

# PRIMARY HEALTH CARE LIMITED

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2008

ACN 064 530 516

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# REVIEW OF OPERATIONS

For the year ended 30 June 2008

## OVERVIEW

\$000	CONSOLIDATED	
	2008	2007
Trading revenue	649,641	272,262
Trading expenses	474,890	166,078
<b>Operating EBITDA</b>	<b>174,751</b>	106,184
Depreciation	31,583	15,938
Amortisation of intangibles	8,387	5,185
<b>Operating EBIT</b>	<b>134,781</b>	85,061
Other revenue and share of net profits of associates	12,722	8,122
Impairment of assets	10,415	-
Direct restructuring costs	27,689	-
Finance costs	102,254	12,064
<b>Profit for the year before income tax</b>	<b>7,145</b>	81,119
Income tax (benefit) expense	(2,254)	24,357
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>9,399</b>	56,762
(Loss) for the year from discontinued operations	(1,810)	-
<b>PROFIT FOR THE YEAR</b>	<b>7,589</b>	56,762
Profit (loss) attributable to minority interest	812	(141)
<b>PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY</b>	<b>6,777</b>	56,903

The year has been transformational for Primary, following the successful \$3.5 billion acquisition of Symbion Health Limited (Symbion), which was consolidated with effect from 1 March 2008.

During the acquisition process, Primary's stated intention was to divest both the Consumer and Pharmacy (C&P) businesses of Symbion Health Limited. Subsequent to year end, Primary has announced the sale of these businesses, with cash proceeds of \$765 million, which will be applied to the reduction of debt.

The remaining combined Group operates four main business divisions – Medical centres, Imaging, Pathology and Health Technology. The acquisition of Symbion has positioned Primary Health Care Limited as one of the pre-eminent listed Australian healthcare companies. Following the acquisition, Primary Health Care Limited now has a presence in all mainland states and territories.

The impact of the acquisition on the results of the Group is detailed in note 31 to the financial statements.

Management's focus is now on the integration of Symbion's medical centre, pathology and imaging activities. The combined Group is on track to realise an identified \$95-105 million of synergies by the end of FY2010.

The Group has experienced strong growth in operational EBITDA, which is discussed in more detail in the segmental analysis below.

The Symbion acquisition has resulted in a number of significant one-off charges being recognised in FY2008, including the direct restructuring costs and most of the impairment losses shown above.

# REVIEW OF OPERATIONS

For the year ended 30 June 2008

## SEGMENTAL ANALYSIS

<b>\$000</b>	<b>2008 PRIMARY</b>	<b>2008 SYMBION</b>	<b>2008 TOTAL</b>	<b>2007 TOTAL</b>
<b>TRADING REVENUE</b>				
Medical centres	168,407	20,737	<b>189,144</b>	140,134
Imaging	26,333	102,493	<b>128,826</b>	22,017
Pathology	90,889	219,389	<b>310,278</b>	88,854
Health Technology	38,611	-	<b>38,611</b>	31,375
Intersegment	(16,980)	(238)	<b>(17,218)</b>	(10,118)
<b>Total</b>	<b>307,260</b>	<b>342,381</b>	<b>649,641</b>	<b>272,262</b>
<b>OPERATING EBITDA</b>				
Medical centres	100,899	4,613	<b>105,512</b>	86,929
Imaging	7,564	11,607	<b>19,171</b>	6,909
Pathology	14,181	39,034	<b>53,215</b>	14,256
Health Technology	11,362	-	<b>11,362</b>	10,241
Unallocated	(11,901)	(2,608)	<b>(14,509)</b>	(12,151)
<b>Total</b>	<b>122,105</b>	<b>52,646</b>	<b>174,751</b>	<b>106,184</b>
<b>MARGIN</b>				
Medical centres	59.91%	22.25%	<b>55.78%</b>	62.03%
Imaging	28.72%	11.32%	<b>14.88%</b>	31.38%
Pathology	15.60%	17.79%	<b>17.15%</b>	16.04%
Health Technology	29.43%	-	<b>29.43%</b>	32.64%

Following completion of the Symbion acquisition, Primary has revised its segmental disclosure so that Imaging and corporate costs are now separated from the Medical Centres result.

