since its ASX listing in 2000. His integrity and principles will remain as an example to those who follow and his warmth and generous personality will be sadly missed.

Dr Peter David Jonson

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

Retired 23 November 2010

Peter Jonson was a founding Director of Pro Medicus Limited and his services to the company over the past 10 years have been appreciated by staff, shareholders and Directors alike.

The Board wishes Peter the best in retirement.

David Chambers

B.Sc. Grad Dip. Bus.

Resigned 11 October 2010

David led Pro Medicus Limited through a major transitional phase which has provided the company with a solid foundation for future growth, both locally and internationally.

The Board wishes to thank David for his efforts and wish him well for the future.

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	NIL
S. A. Hupert	30,072,660	NIL
P. T. Kempen	169,647	200,000
R. Lyle	47,987	NIL

EARNINGS PER SHARE

	Cents
Basic earnings per share	0.5
Diluted earnings per share	0.5

Dividends

Ordinary Shares	Cents	$'000
Final dividends recommended:		
Normal dividend plan	–	–
Dividends paid in the year:		
Interim for the year	–	–
Final dividend for 2010 shown as recommended in the 2010 report:		
Normal dividend plan	2.0	2,006

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 Group during the year were the supply of product and services to diagnostic imaging groups and a broad range of entities predominately within the private medical market. These products and services include:

- Innovative proprietary medical software for practice management (RIS);
- Training, installation and professional services;
- After sale support and service products;
- Promedicus.net secure email; and
- Digital radiology integration products.

In January 2009, Pro Medicus Limited acquired Visage Imaging Inc (US operations) and Visage Imaging GmbH (Germany Operations) from Mercury Computer Systems in the US. The acquisition was funded from cash reserves.

This acquisition of Visage Imaging has enabled the group to significantly broaden its product offering to now include:

- Innovative clinical software that provides radiologist with advanced visualisation capability for viewing 3–D and 4–D images;
- PACS/Digital imaging software that is sold both direct and to original equipment manufacturers (OEM);
- Training, installation and professional services;
- Support and service products;
- The sale of advanced visualisation toolkits to academic and research institutions (Amira).

The acquisition of Visage Imaging in January 2009 saw the group extend its R&D base to Europe where the bulk of the R&D for the Visage Imaging product set is carried out. The company has continued development of the Visage 7.0 product line throughout the period.

REVIEW AND RESULTS OF OPERATIONS

Investment Activities

Surplus funds are invested by the Group in a cash management account to maximise the interest return.

Performance Indicators

Management and the Board monitor overall performance, from the strategic plan through to the performance of the Group 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 Group's performance.

Dynamics of the Business

Australia

The group employs 25 people in Australia who undertake research and development of Pro Medicus products as well as sales and service/support functions.

The group's Australian revenue declined over the period by 41.1% due to slower than anticipated sales of the Visage 7.0 products and well as a decline in new Radiology Information System (RIS) sales due to the delays in bringing the company's new RIS technology platform to market.

Promedicus.net, the company's e-health offering, continued to hold its strong market position recording revenue of $1.89 million despite increasing competition.

North America

The group employs 10 people in North America to fulfil the sales marketing and professional services roles. Revenue from North America declined by 14.2% compared to the previous year of which 9% was attributable to currency changes. The company has made a number of changes in the group's US operations during the past year including a significant decrease in overall running costs and changes to management in the 2nd half of the financial year. The company believes these changes will have a positive impact on the performance of the North American division in the coming years.

Europe

Pro Medicus established a presence in Europe with the acquisition of Visage Imaging GmbH in late January 2009. The group has 41 employees in its Berlin office who undertake research and development of Visage Imaging products worldwide as well as sales, marketing and service/support functions for the group's European operations.

Financials

Full year revenue, declined from $19.46 million to $14.07 million, a decrease of 27.7%.

Net margin as defined by profit before tax to revenue from operating activities decreased from 32.3% to 5.0% reflecting the decrease in sales of new products and higher development costs.

Profit after tax for the period was $0.50 million a decrease of 87.2% from the previous year in what was a difficult year for the industry. The result was impacted by a decrease in new sales, a number of one–off termination payments and significant impact from foreign currency exchange rates.

Shareholder Returns

The directors are confident that the holdings of reserve cash 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.

The company has maintained cash holdings although the return on net assets and equity has decreased as a result of the acquisition of the Visage Imaging business and lower profitability than prior years.

	2011	2010	2009	2008	2007
Basic earnings per share — reported (cents)	0.5	3.9	5.1	7.9	7.1
Return on assets (%)	3.0	23.8	33.4	57.9	55.5
Return on equity (%)	3.3	23.5	38.5	50.4	49.5
Dividend payout ratio (%) — normal dividend plan	0.0	51.2	59.0	75.8	77.5
Dividend payout ratio (%) — total dividend	0.0	51.2	59.0	75.8	98.5
Available franking credits ($'000)	2,921	4,821	4,042	5,516	5,582

Investments for Future Performance

The Company will continue to direct resources into the development of new products and in particular is committed to the completion of its new RIS technology platform as well as the ongoing development of the Visage Imaging range of products.

It is anticipated that this will continue to position Pro Medicus as a market leader and enable the group to leverage both its expanded product portfolio and geographical spread as a result which is heavily attributable to the acquisition of Visage Imaging.

The Group remains committed to providing staff with access to appropriate training and development programs, together with the resources to complete their duties.

The directors express their gratitude for the efforts of the management team and all employees in achieving this year's result.

REVIEW OF FINANCIAL CONDITION

Capital Structure

The company has a sound capital structure with a strong balance sheet, with no debt.

Treasury Policy

With the increase in overseas operations there is an increased currency risk as a consequence of contracts written in and cash being held in foreign currencies. Whilst this is offset to a degree by having operations in North America and Europe, this change in risk profile has been noted by the board and action is being taken to manage this risk.

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 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.

Cash from Operations

Net cash flows from operating activities was a positive $6.25m for the current period, attributed by a $15.83m collection of receipts from customers compared with payments of $10.17m to suppliers and employees. The group continued to hold total cash assets of $3.25 million.

Liquidity and Funding

The Group is cash flow positive, has adequate 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 Group'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;
- Routine review by key executives of its established Quality Assurance program and corrective action recommendations stemming from it.

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 decreased by 8.8% from $16.66m to $15.20m. This movement was largely the result of the final dividend from 2009/2010 financial year paid during the year being higher than the profit during the year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No significant events after balance date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors foresee that the 2012 financial year will be a year of growth in both the local and overseas markets. It is anticipated this will result from:

- The group's expanded product portfolio that now includes advanced visualisation, PACS (Digital Imaging) 3-D and 4-D capability.
- The anticipated increased adoption of advanced visualisation and 3-D capability throughout the radiology profession.
- The ability of the new expanded product set to address the needs of large public hospitals in the US Europe and Australia in addition to the private radiology market.
- The increase geographical presence and selling capability of Pro Medicus particularly in North America and Europe.
- The release of the Pro Medicus New Technology RIS platform.

As a result, it is anticipated that the 2012 financial year will show improvement in profits. However, this is dependant on many market factors over which the directors have limited or no control.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

SHARE OPTIONS

Un–issued Shares

As at the date of this report, there were 1,850,000 un–issued ordinary shares under options Refer to Note 18 of the financial statements for further details of the options outstanding.

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

Shares Issued as a Result of the Exercise of Options

During the financial year, no share options were exercised by ex employees. During the financial year 2,100,000 share options expired. No directors or key management personnel in the current year have exercised any option to acquire fully paid ordinary shares in Pro Medicus Limited.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year, PME indemnified Clayton Utz and each one or more of the past, present or future partners of Clayton Utz (other than Mr. Lyle) against any liability (including a liability incurred by Clayton Utz to pay legal costs) arising out of Mr. Lyle's activities as a Director of PME.

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.

Disclosure of the amount of insurance and the terms of this cover is prohibited by the insurance policy.

REMUNERATION REPORT (audited)

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 the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses Directors and Executives of the Parent and Group.

Details of Key Management Personnel (including the five highest paid executives of the Company & Group)

(i) Directors	
Peter Terence Kempen	Chairman (non–executive)
Dr Sam Aaron Hupert	Managing Director and CEO — appointed 11 October 2010
Anthony Barry Hall	Executive Director and Technology Director
Roderick Lyle — Appointed	Non Executive Director — appointed 23 November 2010
Melvyn Keith Ward — Deceased	Chairman (non–executive) — deceased 1 October 2010
David Chambers — Resigned	Managing Director and CEO — resigned 11 October 2010
Dr Peter David Jonson — Retired	Non Executive Director — retired 23 November 2010
(ii) Executives	
Danny Tauber	General Manager — Pro Medicus Limited
Malte Westerhoff	Managing Director — Visage Imaging GmbH
John Danahy — Resigned	General Manager — Sales & Services — Visage Imaging Inc (resigned 24 February 2011)

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 Executive Directors of the Parent. The Executive Directors in turn are responsible for determining and reviewing the compensation arrangements for the Non–Executive Directors. The CEO, in conjunction with the full Board reviews the terms of employment for all executives.