Key features of the full year results are:

- Underlying EBITDA growth of 15% from the existing Primary business.
- Total operating EBITDA of \$174.8 million, up from \$106.2 million in FY2007.
- Four months' contribution from Symbion, comprising approximately \$342 million of revenue and in excess of \$52 million of EBITDA, excluding the Consumer and Pharmacy (C&P) businesses held for resale. Symbion revenues have been successfully retained, post-acquisition.

### Medical centres

Primary has continued to roll-out its large scale medical centres, with 41 of these centres operational by year end. Underlying revenue increased by 20%, supplemented by over \$20 million of revenue from 4 months of Symbion, to give full year revenue of \$189.1 million. A total of 111 GP practices were contracted for during the year. GP attendances in Primary medical centres increased by 16%. An easing in Primary's EBITDA margin, to 59.7%, was experienced due to the ramp up effect of the eight new centres opened during calendar 2007 and the comparative lack of annual flu spike compared to that of 2007.

Integration of the Symbion medical centre business is ahead of expectation. The Symbion margins are already showing improvement. It is anticipated that there will be nine new large scale centres by the end of calendar year 2009, giving a total of fifty large scale centres.

# REVIEW OF OPERATIONS

For the year ended 30 June 2008

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## SEGMENTAL ANALYSIS (continued)

### Imaging

Imaging reported revenue of nearly \$129 million in FY2008, including over \$102 million from 4 months of the Symbion operations. A markedly lower margin attributable to the Symbion business, of 11.3%, reflects the flow-through effect of Symbion-initiated salary increases of the order of 16%, coupled with a lack of increase in Medicare rebates. Primary margins weakened slightly, to 28.7%, owing to the ramp up effect of the eight new centres opened in calendar year 2007. Some improvement in margins was apparent in the more established Primary centres.

Imaging margins are expected to increase over the longer term, as improved productivity is achieved with the moving of more work to the higher cost base centres. Implementation of the technology update across the combined business has commenced. Improvement in the ex-Symbion business margin has already emerged in the month of July.

### Pathology

Pathology has been significantly strengthened with the addition of the much larger Symbion business. Respective operations have already been successfully merged in each of Queensland, Victoria and the ACT. Revenue has held up well since the amalgamation. Of reported revenue of just over \$310 million in FY2008, the Symbion business contributed nearly \$220 million in its 4 months of ownership.

Merger of the New South Wales-based SDS and Lavery laboratories is expected to be completed in the second quarter of FY2009, and related synergies are expected to flow in the second half of the financial year.

### Health Technology

Health Technology reported revenue growth of 23% in FY2008, to \$38.6 million, reflecting strong growth in Medical Director and other software products. Steady growth in Knowledge Solutions and Sponsorship also occurred. EBITDA grew by a more modest 11% to \$11.4 million, reflecting increased inter-group revenue. Underlying margins were firm.

The division is increasing its market penetration of health technology solutions, while establishing new transactional revenues through SMS and EFTPOS. Knowledge Solutions has secured entry into the New Zealand market and ongoing exploration of international markets for Medical Director is being conducted. Considerable upside attaches to the provision of support for Primary's other business streams.

### Corporate Costs

Corporate costs were \$14.5 million in FY2008, including \$2.6 million related to Symbion. Significant headcount reduction has occurred at the Symbion head office and Primary expects to achieve the full run-rate of \$13 million of targeted corporate synergies in FY2009.

## OUTLOOK

Primary continues to possess a strong long term outlook based on the opportunities presented by a favourable industry backdrop and the material synergies set to be realised from the integration of the Symbion operations.

The health services market in which Primary operates houses a number of factors that collectively provide the company with considerable opportunities for growth. These factors include:

- Rising cost pressures and difficult economic conditions, encouraging industry consolidation.
- The accelerated emergence of larger medical centres, driven by increased patient acceptance and the growing need for optimal integration of limited healthcare resources.
- An ageing population that continues to underpin increasing need for healthcare services.
- Continued technological advances that are enhancing patient access to a broader range of healthcare services.
- Increasing focus on community health issues which is increasing demand for medical services.

# DIRECTORS' REPORT

For the year ended 30 June 2008

The Directors of Primary Health Care Limited submit herewith their Directors' Report for the financial year ended 30 June 2008 (referred to as "the year" or "2008") accompanied by the financial report of the Company and the entities it controlled from time to time during the year ("Primary"). In order to comply with the provisions of the Corporations Act 2001, the Directors' Report as follows:

## DIRECTORS

The Directors of the Company during the year (or where indicated, during part of the year only) were:

- Mr. Gregory John Gardiner
- Dr Edmund Gregory Bateman
- Mr. Brian Ball
- Dr Michael Joseph Christie
- Mr. John David Crawford
- Mr. Stephen Higgs
- Mr. Terence Smith (appointed 21 April 2008).

Details of the qualifications and experience of each of the Directors are set out on page 8 of this report.

## SECRETARY

Details of the qualifications and experience of Mr. Andrew Duff, the Company Secretary, are set out on page 9 of this Report.

## DIRECTORS' MEETINGS

The number of meetings of the Board and of each Board Committee held during the year, (while each Director was a Director or committee member) and the number of meetings attended by each Director are set out below.

	BOARD OF DIRECTORS		AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
GJ Gardiner	16	15	2	2	1	1
EG Bateman	16	16	2	2	-	1 <sup>#</sup>
B Ball	16	15	2	2	1	1
MJ Christie	16	15	2	2	-	1 <sup>#</sup>
JD Crawford	16	15	2	2	-	1 <sup>#</sup>
S Higgs	16	14	2	2	1	1
T Smith	3	2	-	-	-	-

<sup>#</sup> These Directors attended the meeting by invitation of the Committee

A Board Sub Committee was formed by resolution of the Board on 8 November 2007 to deal with matters relating to the proposed takeover of Symbion Health Limited. The members of this Committee were Dr Bateman and one other Director, Mr. Gardiner in the first instance. This Committee met 10 times during the year.

Details of committee membership and functions are set out in the Corporate Governance Statement on page 15 to 20 of the Annual Report.

## SIGNIFICANT CHANGE IN THE STATE OF AFFAIRS

On 28 April 2008, the Company acquired 100% of the shares of Symbion Health Limited. Further details of this acquisition can be found on pages 78 to 79 of the Annual Report.

Other than the acquisition of Symbion Health Limited there was no significant change in the state of affairs of the Primary Group during the financial year.

# DIRECTORS' REPORT

For the year ended 30 June 2008

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## PRINCIPAL ACTIVITIES

During the year, the principal continuing activities of the Primary Group were:

- a medical centre operator;
- a provider of diagnostic imaging services;
- a provider of pathology; and
- a provider of health technology.

As a medical centre operator, the Group provides a range of services and facilities to general practitioners, specialists and other health care providers who conduct their own practices and businesses at its medical centres. Further details of these activities can be found on pages 38 to 40 of the Annual Report.

## REVIEW AND RESULTS OF OPERATIONS

A review of the operations of the Company during the year, and the results of those operations, can be found on pages 2 to 4 of the Annual Report.

## EVENTS AFTER THE END OF THE YEAR

On 21 July 2008, the Company announced the sale of Symbion's Consumer business for A\$560 million to sanofi-aventis Australia Pty Ltd with completion occurring on 31 August 2008.

On 19 August 2008, the Company announced the sale of Symbion's Pharmacy business for A\$505 million to Zuellig Australia Pharmacy Services Pty Ltd with completion to occur on 30 November 2008.

Other than the events referred to above and in pages 81 to 82 there has not been any matter or circumstance, that has arisen since the end of the financial year, that in the opinion of Directors, has significantly affected, or may significantly affect, the operations of Primary, the results of those operations, or the state of affairs of Primary in future financial years.

## FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of Primary in future financial years and the expected results of those operations other than that disclosed in this Report is likely to result in unreasonable prejudice to Primary. Accordingly, no further information is included in this Report.

## DIVIDENDS

In respect of the financial year ended 30 June 2007, a final dividend of 24.0 cents per share, (100 per cent franked), was paid to the holders of fully paid ordinary shares on 24 September 2007.