The assessment considers the appropriateness of the nature and amount of remuneration of such executives 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 e xecutive team.

Remuneration philosophy

The performance of the group 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 provides competitive rewards to attract high calibre executives.

Remuneration structure

In accordance with best practice corporate governance, the structure of non–executive director and executive's 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 2011 is detailed in Table 1 of this report.

Executives
(including Executive Directors remuneration)

Objective

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

- align the interests of executives with those of shareholders;
- ensure total remuneration is competitive by market standards.

Structure

Employment Contracts have been entered into with all executives of the Parent and Group. Details of these contracts are provided on page 21.

Remuneration consists predominately of fixed remuneration. Variable remuneration is provided occasionally at the board's discretion including both short term incentives (STI) and long term incentives (LTI).

The Company does not have a policy regarding executives entering into contracts to hedge their exposure to share options granted as part of their remuneration package.

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 group 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.

Executives, including Executive Directors 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 group.

The fixed remuneration is detailed in Table 1 of this report.

Variable Remuneration — Long Term Incentive (LTI)

Danny Tauber was granted options in the current year under the Employee Share Option Scheme and in the previous year Malte Westerhoff was granted options under the Employee Share Option Scheme.

The options granted tor Danny Tauber and Malte Westerhoff both have a 5 year vesting period.

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 2011

For the 2011 financial year, the total amount of STI cash bonus either paid or accrued at year end was $172,766. The maximum amount payable under STI was $236,761.

Key Performance Indicators

Actual STI payments granted to Malte Westerhoff depended on the extent to which specific targets set at the time of employment were met. The targets consist of a number of Key Performance Indicators (KPIs) covering both financial (Sales Targets) and non–financial measures of performance.

Group performance

For details of the group'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 16 of the Directors' Report.

Employment Contracts

Executive Directors

Executive Service Contracts, on similar terms and conditions, have been prepared for all Executive Directors of the Company.

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 and Group's confidential information and provide that any inventions or discoveries of an executive become the property of the Group;
- 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.

Executives (excluding Executive Directors)

All executives have rolling contracts. The Group may terminate the executive's employment agreement by providing six months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). The Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

Remuneration of key management personnel and the five highest paid executives of the company and the Group.

Table 1: Remuneration of key management personnel for the year ended 30 June 2011

		SHORT-TERM		POST EMPLOYMENT	LONG TERM	SHARE-BASED PAYMENT		TOTAL	TOTAL PERFORMANCE RELATED %
30 June 2011	Salary & Fees	Cash Bonus	Non–Monetary benefits	Superannuation	Long Service Leave	Shares	Options		
Directors									
P T Kempen	55,046	–	–	4,954	–	–	2,662	62,662	–
S A Hupert	117,737	–	–	22,263	–	–	–	140,000	–
A B Hall	117,737	–	–	22,263	–	–	–	140,000	–
R. Lyle	27,800	–	–	2,502	–	–	–	30,302	–
M K Ward	20,000	–	–	1,800	–	–	–	21,800	–
P D Jonson	15,632	–	–	–	–	–	–	15,632	–
D Chambers	378,876	–	–	38,805	–	–	–	417,681	–
Executives									
D Tauber	291,871	–	–	13,129	6,883	–	14,942	326,825	–
M Westerhoff	228,031	25,207	–	2,416	–	–	6,333	261,987	9.62%
J Danahy	219,570	–	–	8,107	–	–	–	227,677	–
	1,472,300	**25,207**	**–**	**116,239**	**6,883**	**–**	**23,937**	**1,644,566**	

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

550,000 shares with a fair value of $54,109 ($0.10 per option) were granted as options to Key Executives with a grant date of 25 August 2010. The share options have an exercise price of $1.00. The options have a first exercise date of 25 August 2011 and can be exercised at anytime through to expiry date of 25 August 2020. The options vest over a 5 year period on completion of service.

Table 2: Remuneration of key management personnel for the year ended 30 June 2010

		SHORT-TERM		POST EMPLOYMENT	LONG TERM	SHARE-BASED PAYMENT		TOTAL	TOTAL PERFORMANCE RELATED %
30 June 2010	Salary & Fees	Cash Bonus	Non–Monetary benefits	Superannuation	Long Service Leave	Shares	Options		
Directors									
M K Ward	80,000	–	–	7,200	–	–	–	87,200	–
P D Jonson	20,100	–	–	25,433	–	–	–	45,533	–
S A Hupert	169,947	–	–	50,000	4,448	–	–	224,395	–
A B Hall	168,550	–	–	50,000	4,448	–	–	222,998	–
D Chambers	417,591	–	–	91,208	7,681	–	–	516,480	–
P T Kempen	55,046	–	–	4,954	–	–	5,315	65,315	–
Executives									
D Tauber	281,871	–	–	13,129	4,699	–	–	299,699	–
M Westerhoff	234,101	21,367	–	2,771	–	–	14,846	273,085	7.82%
J Danahy	132,593	–	–	6,819	–	–	–	139,412	–
M J Tefft	181,843	–	–	10,940	–	–	342	193,125	–
	1,741,642	**21,367**	**–**	**262,454**	**21,276**	**–**	**20,503**	**2,067,242**	

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

900,000 shares with a fair value of $67,278 ($0.075 per option) were granted as options to Key Visage Imaging with a grant date of 1 April 2010. The share options have an exercise price of $1.00. The options have a first exercise date of 1 April 2011 and can be exercised at anyt sime through to expiry date of 1 April 2020. The options vest over a 5 year period on completion of service.

For details of the valuation of options, including models and assumptions used please refer to Note 18.

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:	**12**		**2**	
Number of meetings attended:				
P. T. Kempen	12	12	2	2
R. Lyle	7	8	1	1
A. B. Hall	12	12	2	2
S. A. Hupert	11	12	1	2
M. K. Ward	1	3	0	1
P. D. Jonson	3	4	1	1
D. Chambers	3	3	1	1

Committee membership

As at the 30 June 2011, the company had an Audit Committee comprising the 2 non–executive directors and 2 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 24).

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 $31,000

Signed in accordance with a resolution of the Directors.

P T Kempen
Director

Melbourne, 26 August 2011

auditor's independence declaration

ERNST & YOUNG

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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 2011, 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

Stuart Painter
Partner
Melbourne
26 August 2011

statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2011	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000
Continuing Operations			
Revenue		**13,969**	19,197
Finance Revenue		**101**	267
Revenue		**14,070**	19,464
Cost of Sales		**(456)**	(1,784)
Gross Profit		**13,614**	17,680
Other Income/(Expenses)	6(a)	**(698)**	402
Accounting and Secretarial Fees		**(356)**	(442)
Advertising and Public Relations		**(681)**	(1,008)
Depreciation and Amortisation	6(b)	**(2,998)**	(2,681)
Insurance		**(335)**	(333)
Legal Costs		**(161)**	(146)
Operating Lease Expense — minimum lease payments		**(403)**	(591)
Other Expenses		**(544)**	(348)
Salaries and Employee Benefits Expense	6(b)	**(6,011)**	(5,970)
Travel and Accommodation		**(727)**	(861)
Profit before income tax		**700**	5,702
Income tax expense	7	**(197)**	(1,782)
Net profit for the period	17	**503**	3,920
Other Comprehensive Income			
Foreign Currency translation		**(4)**	(575)
Other comprehensive income for the period		**(4)**	(575)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**499**	3,345
Earnings per share (cents per share)	8		
– Basic for net profit for the year		**0.5¢**	3.9¢
– Diluted — for net profit for the year		**0.5¢**	3.9¢

statement of financial position

AS AT 30 JUNE 2011	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	10	**3,255**	3,785
Trade and other receivables	11	**3,849**	5,702
Inventories	12	**153**	324
Prepayments		**199**	158
Total Current Assets		**7,456**	**9,969**
Non-current Assets			
Deferred tax asset	7	**1,731**	1,267
Plant and equipment	13	**388**	368
Intangible assets	14	**13,533**	12,379
Total Non-current Assets		**15,652**	14,014
TOTAL ASSETS		**23,108**	23,983
LIABILITIES			
Current Liabilities			
Trade and other payables	15	**1,685**	2,289
Income tax payable		**1,084**	10
Provisions	16	**1,266**	1,303
Total Current Liabilities		**4,035**	3,602
Non-current Liabilities			
Deferred tax liabilities	7	**3,855**	3,675
Provisions	16	**20**	44
Total Non-current Liabilities		**3,875**	3,719
TOTAL LIABILITIES		**7,910**	7,321
NET ASSETS		**15,198**	16,662
EQUITY			
Contributed equity	17	**330**	330
Share Reserve	17	**122**	79
Foreign Currency Translation Reserve	17	**(1,148)**	(1,144)
Retained earnings	17	**15,894**	17,397
TOTAL EQUITY		**15,198**	16,662

statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2011	Consolidated Issued Capital $'000	Share Reserve $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Total Equity $'000
At 1 July 2009	330	35	(569)	15,483	15,279
Profit for the year	–	–	–	3,920	3,920
Other comprehensive income	–	–	(575)	–	(575)
Total comprehensive income for the period	–	–	(575)	3,920	3,345
Transaction with owners in their capacity as owners					
Share Based Payment	–	44	–	–	44
Dividends	–	–	–	(2,006)	(2,006)
At 30 June 2010	330	79	(1,144)	17,397	16,662
At 1 July 2010	330	79	(1,144)	17,397	16,662
Profit for the year	–	–	–	503	503
Other comprehensive income	–	–	(4)	–	(4)
Total comprehensive income for the period	–	–	(4)	503	499
Transaction with owners in their capacity as owners					
Share Based Payment	–	43	–	–	43
Dividends	–	–	–	(2,006)	(2,006)
At 30 June 2011	**330**	**122**	**(1,148)**	**15,894**	**15,198**

statement of cash flow

FOR THE YEAR ENDED 30 JUNE 2011	Notes	Consolidated 2011 $'000	Consolidated 2010 $'000
Cash flows from operating activities			
Receipts from customers		**15,823**	19,934
Payments to suppliers and employees		**(10,167)**	(11,870)
Income tax (paid)/refunded		**594**	(1,225)
Net cash flows from operating activities	10	**6,250**	6,839
Cash flows from investing activities			
Capitalised Development Costs	14	**(4,002)**	(5,942)
Interest received		**100**	267
Purchase of plant and equipment	13	**(172)**	(167)
Proceeds from disposal of plant & equipment	13	**3**	11
Acquisition of subsidiaries		**–**	(711)
Net cash flows used in investing activities		**(4,071)**	(6,542)
Cash flows from financing activities			
Payment of dividends on ordinary shares	9	**(2,006)**	(2,006)
Net cash flows used in financing activities		**(2,006)**	(2,006)
Net increase/(decrease) in cash and cash equivalents		**173**	(1,709)
Net foreign exchange differences		**(703)**	(67)
Cash and cash equivalents at beginning of period		3,785	5,561
Cash and cash equivalents at end of period	10	**3,255**	3,785

notes to the financial statements

1. CORPORATE INFORMATION

The financial report of Pro Medicus Limited (the Company) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of directors on 26 August 2011.

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 Group are described in the Directors' Report.

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, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($000) unless otherwise stated.

(b) Statement of compliance with IFRS

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

(c) New accounting standards and interpretations

(i) Changes in Accounting policy and disclosures

The accounting polices adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2010. Adoption of these standards did not have any effect on the financial position or performance of the Group.

AASB 2009–8 Amendments to Australian Accounting Standards — Group Cash — Settled Share–based Payment Transactions — The amendments clarify the scope of AASB 2 Share–based Payment by requiring an entity that receives goods or services in share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments incorporate the requirements previously included in Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 — Group and Treasury Share Transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(ii) Accounting Standards and Interpretation issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2011. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
(**AASB 124** (Revised)	Related Party Disclosure (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other Apartial exemption is also provided from the disclosure requirements for government–related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 January 2011	The Group will amend the future financial reports to comply with AASB 124	1 July 2011
AASB 2009–12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	The Group will amend the future financial reports to comply with AASB 2009–12	1 July 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2010–5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	The Group will amend the future financial reports to comply with AASB 2010–5	1 July 2011
****	Consolidated Financial Statements	IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC–12 Consolidation — Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.	1 January 2013	The Group is in the process of determining the extent of the impact of the amendments, if any	1 July 2013
****	Disclosure of Interests in Other Entities	IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non–controlling interests.	1 January 2013	The Group is in the process of determining the extent of the impact of the amendments, if any	1 July 2013

**** The AASB has not issued this standard, which was finalised by the IASB in May 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Pro Medicus Limited and its subsidiaries as at 30 June each year (the group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non–controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre–existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non–controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non–controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non–controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

(e) Business combinations

Subsequent to 1 January 2009

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non–controlling interest in the acquiree. For each business combination, the acquirer measures the non–controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition–related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Prior to 1 January 2009

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non–controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for in separate steps. Any additional interest in the acquiree acquired did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

(f) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues.

Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics and the segments are similar in each of the following respects:

- Nature of the products and services
- Type or class of customer for the products and services
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(g) Revenue recognition

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

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 as a percentage of the total services to be provided for each contract, which is determined by a quotation with the customer.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

(h) 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.

Group 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 statement of comprehensive income on a straight–line basis over the lease term.

(i) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to know amounts of cash and which are subject to an insignificant risk of changes of value.

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

(j) Trade and other receivables

Trade and intercompany receivables are recognised initially at fair value and subsequently measured at amortised cost less an allowance for any uncollectible amounts.

A provision for impairment is made when there is objective evidence that Pro Medicus will not be able to collect the debts. Financial difficulty of the debtors is considered objective evidence by the Group. Bad debts are written off when identified.

(k) 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.

(l) Derivative financial instruments and hedging

The Group has not transacted any derivative financial instruments to hedge its risk associated foreign currency and interest rate fluctuations.

(m) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held–to–maturity investments, or available–for–sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re–evaluated at each reporting date, but there are restrictions on reclassifying to other categories. When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

Subsequent measurement

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the statement of financial position.

(ii) Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non–current.

(n) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of Pro Medicus Limited and its Australian subsidiaries are Australian dollars ($). The United States subsidiaries' functional currency is United States Dollars. The subsidiary in Germany has a functional currency of Euro. Foreign subsidiaries are translated to presentation currency (see below for consolidated reporting).

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying 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.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) Translation of Group Companies' functional currency to presentation currency

The results of the United States and German subsidiaries are translated into Australian dollars (presentation currency) using an average exchange rate for the trading period. Assets and liabilities are translated at exchange rates prevailing at balance date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investments in foreign subsidiaries are taken to the foreign currency translation reserve. If a foreign subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(o) Income tax

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

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

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.
- When the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

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

(p) 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.

(q) Plant and equipment

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:

	2011	2010
Property Improvements	**2 to 7 years**	2 to 7 years
Motor Vehicles	**4 to 5 years**	4 to 5 years
Office Equipment	**2 to 7 years**	2 to 7 years
Furniture and Fittings	**5 years**	5 years
Research and Development Equipment	**3 to 4 years**	3 to 4 years

An item of 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 de–recognition 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.

(r) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at date of acquisition. Following initial recognition, intangible assets with a finite life are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated on a straight–line basis over the estimated useful life of the asset.

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 unit level. The recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying value.

The amortisation period and method is renewed at each financial year end 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 group 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 on a straight line basis over the period of expected benefit from the related project (5 years).

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.

Intellectual Property – Software

Three separately identifiable intangible assets, in the form of software intellectual property, have previously been identified in the business acquisition of Visage Imaging;

- Visage CS
- Visage PACS and
- Amira

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Following initial recognition, Intellectual property is measured at cost less any accumulated amortisation. A useful life of 5 years has been determined.

Software Licenses

The Group identified a separate intangible asset in the form of software licenses, in the business acquisition of Visage Imaging.

Following initial recognition, software licenses are measured at cost less any accumulated amortisation. A useful life of 4 years has been determined.

Customer List

The Group identified a separate intangible asset in the form of a customer list, in the business acquisition of Visage Imaging.

Following initial recognition, the customer list is measured at cost less any accumulated amortisation. A useful life of 4 years has been determined.

(s) Trade and other payables

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

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

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.

(u) Employee leave benefits

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

(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 respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non–accumulating sick leave are recognised when the leave is taken and are measured at the rates paid.

(ii) Long Service Leave

The liability for long service leave is recognised 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, using the projected unit credit method. 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.