In respect of the financial year ended 30 June 2008:

- an interim dividend of 22.0 cents per share (100 per cent franked), was paid to the holders of fully paid ordinary shares on 17 March 2008; and
- the Directors have approved the payment of a final dividend of 5.00 cents per share (100 per cent franked), to the holders of fully paid ordinary shares payable on 9 October 2008.

The Company operates a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP). During the year, shares issued pursuant to the DRP and BSP were 749,915 (2007: 676,955) and 466,124 (2007: 1,048,446) respectively.

## ROUNDING OFF OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, or where the amount is \$500 or less, zero in accordance with that Class Order.

# DIRECTORS' REPORT

For the year ended 30 June 2008

## SHARES UNDER OPTION

Options are held by both employees and independent contractors of Primary. Details of all unissued ordinary shares of the Company under option at the date of this Report are set out below. Further details of options are set out in note 6 to the financial statements in the Annual Report. No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

	GRANT DATE	EXPIRY DATE	EXERCISE PRICE AT REPORT DATE <sup>1</sup>	NUMBER
Issue 101	28 Feb 2003	30 Dec 2013	\$0.43	1,285,000
Issue 102	25 Jul 2003	30 Dec 2011	\$1.15	181,000
Issue 103	27 Feb 2004	24 Sep 2012	\$2.10	1,020,000
Issue 104	29 Oct 2004	2 Dec 2011	\$3.14	1,100,000
Issue 7	16 Feb 2005	7 Mar 2010	\$5.35	250,000
Issue 7a	16 Feb 2005	7 Mar 2012	\$5.35	200,000
Issue 8	1 Apr 2005	1 Apr 2010	\$5.15	465,000
Issue 105	11 Apr 2005	24 Mar 2012	\$5.45	100,000
Issue 106	1 Jun 2005	1 Jun 2014	\$5.18	500,000
Issue 9	1 Jun 2005	1 Jun 2010	\$5.18	458,000
Issue 107	5 Oct 2005	1 Nov 2013	\$7.51	1,025,000
Issue 108	13 Feb 2006	13 Feb 2012	\$8.30	30,000
Issue 10	13 Feb 2006	13 Feb 2010	\$8.28	100,000
Issue 10a	13 Feb 2006	13 Feb 2011	\$8.28	100,000
Issue 109	2 May 2006	2 Jun 2013	\$8.99	810,000
Issue 110	31 Oct 2006	13 Dec 2013	\$9.02	972,500
Issue 12	31 Oct 2006	29 Sep 2011	\$9.02	130,000
Issue 111	1 Jun 2007	19 Dec 2012	\$9.35	425,000
Issue 13	1 Jun 2007	1 Jul 2012	\$9.35	30,000
Issue 112	2 Nov 2007	6 Dec 2014	\$9.15	1,550,000
Issue 14	2 Nov 2007	31 Oct 2012	\$9.15	100,000
Balance at date of this Report				10,831,500

## SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of the Company were issued during or since the end of the year on the exercise of options. No amounts are unpaid on any of the shares.

		EXERCISE PRICE AT EXERCISE DATE <sup>1</sup>	NUMBER
During the year	Issue 5	\$3.38	20,000
	Issue 6	\$5.05	20,000
	Issue 9	\$5.18	2,000
	Issue 101	\$3.38	676,000
	Issue 102	\$4.10	129,000
	Issue 103	\$5.05	26,000
	Issue 104	\$6.09	30,000
	Since the end of the year	Issue 101	\$0.43
Issue 102		\$1.15	55,000
Issue 103		\$2.10	33,000
Issue 104		\$3.14	15,000

<sup>1</sup> The exercise price of all outstanding options was revised downwards by \$2.95 per share after the pro-rata entitlement offer completed during February 2008. This downwards revision of exercise price was made with the intention of preserving the value of options for option holders. In the case of employees, a formula in the terms of the option contract already implemented that intention. In the case of options held by independent contractors, shareholders approved the revision on 30 May 2008.

# DIRECTORS' REPORT

For the year ended 30 June 2008

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## QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES OF DIRECTORS

### **Gregory John Gardiner. BEc. Sydney, FCPA and FAICD Chairman (age 65)**

Mr. Gardiner joined the Board in 1995 as a Non-executive Director and Chairman. He is also Chairman of the Remuneration Committee and a member of the Audit Committee.