(v) Share based payment transactions

(i) Equity settled transactions:

The Group 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 is currently tone plan in place to provide these benefits:

- The Employee Share Option Plan (ESOP), which provides benefits to directors and senior executives.

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 18.

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) For options with non–market vesting conditions, 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 8).

(w) 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.

(x) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Parent, 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 Parent 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; and
- Dilutive potential ordinary shares adjusted for any bonus element.

and then divided by the weighted average number of ordinary shares.

(y) Comparatives

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgements

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 Group 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.

Impairment of non–financial assets

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un–recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

ii) Significant accounting estimates and assumptions

Capitalisation of development costs

The capitalisation of development costs includes an overhead rate which has been estimated from total costs. The estimated development overheads rate has been calculated by dividing the development labour costs over total labour costs to give a percentage of development labour rate. The development labour rate is then applied against the total overheads of the company, to give an estimate of the amount of overheads that relates to development.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The parent entity's and group's principal financial instruments are cash and short–term deposits.

The main purpose of these financial instruments is to provide finance for the parent entity's and Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are foreign currency risk, interest risk and credit risk. The Board manages each of these risks as detailed below.

Foreign currency risk

The Group has transactional currency exposure, which arise from sales made in currencies other than the Group's functional currency.

Approximately 58% (2010: 47%) of the Group's sales are denominated in currencies other than the functional currency, and these sales would be predominately offset by currency exposure on costs. Foreign bank accounts have also been established, to create a natural hedge and reduce the need for regular transfers from the functional currency (AUD) cash holdings.

At 30 June the parent entity had the following exposure to US$ foreign currency that is not designated in cash flow hedges.

	PARENT	
	2011	2010
	$000	$000
Financial assets		
Cash and cash equivalents	**13**	48
	13	48
Financial liabilities		
Trade and other payables	**–**	–
Net exposure	**13**	48

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 (excluding retained profits) would have been affected as follows:

JUDGEMENTS OF REASONABLY POSSIBLE MOVEMENTS:	Post Tax Profit Higher/(Lower)		Other Higher/(Lower)	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
AUD/USD +10%	**(1)**	(5)	**–**	–
AUD/USD –5%	**1**	2	**–**	–

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES cont.

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

Credit risk

Credit risk arises from the financial instruments of the Group and Parent entity, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential defaults of the counter–party, with a maximum exposure equal to the carrying amount of the financial assets.

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

It is the Group'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 Group's exposure to bad debts is not significant.

As the Group trades predominantly within the Diagnostic Imaging market there is a concentration of credit risk. Given the underlying Government funding support for Radiology in Hospital settings and the Imaging Centre and Diagnostic Imaging market, and the commercial successes achieved by the Group to date, credit risk is considered to be minimal.

Cash and cash equivalents are held with several financial institutions, with the majority held with the Westpac Banking Corporation, a AA rated bank.

Interest risk

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

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

Cash and Cash equivalents in the Group ($'000's) $3,255, (2010: $3,785).

The Group's policy is to place cash balances in either 30 day term deposits or commercial bills that earn higher interest rates.

At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity (excluding retained profits) would have been affected as follows:

CONSOLIDATED

JUDGEMENTS OF REASONABLY POSSIBLE MOVEMENTS:	Post Tax Profit Higher/(Lower)		Other Higher/(Lower)	
	2011	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000
+1% (100 basis points)	**33**	38	**–**	–
– 2% (200 basis points)	**(65)**	(76)	**–**	–

Liquidity risk

The Group has minimal liquidity risk as it has cash reserves of $3.3m, with no borrowings.

These cash reserves are deemed to be adequate and the Board believes they will underpin the ongoing growth of the business.

The table below reflects all contractually fixed pay–offs for settlement and repayments resulting from recognised financial liabilities. Cash flows for financial liabilities without fixed amount of timing are based on the conditions existing at 30 June 2011.

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

CONSOLIDATED	2011	2010
	$'000	$'000
←30 days	**1,098**	580
31–60 days	**–**	575
61–90 days	**–**	–
Over 90 days	**587**	1,134
TOTAL	**1,685**	2,289

5. OPERATING SEGMENTS

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on country of origin. Discrete financial information is reported to the executive management team on at least a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the products produced and sold and the services provided, as these are the sources of the Group's major risk and have the most effect on the rates of return.

Types of products and services

The Group produces integrated software applications for the health care industry. In addition, the Group provides services in the form of installation and support.

Accounting policies and inter–segment transactions

The accounting policies used by the Group in reporting segments internally is the same as those contained in note 2 to the accounts and in the prior periods except as detailed below:

Inter–entity sales

Inter–entity sales are recognised based on an internally set transfer price. The price aims to reflect what the business operation could achieve if they sold their output and services to external parties at arm's length.

5. OPERATING SEGMENTS (cont.)

Operating Segments	AUSTRALIA		EUROPE		NORTH AMERICA		TOTAL OPERATIONS	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue								
Sales to external customers	**5,821**	9,923	**4,890**	5,479	**3,258**	3,795	**13,969**	19,197
Inter–segment Sales	**776**	861	**3,604**	4,569		–		–
Total segment revenue	**6,597**	10,784	**8,494**	10,048	**3,258**	3,795	**18,349**	24,627
Inter–segment elimination							**(4,380)**	(5,430)
Total consolidation revenue							**13,969**	19,197
Results								
Segment Result	**(808)**	5,145	**1,901**	2,389	**(494)**	(2,099)	**599**	5,435
Interest Revenue							**101**	267
Non segment expenses								
Income Tax Expense							**(197)**	(1,782)
Net Profit							**503**	3,920
Assets								
Segment Assets	**16,066**	17,007	**4,869**	4,579	**2,173**	2,397	**23,108**	23,983
Total Assets							**23,108**	23,983
Liabilities								
Segment Liabilities	**3,951**	4,652	**3,627**	2,149	**332**	520	**7,910**	7,321
Total Liabilities							**7,910**	7,321
Other segment information								
Capital expenditure	**3,083**	4,497	**1,058**	1,432	**32**	–	**4,173**	5,929
Depreciation and amortisation	**2,160**	2,342	**820**	305	**18**	34	**2,998**	2,681
Cash flow information								
Net cash flow from operating activities	**7,398**	6,898	**(1,227)**	772	**79**	(831)	**6,250**	6,839
Net cash flow from investing activities	**(3,032)**	(5,294)	**(1,007)**	(1,221)	**(32)**	(27)	**(4,071)**	(6,542)
Net cash flow from financing activities	**(2,006)**	(2,006)	**–**	–	**–**	–	**(2,006)**	(2,006)

6. INCOME AND EXPENSES

	Notes	Consolidated	
		2011	2010
		$'000	$'000
(a) Other Income			
Net Currency Gains		**–**	402
Net Currency Losses		**(698)**	–
		(698)	402
(b) Expenses			
Depreciation and Amortisation			
Motor Vehicles	13	**8**	24
Office Equipment	13	**107**	157
Furniture and Fittings and Property Improvements	13	**24**	25
Research & Development Equipment	13	**10**	18
Amortisation on capitalised development costs	14	**2,122**	1,675
Intangible assets	14	**727**	782
Total Depreciation and Amortisation Expense		**2,998**	2,681
Salaries and Employee Benefits Expense			
Wages & Salaries		**5,119**	4,967
Long service leave provision		**33**	16
Share–based payment		**43**	44
Defined contribution plan expense		**816**	943
Total Salaries and Employee Benefits Expense		**6,011**	5,970

7. INCOME TAX

	Consolidated 2011 $'000	2010 $'000
The major components of income tax expense are:		
Income Statement		
Current income tax		
Current income tax charge	**481**	411
Prior year adjustment	**110**	–
Deferred income tax		
Relating to origination and reversal of temporary differences	**(394)**	1,371
Income tax expense reported in the income statement	**197**	1,782
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before tax	**700**	5,702
At the applicable statutory income tax rate in each country	**286**	1,756
Prior year adjustment	**(110)**	–
Expenditure not allowable for income tax purposes	**77**	65
R& D Allowance	**(84)**	(103)
Other	**28**	64
Income tax expense reported in the income statement	**197**	1,782
Deferred income tax		
Deferred income tax at 30 June relates to the following:		
Deferred tax liabilities		
Foreign Currency Exchange Gain	**203**	346
Intellectual Property expenses	**85**	328
Capitalised development expenses	**3,565**	3,001
Other	**2**	–
Deferred income tax liabilities	**3,855**	3,675
Deferred tax assets		
Employee Entitlements	**296**	318
Tax Losses in Subsidiaries	**1,412**	926
Audit Fee Accrual	**23**	23
Deferred income tax assets	**1,731**	1,267

Unrecognised temporary differences

At 30 June 2011, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries, as the Group has no liability for additional taxation should unremitted earnings be remitted.