Mr. Gardiner has extensive finance and management experience including as Chief Executive of John Fairfax Ltd and Deputy Managing Director of Pioneer International Ltd. He is currently Chairman of HCF Limited and Fig Tree Developments Limited (Director since 2004). He was previously Chairman of Becker Group Limited (Director 1999-2007).

### **Edmund Gregory Bateman. M.B.,B.S. Managing Director (age 66)**

Dr Bateman was a founding member of the Board as Managing Director and CEO in 1994. He is a member of the Audit Committee.

Dr Bateman has overseen the development of the Company from the establishment of the first 24 hour medical centre through to the present day.

### **Brian Ball. B.Ec. Non-executive Director (age 59)**

Mr. Ball joined the Board in 1994 as a Non-executive Director. He is Chairman of the Audit Committee and member of the Remuneration Committee.

Mr. Ball is part owner and joint Managing Director of the private equity management company, Advent Private Capital Pty Ltd. Mr. Ball joined Advent in 1986 and has been Chairman or a Director on the boards of over 20 investee businesses receiving equity capital from funds managed by the Group as well as the Advent IV and Advent V private equity management funds.

Mr. Ball is currently Director of Advent Ltd (Director since 1997) and Managing Director of Advent III Private Equity Ltd (unlimited public company - Director since 1999).

### **Michael Joseph Christie. M.B.,B.S., F.R.A.C.G.P., Dip.Obs.R.A.C.O.G., B.Sc., M.A., B.A., B.A.Hons. Non-executive Director (age 65)**

Dr Christie joined the Board in 1994 as an Executive Director and is now a Non-executive Director. He is a member of the Audit Committee.

Dr Christie was Medical Director of the Chatswood Medical Centre until January 2001 and has extensive experience in general practice and the operation of medical centres.

### **John David Crawford. ANZIIF (Senior Associate), FAICD Non-executive Director (age 69)**

Mr. Crawford joined the Board in 1998 as a Non-executive Director. He is a member of the Audit Committee.

Mr. Crawford has had extensive insurance and management experience including as Deputy Group Managing Director of GIO Australia, Chairman of AA-GIO Insurance (NZ) and Freemans Australia and Deputy Chairman of RAA Insurance Ltd and RACQ Insurance Ltd. He is also a former Director of Northern Medical Research Foundation (2003 to 2006).

### **Stephen Higgs. B.Ec. Non-executive Director (age 61)**

Mr. Higgs joined the Board in 1999 as a Non-executive Director. He is a member of the Audit Committee and the Remuneration Committee.

Mr. Higgs has previous Board experience including as Chairman of Orlando Wines Group, Director of Jasco Limited, Leigh Marden Pty Ltd, Rural Press Limited, Freedom Nutritional Products Limited and IPAC Securities Limited. He is currently a Director of Peet & Co Limited (since 2004).

### **Terence Smith. MBE RFD ED. Non-executive Director (age 65)**

Mr. Smith joined the board in 2008 as a Non-executive Director. He is a member of the Audit Committee.

Mr. Smith has extensive management experience in marketing, distribution retail financial services and the insurance industry. Mr. Smith is Managing Director and Chief Executive Officer of the Hospital Contribution Fund of Australia Ltd, a position he has held since February 1990. He is also Vice President of the International Federation of Health Funds, President of the Australian Health Insurance Association Limited (since November 2001) and a Director of HCF Life Insurance Pty Ltd.

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## COMPANY SECRETARY

### Andrew Duff ICAEW., ACA., Chief Financial Officer and Company Secretary

Mr. Duff was appointed to the position of company secretary in 1998.

Mr. Duff is a member of the Institute of Chartered Accountants in Australia and also the Institute of Chartered Accountants in England and Wales. Before joining Primary Health Care Limited, Mr. Duff worked with a major accounting firm and in commerce.

## DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in shares (directly and indirectly owned) in the Company as at the date of this Report. No options over shares in the Company were held by Directors at the date of this Report.