Tax Consolidation

Pro Medicus Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 January 2009. Pro Medicus Limited is the head entity of the tax consolidated group. An allocation of income tax liabilities between the entities of the tax consolidated group will be made should the head entity default on its tax payment obligations. No such amounts have been recognised in the financial statements on the basis that the possibility of default is remote.

8. EARNINGS PER SHARE

The following reflects the income and share data used in the basic and diluted earnings per share computations:	Consolidated 2011 $'000	2010 $'000
Net Profit attributable to ordinary equity holders	**503,357**	3,919,795
	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**100,280,000**	100,280,000
Effect of dilution:		
Share options	**–**	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**100,280,000**	100,280,000

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements

9. DIVIDENDS PAID AND PROPOSED

	Consolidated 2011 $'000	2010 $'000
Declared and paid during the year:		
Dividends on ordinary shares		
Final franked dividend for 2010: 2.0 cents (2009: 2.0 cents)	**2,006**	2,006
Interim franked dividend for 2011: nil (2010: nil)	**–**	–
	2,006	2,006
Proposed for approval by directors (not recognised as a liability as at 30 June):		
Dividends on ordinary shares:		
Final franked dividend for 2011: nil (2010: 2.0 cents)	**–**	2,006
Total dividends proposed	**–**	2,006

	Parent 2011 $'000	2010 $'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% (2010: 30%)	**2,921**	4,821
– franking credits that will arise from the payment of income tax payable as at the end of the financial year	**–**	–
– 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	**–**	–
	2,921	4,821
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	**–**	(602)
	2,921	4,219

The tax rate at which paid dividends have been franked is 30% (2010: 30%).

Dividends proposed will be fully franked.

10. CASH AND CASH EQUIVALENTS

	Notes	Consolidated 2011 $'000	2010 $'000
Cash at bank and in hand		**3,204**	3,736
Short–term deposits		**51**	49
		3,255	3,785

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 Group, and earn interest at the respective short–term deposit rates.

The fair value of cash and cash equivalents is their carrying value.

Reconciliation of net profit after tax to net cash flows from operations

Net profit		**503**	3,920
Adjustments for:			
Depreciation of Property Plant and Equipment		**149**	224
Amortisation of Intangible Assets		**2,849**	2,457
Interest Received classified in Investing Activities		**(101)**	(267)
Foreign currency (gain)/loss		**698**	(402)
Share option expense		**43**	44
Changes in assets and liabilities			
(Increase)/decrease in trade and other receivables		**1,853**	(256)
(Increase)/decrease in inventory		**170**	171
(Increase)/decrease in deferred tax asset		**(464)**	(677)
(Increase)/decrease in prepayments		**(41)**	89
(Decrease)/increase in deferred income		**(165)**	(190)
(Decrease)/increase in trade and other payables		**(438)**	469
(Decrease)/increase in tax provision		**1,074**	(812)
(Decrease)/increase in deferred income tax liability		**181**	2,048
(Decrease)/increase in employee entitlements		**(61)**	21
Net cash flow from operations		**6,250**	6,839

11. TRADE AND OTHER RECEIVABLES (CURRENT)

	Notes	Consolidated 2011 $'000	2010 $'000
Trade receivables		**3,895**	5,299
Provision for impairment		**(118)**	(102)
		3,777	5,197
Work in progress		**–**	91
Other receivables		**72**	414
		3,849	5,702

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

a) Allowance for impairment loss

Movements in the provision for impairment loss were as follows:

At 1 July	**102**	407
Charge to/(write back of) provision for the year	**22**	(230)
Foreign exchange translation	**(6)**	(75)
At 30 June	**118**	102

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

	Total	0–30 days	31–60 days PDNI*	61–90 days PDNI*	+91 days PDNI*	+91 days CI*
2011 Consolidated	**3,895**	**1,947**	**391**	**285**	**1,154****	**118**
2010 Consolidated	5,299	4,316	287	146	448	102

* Past due not impaired ('PDNI')

* Considered Impaired ("CI")

** Payment terms on $731,891 (2010: $153,612) on these debtors have been renegotiated. The company has been in direct contact with these debtors and is satisfied that payment will be received in full.

12. INVENTORIES (CURRENT)

	Notes	Consolidated 2011 $'000	2010 $'000
Finished goods (at net realisable value)		**153**	324

Inventory write downs recognised as an expense total Nil (2010: $34,941)

13. PLANT & EQUIPMENT

	Consolidated					
	Property Improvements	Motor Vehicles	Office Equipment	Furniture & Fittings	Research & Development Equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2011						
At 1 July 2010 net of accumulated depreciation	31	29	231	59	18	368
Additions	–	–	179	5	–	184
Disposals	–	(2)	(1)	–	–	(3)
Exchange differences	–	–	(9)	(3)	–	(12)
Depreciation charge for the year	(15)	(8)	(107)	(9)	(10)	(149)
At 30 June 2011 net of accumulated depreciation	**16**	**19**	**293**	**52**	**8**	**388**
At 30 June 2011						
Cost	308	557	1,450	333	209	2,857
Accumulated depreciation and impairment	(292)	(538)	(1,157)	(281)	(201)	(2,469)
Net carrying amount	**16**	**19**	**293**	**52**	**8**	**388**
Year ended 30 June 2010						
At 1 July 2009 net of accumulated depreciation	49	67	251	76	34	477
Additions	–	–	161	4	2	167
Disposals	–	(11)	–	–	–	(11)
Exchange differences	(1)	(3)	(24)	(13)	–	(41)
Depreciation charge for the year	(17)	(24)	(157)	(8)	(18)	(224)
At 30 June 2010 net of accumulated depreciation	**31**	**29**	**231**	**59**	**18**	**368**
At 30 June 2010						
Cost	308	594	1,782	341	209	3,234
Accumulated depreciation and impairment	(277)	(565)	(1,551)	(282)	(191)	(2,866)
Net carrying amount	**31**	**29**	**231**	**59**	**18**	**368**
At 1 July 2009						
Cost	319	642	1,909	362	207	3,439
Accumulated depreciation and impairment	(270)	(575)	(1,658)	(286)	(173)	(2,962)
Net carrying amount	**49**	**67**	**251**	**76**	**34**	**477**

14. INTANGIBLE ASSETS

	Consolidated				
	Intellectual Property i)	Customer List ii)	Development Costs iii)	Software Licenses iv)	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2011					
At 1 July 2010 net of accumulated amortisation and impairment	2,155	149	10,004	71	12,379
Additions — internal development	–		4,002	–	4,002
Additions	–	–	–	10	10
Disposals	–	–	–	–	–
Exchange differences	–	(6)	–	(3)	(9)
Amortisation charge for the year	(601)	(66)	(2,122)	(60)	(2,849)
At 30 June 2011 net of accumulated amortisation and impairment	**1,554**	**77**	**11,884**	**18**	**13,533**
At 30 June 2011					
Cost	3,006	245	16,947	595	20,793
Accumulated amortisation and impairment	(1,452)	(168)	(5,063)	(577)	(7,260)
Net carrying amount	**1,554**	**77**	**11,884**	**18**	**13,533**
Year ended 30 June 2010					
At 1 July 2009 net of accumulated amortisation and impairment	2,756	266	5,750	187	8,959
Additions — internal development	–	–	5,929	–	5,929
Additions	–	–	–	13	13
Disposals	–	–	–	–	–
Exchange differences	–	(41)	–	(24)	(65)
Amortisation charge for the year	(601)	(76)	(1,675)	(105)	(2,457)
At 30 June 2010 net of accumulated amortisation and impairment	**2,155**	**149**	**10,004**	**71**	**12,379**
At 30 June 2010					
Cost	3,006	245	12,945	585	16,781
Accumulated amortisation and impairment	(851)	(96)	(2,941)	(514)	(4,402)
Net carrying amount	**2,155**	**149**	**10,004**	**71**	**12,379**
At 1 July 2009					
Cost	3,006	343	7,333	278	10,960
Accumulated amortisation and impairment	(250)	(77)	(1,583)	(91)	(2,001)
Net carrying amount	**2,756**	**266**	**5,750**	**187**	**8,959**

i) Intellectual Property was acquired in 2009 through the Visage Imaging business combination and is carried at cost less accumulated amortisation. Three separately identifiable intangible assets, in the form of software intellectual property, have been identified in the business acquisition of Visage Imaging; Visage CS, Visage PACS and Amira. The carrying amounts are Visage CS ($799,708), Visage PACS ($154,937) and Amira ($598,671). These intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of 5 years, commencing February 2009.

ii) A Customer List was acquired in 2009 through the Visage Imaging business combination and is carried at cost less accumulated amortisation. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 4 years, commencing February 2009.

iii) Development costs have been capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 5 years.

iv) Software Licences have been assessed as having a finite life and are amortised using the straight line method over a period of 4 years.

15. TRADE AND OTHER PAYABLES (CURRENT) Consolidated

	Consolidated	
	2011 $'000	2010 $'000
Trade payables	**378**	384
Other payables and accruals	**622**	1,528
	1,000	1,912
Deferred Income	**685**	377
	1,685	2,289

(i) Trade payables are non–interest bearing and are normally settled on 30–day terms.

(ii) Other payables, other than inter–company payables 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.

16. PROVISIONS

	Consolidated	
	2011 $'000	2010 $'000
Current		
Long service leave	**446**	389
Annual leave	**820**	914
	1,266	1,303
Non Current		
Long service leave	**20**	44
	20	44

Movements in Provisions

(i) Long Service Leave

Refer to note 2 (v) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of this provision.

17. CONTRIBUTED EQUITY AND RESERVES

	Consolidated	
	2011 $'000	2010 $'000
(i) Ordinary shares	**330**	330
Issued and fully paid	**330**	330

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

(ii) Movements in shares on issue

	Number of Shares	**$'000**
At 1 July 2010	100,280,000	330
Issued for cash on exercise of options	–	–
At 30 June 2011	100,280,000	330
At 1 July 2009	100,280,000	330
Issued for cash on exercise of options	–	–
At 30 June 2010	100,280,000	330

	Consolidated	
	2011 $'000	2010 $'000
Share Reserve (i)		
Balance at 1 July	**79**	35
Share options expensed	**43**	44
Balance at 30 June	**122**	79
Foreign Currency Translation Reserve (ii)		
Balance at 1 July	**(1,144)**	(569)
Foreign Currency Movement	**(4)**	(575)
Balance at 30 June	**(1,148)**	(1,144)
Retained Earnings		
Balance at 1 July	**17,397**	15,483
Net profit for the year	**503**	3,920
Dividends	**(2,006)**	(2,006)
Balance at 30 June	**15,894**	17,397

(i) 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 19 for further details of these plans.

(ii) Foreign Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

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 $2,005,600 (2010: $2,005,600).

18. 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, had an exercise price of $1.15 and 2,100,000 share options expired under the scheme on 25 August 2010. Options vested at 20% per annum commencing on the first anniversary of issue. The options cannot be transferred and will not be quoted on the ASX.

A further 200,000 shares were granted as options to Peter Kempen on becoming a Director of the company in 2008 under a separate agreement. 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 $40,852 ($0.13 – $0.29 per option). The options have a first exercise date of 12 March 2009 and can be exercised at anytime through to expiry date of 12 March 2018. The options vest over a 5 year period on completion of service. At balance date 130,000 (65%) options had vested. No options were exercised during the year.

A further 200,000 shares were granted as options to Mike Tefft on commencement with Pro Medicus under a separate agreement. The shares have a fair value of $3,623 ($0.02 per option) and have a grant date of 29 September 2008. The options vest on 29 September 2010 and expire on termination of employment and can be exercised at anytime subsequent to vesting and prior to expiry. The shares are split into 2 categories, being 100,000 shares for service and 100,000 shares for performance based on set KPI's (Profitability of business unit & Sales Targets). The 100,000 shares for service have an exercise price of $1.25 and they have a 2 year vesting period, while the 100,000 shares for performance have an exercise price of $1.35 and also have a 2 year vesting period.

A further 900,000 shares were granted as options to key Visage Imaging employees during the year under a separate agreement. The options had a grant date of 1 April 2010 and an exercise price of $1.00. The fair value of the options at grant date was $67,278 ($0.07 per option). The options have a first exercise date of 1 April 2011 and can be exercised at anytime through to expiry date of 1 April 2020. The options vest over a 5 year period on completion of service. At balance date 180,000 (20%) options had vested. No options were exercised during the year.

A further 550,000 shares were granted as options to Key Executives during the year under a separate agreement. The options had a grant date of 25 August 2010 and an exercise price of $1.00. The fair value of the options at grant date was $54,109 ($0.10 per option). The options have a first exercise date of 25 August 2011 and can be exercised at anytime through to expiry date of 25 August 2020. The options vest over a 5 year period on completion of service. At balance date 0 (0%) has vested. No options were exercised during the year.

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

	2011		2010	
	Number of Options	**Weighted average exercise price**	Number of Options	Weighted average exercise price
Outstanding at the beginning of the year	**3,400,000**		2,500,000	
– granted	**550,000**	$1.00	900,000	$1.00
– forfeited	**–**	–	–	$1.15
– exercised	**–**	–	–	$1.15
– expired	**2,100,000**	$1.15	–	–
Outstanding at the end of the year	**1,850,000**	$1.06	3,400,000	$1.13
Exercisable at end of year	**1,850,000**	$1.06	3,400,000	$1.13

All options above have been recognised in accordance with AASB 2 as the options were granted after 7 November 2002.

The outstanding balance as at 30 June 2011 is represented by:

- 200,000 options over ordinary shares with an exercise price of $1.25 each, exercisable until 12 March 2018
- 100,000 options over ordinary shares with an exercise price of $1.25 each, exercisable until 29 September 2010
- 100,000 options over ordinary shares with an exercise price of $1.35 each, exercisable until 29 September 2010
- 900,000 options over ordinary share with an exercise price of $1.00 each, exercisable until 1 April 2020
- 550,000 options over ordinary share with an exercise price of $1.00 each, exercisable until 25 August 2020

Weighted average remaining contractual life

The weighted average remaining contractual life for share options outstanding at 30 June 2011 is 8.5 years (2010: 3.2 Years)

Range of exercise price

The range of exercise prices for options outstanding at the end of the year was $1.00 – $1.35 (2010: $1.00 – $1.35).

Weighted average fair value

The weighted average fair value of options granted during the year was $1.00 (2010: $1.00).

Option pricing model

The fair value of the equity–settled share options granted is estimated as at the date of the grant using a Black Scholes 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 2011.

	2011	2010
Dividend yield	**3.91%**	2.86%
Expected volatility*	**40.0%**	49.0%
Risk–free interest rate	**6.0%**	6.0%
Expected life of options	**10 years**	10 years
Option exercise price	**$1.00**	$1.00
Weighted average share price at measurement date	**$0.57**	$0.46

*The expected volatility rate was calculated measuring the standard deviation between the historical share price movements for the past 12 months.

19. COMMITMENTS

a) Operating lease commitments — Group as lessee

The Parent 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. The US operations have entered into a commercial property lease for office premises from 1 May 2010 for a 5 year period. The German operations have entered into a commercial property lease for office premises and can give notice to vacate 3 months prior to 30 April each year, whereby they sign into another 12 months.

The German operations also have several motor vehicles leases which expire at various stages between August 2011 and March 2013.

	Consolidated	
	2011	2010
Future minimum rentals payable under non–cancellable operating lease as at 30 June are as follows:		
– Within one year	**386**	424
– After one year and not more than five years	**824**	940
– After more than five years	**–**	–
	1,210	1,364

20. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after balance date.

21. AUDITOR'S REMUNERATION

	Consolidated 2011 $'000	2010 $'000
Amounts received or due and receivable by Ernst & Young (Australia) for:		
– an audit or review of the financial report of the Company and any other entity in the Consolidated Group	**120,030**	157,935
– other services in relation to the Company or Group	**31,000**	42,000
Amounts received or due and receivable by related practices of Ernst & Young (Australia):	**151,030**	202,935
– audit of the financial report of Visage Imaging GmbH	**59,850**	42,000
	210,880	244,935

22. KEY MANAGEMENT PERSONNEL

(a) Compensation for key management personnel

	Consolidated 2011 $'000	2010 $'000
Short-term employee benefits	**1,497,507**	1,763,009
Post-employment benefits	**116,239**	262,454
Other long-term benefits	**6,883**	21,276
Share-based payment	**23,937**	20,503
Total compensation	**1,644,566**	2,067,242

(b) Option holdings of Key Management Personnel

30 June 2011	Balance at beginning of year 1 July 2010	Granted as	Options Exercised	Net Change Other #	Balance at end of year 30 June 2011	Vested at 30 June 2011 Not exercisable	Exercisable	Total
Directors								
P T Kempen	200,000	–	–	–	200,000	90,000	110,000	200,000
S A Hupert	425,000	–	–	(425,000)	–	–	–	–
A B Hall	425,000	–	–	(425,000)	–	–	–	–
R Lyle	–	–	–	–	–	–	–	–
M K Ward	400,000	–	–	(400,000)	–	–	–	–
P D Jonson	200,000	–	–	(200,000)	–	–	–	–
D Chambers	–	–	–	–	–	–	–	–
Executives								
D Tauber	350,000	350,000	–	(350,000)	350,000	350,000	–	350,000
M Westerhoff	350,000	–	–	–	350,000	280,000	70,000	350,000
J Danahy	–	–	–	–	–	–	–	–
Total	**2,550,000**	**350,000**	**–**	**(1,800,000)**	**900,000**	**720,000**	**180,000**	**900,000**

Includes forfeitures

30 June 2010	Balance at beginning of year 1 July 2009	Granted as Remuneration	Options Exercised	Net Change Other #	Balance at end of year 30 June 2010	Vested at 30 June 2010 Not exercisable	Exercisable	Total
Directors								
M K Ward	400,000	–	–	–	400,000	–	400,000	400,000
P D Jonson	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	110,000	90,000	200,000
Executives								
D Tauber	350,000	–	–	–	350,000	–	350,000	350,000
M Westerhoff	–	350,000	–	–	350,000	350,000	–	350,000
J Danahy	–	–	–	–	–	–	–	–
M Tefft	200,000	–	–	–	200,000	200,000	–	200,000
Total	**2,200,000**	**350,000**	**–**	**–**	**2,550,000**	**660,000**	**1,890,000**	**2,550,000**

Includes forfeitures

(c) Shareholdings of Key Management Personnel

Shares held in Pro Medicus Limited (number) 30 June 2011	Balance 1 July 2010 Ordinary	Granted as Remuneration Ordinary	On Exercise of Options Ordinary	Net Change Other Ordinary	Balance 30 June 2011 Ordinary
Directors					
P T Kempen	129,647	–	–	40,000*	169,647
S A Hupert	30,072,660	–	–	–	30,072,660
A B Hall	30,068,500	–	–	–	30,068,500
R Lyle	–	–	–	47,897*	47,987
M K Ward	50,000	–	–	(50,000)	–
P D Jonson	50,000	–	–	–	50,000
D Chambers	65,000	–	–	–	65,000
Executives					
D Tauber	150,000	–	–	–	150,000
M Westerhoff	–	–	–	–	–
C Murphy	–	–	–	–	–
Total	**60,585,807**	**–**	**–**	**37,987**	**60,623,794**

* Peter Kempen purchased 40,000 shares throughout the year on the prevailing market share price and Roderick Lyle purchased 47,987 shares throughout the year on the prevailing market share price.

22. KEY MANAGEMENT PERSONNEL (cont.)

Shares held in Pro Medicus Limited (number) 30 June 2010	Balance 30 June '10 Ordinary	Granted as Remuneration Ordinary	On Exercise of Options Ordinary	Net Change Other Ordinary	Balance Ordinary
Directors					
M K Ward	50,000	–	–	–	50,000
P D Jonson	50,000	–	–	–	50,000
S A Hupert	30,072,660	–	–	–	30,072,660
A B Hall	30,068,500	–	–	–	30,068,500
D Chambers	50,000	–	–	15,000	65,000
P T Kempen	70,000	–	–	59,647	129,647
Executives					
D Tauber	150,000		–	–	150,000
M Westerhoff	–	–	–	–	–
J Danahy	–	–	–	–	–
M Tefft	–	–	–	–	–
Total	**60,511,160**	**–**	**–**	**74,647**	**60,585,807**

(d) Loans to Key Management Personnel

No loans are made to Key Management Personnel or staff.

(e) Other transactions and balances with Key Management Personnel

Purchases

During the year lease payments of $169,476 (2010: $169,476) in respect of the Group's operating premises at 450 Swan Street Richmond were paid to Champagne Properties Pty. Ltd., an entity controlled by S. Hupert and A. Hall. Commercial arrangements on an 'arms length basis' have been determined by an independent assessment of rental and lease terms.

23. RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statements include the financial statements of Pro Medicus Limited and the subsidiaries listed in the following table.

Name	Country of incorporation	% Equity interest 2011	% Equity interest 2010	Investment $000 2011	Investment $000 2010
Promed (USA) Pty Ltd	Australia	**100**	100	**–**	–
PME IP Australia Pty Ltd	Australia	**100**	100	**–**	–
Visage Imaging (Aust) Pty Ltd	Australia	**100**	100	**–**	–
Pro Medicus (USA) LLC	United States	**100**	100	**–**	–
Visage Imaging Inc	United States	**100**	100	**2,389**	2,389
Visage Imaging GmbH	Germany	**100**	100	**3,638**	3,638
				6,027	6,027

23. RELATED PARTY DISCLOSURE (cont.)

(b) Ultimate parent

Pro Medicus Limited is the ultimate Australian parent entity and the ultimate parent of the Group.

(c) Key management personnel

Details relating to KMPs, including remuneration paid, are included in note 22.

(d) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances on related party trade receivables and payables at year–end.

		Sales to related $000	Purchases from related parties $000	Other transactions with related parties $000
Related party				
Consolidated				
Champagne Properties Pty Ltd – Rental lease	**2011**	**–**	**169**	**–**
Champagne Properties Pty Ltd – Rental lease	2010	–	169	–

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year end are unsecured, interest free and payable on demand.

Entities within the group that own the Intellectual Property earn a 30% royalty from the sales made by other entities within the group.

Development costs undertaken by the German operations are reimbursed by the parent on commercial terms.

24. CONTINGENCIES

Tax related contingencies

Amended assessments from the Australian Taxation Office (ATO)

As a result of the ATO's program of routine and regular tax audit, the Group anticipates that ATO audits may occur in the future. The Group is similarly subject to routine tax audits in certain overseas jurisdictions. The ultimate outcome of any future tax audits cannot be determined with an acceptable degree of reliability at this time. Nevertheless, the Group believes that it is making adequate provision for its taxation liabilities (including amounts shown as deferred and current tax liabilities) and is taking reasonable steps to address potentially contentious issues with the ATO. However, there may be an impact to the Group of any of the revenue authority investigations results in an adjustment that increases the Group's taxation liabilities.

Ongoing transactions — transfer pricing

The Group has offshore operations in the United States and Germany (note 23). As disclosed in note 23, there are extra Group transactions, which include the Company and its US and German based subsidiaries Visage Imaging Inc and Visage Imaging GmbH and Pro Medicus Limited. These transactions are on an arm's length basis and are conducted at normal market prices and on normal commercial terms.

Whilst there are no investigations currently in progress, such transactions are not subject to any statutory limit in Australia.

notes to the financial statements cont.

25. PARENT ENTITY INFORMATION

Information relating to Pro Medicus Limited 2011

	2011 $'000	2010 $'000
Current assets	**14,727**	16,753
Total assets	**23,907**	25,338
Current Liabilities	**6,376**	6,028
Total Liabilities	**7,702**	7,496
Issued capital	**330**	330
Retained Earnings	**15,753**	17,269
Share Reserve	**122**	79
Total shareholders equity	**16,205**	17,678
Profit of the parent entity	**490**	3,865
Total comprehensive income of parent entity	**490**	3,865

The parent entity has not entered into any guarantees in relation to the debts of its subsidiaries. There are no contingent liabilities held against the parent entity. The parent entity does not have any contractual commitments for the acquisition of property, plant and equipment.

directors' declaration

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

(1) In the opinion of the directors:

(a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of the 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 consolidated entity will be able to pay its debts as and when they become due and payable.

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

(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 year ended 30 June 2011.

On behalf of the Board

P T Kempen

Chairman

Melbourne, 26 August 2011

independent audit report

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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 statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 (b), 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, a copy of which follows the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

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 consolidated entity's financial position at 30 June 2011 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 7 to 11 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Ernst & Young

Stuart Painter
Partner
Melbourne

26 August 2011

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:

			Number of holders	Number of shares
1	–	1,000	150	102,735
1,001	–	5,000	410	1,237,567
5,001	–	10,000	277	2,229,318
10,001	–	100,000	355	9,954,414
100,001		and Over	37	86,755,966
			1,229	100,280,000
The number of shareholders holding less than a marketable parcel are:			346	473,730

(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→	**11,048,261**	11.02%
4	Citicorp Nominees Pty Ltd	**6,102,607**	6.09%
5	Cogent Nominees Pty Ltd	**1,849,997**	1.84%
6	Brazil Farming Pty Ltd	**660,000**	0.66%
7	Dr Russell Kay Hancock	**600,000**	0.60%
8	Mr Alan Graham Rochford	**445,752**	0.44%
9	Mr Ralph Ronald Stadus & Ms Denise Leslie Stadus	**405,056**	0.40%
10	Mr Timothy John Hannigan & Mrs Kerrie Helen Hannigan	**405,000**	0.40%
11	Mr Evan Philip Clucas & Ms Leanne Jane Weston	**368,217**	0.37%
12	Mr Stephen Geoffrey Wilson & Ms Denise Adele Prandi	**337,537**	0.34%
13	Mr John Charles Plummer	**300,000**	0.30%
14	Mr Colin Gregory Organ	**271,000**	0.27%
15	Mr Peter Propert Birrell & Mrs Dinny Mary Birrell	**227.000**	0.23%
16	Narlack Pty Ltd	**226,699**	0.23%
17	Mrs Nelly Michelle Cunningham	**224,742**	0.22%
18	Mr David John Stanton & Mrs Naomi Joy Stanton	**220,803**	0.22%
19	Mr Peter Waddington Almond	**220,677**	0.22%
20	John Gilson Smith	**207,678**	0.21%
		84,262,186	84.03%

(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	11,048,261
Commonwealth Bank of Australia	6,102,607

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

corporate governance statement

The Board of Directors of Pro Medicus Limited is responsible for the corporate governance of the entity having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. 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.

The table below summaries the Group's compliance with the CGC's recommendations.

	RECOMMENDATION	COMPLY Yes/No	REFERENCE/ EXPLANATION	ASX LISTING RULE/CGC recommendations
	Principle 1 **Lay solid foundations for management and oversight**			
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	Yes	Page 54	ASX CGC 1.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 53	ASX CGC 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes		ASX CGC 1.3
	Principle 2 **Structure the board to add value**			
2.1	A majority of the board should be independent directors.	Yes	Page 53	ASX CGC 2.1
2.2	The chair should be an independent director.	Yes	Page 53	ASX CGC 2.2
2.3	The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	Yes	Page 53	ASX CGC 2.3
2.4	The board should establish a nomination committee.	No	Page 54	ASX CGC 2.4
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Page 53	ASX CGC 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes		ASX CGC 2.6
	Principle 3 **Promote ethical and responsible decision–making**			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: ▸ The practices necessary to maintain confidence in the company's integrity. ▸ The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders. ▸ The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.		Page 54	ASX CGC 3.1
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes	Page 54	ASX CGC 3.2
3.3	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes		ASX CGC 3.3

corporate governance statement cont.

	RECOMMENDATION	COMPLY Yes/No	REFERENCE/ EXPLANATION	ASX LISTING RULE/CGC recommendations
	Principle 4 **Safeguard integrity in financial reporting**			
4.1	The board should establish an audit committee.	Yes	Page 54	ASX CGC 4.1
4.2	The audit committee should be structured so that it: ► Consists only of non–executive directors. ► Consists of a majority of independent directors. ► Is chaired by an independent chair, who is not chair of the board. ► Has at least three members.	Page 54		ASX CGC 4.2
4.3	The audit committee should have a formal charter.	Yes	Page 54	ASX CGC 4.3
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes		ASX CGC 4.4
	Principle 5 **Make timely and balanced disclosure**			
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Page 55	ASX CGC 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes		ASX CGC 5.2
	Principle 6 **Respect the rights of shareholders**			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 55	ASX CGC 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes		ASX CGC 6.2
	Principle 7 **Recognise and manage risk**			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page 55	ASX CGC 7.1
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	Page 55	ASX CGC 7.2
7.3	The board should disclose whether it has received assurance from the CEO [or equivalent] and the Chief Financial Officer (CFO) [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 56	ASX CGC 7.3

	RECOMMENDATION	COMPLY Yes/No	REFERENCE/ EXPLANATION	ASX LISTING RULE/CGC recommendations
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes		ASX CGC 7.4
	Principle 8 **Remunerate fairly and responsibly**			
8.1	The board should establish a remuneration committee.	Yes	Page 54	ASX CGC 8.1
8.2	Companies should clearly distinguish the structure of non–executive directors' remuneration from that of executive directors and senior executives.	Yes		
	Refer to Remuneration Report	ASX CGC 8.2		
8.3	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes		ASX CGC 8.3

Pro Medicus Limited's corporate governance practices were in place throughout the year ended 30 June 2011.

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, or at least a 50/50 ratio of non–executives and 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
P T Kempen	Chairman, Non–Executive Director, Chairman Audit Committee
R Lyle	Non–Executive Director

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. Sam Hupert and Mr. Anthony Hall were directors in Pro Medicus Pty Ltd since incorporation in 1983. Mr. Peter Kempen was appointed in March 2008 and Mr Roderick Lyle was appointed in November 2010.

corporate governance statement cont.

Performance

The performance of the board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period the board conducted performance evaluations that involved an assessment of each board member's and key executive's performance against specific and measurable qualitative and quantitative performance criteria.

The performance criteria against which directors and executives are assessed are aligned with the financial and non–financial objectives of Pro Medicus Limited.

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.

Trading policy

Under the group's security trading policy, an executive, director, or any employee of the group, must not trade in any securities of the parent company at any time when they are in possession of unpublished, price–sensitive information in relation to those securities.

Before commencing to trade, an executive must first obtain the approval of the Company Secretary to do so and a director must obtain approval of the Chairman.

Only in exceptional circumstances will approval be forthcoming inside of the period which is 30 days after:–

- One day following the announcement of the half–yearly and full year results as the case may be.
- One day following the holding of the annual general meeting.
- One day after any other form of earnings forecast update is given to the market.

As required by the ASX listing rules, the Group notifies the ASX of any transaction conducted by directors in the securities of the parent company.

Code of Conduct

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

Committees

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 assume responsibility for determining and reviewing compensation arrangements for the Executive Directors of the Parent. The Executive Directors in turn are responsible for determining and reviewing the compensation arrangements for the Non–Executive Directors. The CEO, in conjunction with the full Board reviews the terms of employment for all executives.

The Board has delegated the responsibility of executive remuneration to the management who will assess the appropriateness of the nature and amount of remuneration of such executives 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.

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

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

Audit Committee

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

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

The members of the audit committee are:

P T Kempen Chairman

S A Hupert

A B Hall

R Lyle

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.

Due to the small number of Directors, all members of the Board serve on the Audit Committee, whilst the Board Chairman is also the Audit Committee Chairman as his area of expertise is in Accounting and Finance.

Board Functions

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 group to the Chief Executive Officer and the executive team (as detailed in Note 22). 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.

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;
- through the release of information to the market via the ASX
- 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.

corporate governance statement cont.

Risk Management Policies

The Company takes a proactive approach to risk management. The Board is responsible for ensuring that risks are identified on a timely basis and that the Group's objectives and activities are aligned with the risks 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 Company is committed to the identification; monitoring and management of risks associated with its business activities and has included in its management and reporting systems a number of risk management controls, such as:

- Annual budgeting and monthly reporting systems for all operations which enable the monitoring of progress against performance targets and to evaluate trends
- Guidelines and limits on capital expenditure and purchasing authority matrix
- Executive approvals for staffing requirements
- Detailed monthly management reports including cash flow reports, and to identify any foreign currency risks associated with contracts written in and cash being held in foreign currencies.

In accordance with ASX Principle 7, the Board has received from the Management an assurance that internal risk management and internal control systems are effective. The Board has also received a declaration from the Managing Director and Finance Manger in accordance with section 295A of the Corporations Act founded on the sound system of risk management an internal compliance and control which is operating effectively in respect to financial reporting risks.

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

ABN 25 006 194 752

Directors

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

Peter Terence Kempen	Chairman/Non–Executive Director/Chairman Audit Committee
Dr Sam Aaron Hupert	Chief Executive Officer/Managing Director
Anthony Barry Hall	Technology Director
Roderick Lyle	Non–Executive Director
Melvyn Keith Ward	Former Chairman
David Chambers	Former Chief Executive Officer/Managing Director
Dr Peter David Jonson	Former Non–Executive Director

Company Secretary

Clayton James Hatch

Registered Office

450 Swan Street

Richmond, VIC, 3121

(03) 9429 8800

Internet Address

www.promedicus.com.au

www.promedicus.com

www.visageimaging.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 + 612 9287 0309
(proxy forms only)

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 Security holder 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.

Contact Information

You can also contact the Pro Medicus Limited share registry by calling

+61 2 8280 7111 or Toll Free 1300 554 474

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.

Promedicus Limited
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Victoria 3121 Australia
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