	NUMBER OF SHARES
GJ Gardiner	-
EG Bateman	51,740,762
B Ball	62,000
MJ Christie	3,592,488
JD Crawford	61,722
S Higgs	811,777
T Smith	-

## INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring the Directors and Executive Officers of the Company and of any related body corporate, against liability incurred that is permitted to be covered by section 199B of the Corporations Act 2001. It is a condition of the insurance contract that its limits of indemnity, the nature of the liability indemnified and the amount of the premium not be disclosed.

The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

## NON-AUDIT SERVICES

During the year Deloitte Touche Tohmatsu, the Company's auditor, has performed certain other services in addition to their statutory duties. The Directors are satisfied that the provision of these non-audit services by the auditor (or by another person or firm on the auditor's behalf) is compatible with, and did not compromise, the auditor independence requirement of the *Corporations Act 2001*.

The Audit Committee review the non-audit services performed by the auditor on a case by case basis. A new policy has been adopted in July 2008 which outlines when they will approve non-audit services by the auditor. Further details are outlined in the Corporate Governance Report on pages 15 to 20.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in this Directors' Report. Details of amounts paid or payable to the auditor of the Company and its related practices for audit and non-audit services provided during the year are outlined in note 8 on page 49 of the Annual Report.

## ENVIRONMENTAL REGULATIONS

The operations of the Group are subject to various environmental regulations under both Commonwealth and State legislation. Based upon enquiries within the Group, the Directors are not aware of any material breaches of any particular and significant environmental regulation affecting the Group's operations.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings under section 237 of the Corporations Act 2001 have been brought on behalf of the Company and no application has been made for leave to bring, or to intervene in, such proceedings in respect of the Company.

# DIRECTORS' REPORT

For the year ended 30 June 2008

## REMUNERATION REPORT

The Directors of Primary Health Care Limited present the Remuneration Report prepared in accordance with section 300A of the Corporations Act for the Company and the consolidated entity for the year ended 30 June 2008.

The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act. This Remuneration Report forms part of the Directors' Report.

### A. EXECUTIVE REMUNERATION

The disclosures in this section relate to Primary Health Care Limited executives as listed in the table below. These individuals are the Key Management Personnel (KMP) of the Company (other than the Non-executive Directors) – namely the Managing Director and the senior executives with authority and responsibility for planning, directing and controlling the activities of the Company during the financial year. This table also represents the five Company and group executives who received the highest remuneration for the 2008 year.

#### Senior Executives

Throughout this remuneration Report, the term Senior Executives is used to refer to:

- the five most highly remunerated company/group executives; and
- all other executives who fall within the definition of key management personnel of the Group (being those persons with authority and responsibility for planning, directing and controlling the activities of the Group) (KMP) including the Managing Director.

<b>Current KMP (2008)</b>	<b>Title</b>
Dr Edmund Bateman	Group Managing Director
Mr Henry Bateman	General Manager – Medical Centres
Mr James Bateman	Chief Operating Officer – Diagnostic Services
Mr Andrew Duff	Chief Financial Officer
Mr John Frost	Chief Executive Officer – Health Technology
Mr Stephen James	General Manager – Diagnostic Imaging
Mr Adam Lieutenant	Property Manager

<b>Former KMP (2007)</b>	<b>Title</b>
Dr Edmund Bateman	Group Managing Director
Mr Henry Bateman	General Manager – Medical Centres
Mr James Bateman	Chief Operating Officer – Diagnostic Services
Mr Andrew Duff	Chief Financial Officer
Mr John Frost	Chief Executive Officer – Health Technology
Mr Adam Lieutenant	Property Manager

#### Board policy on remuneration

The Board's policy on remuneration is designed to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Group's operations. The Board's Remuneration Committee reviews the remuneration packages of all Directors and Senior Executives on an annual basis and makes recommendations to the Board. Independent experts are available to the Remuneration Committee, if required, to assist in its deliberations. Remuneration packages are reviewed with due regard to performance and other relevant factors. As well as a base salary, senior executive remuneration packages include superannuation and fringe benefits without creating additional cost for the Company. Executives may also be eligible to participate in the Company's Employee Option Plan.

There is no direct link between a Senior Executive's remuneration and the performance of Primary. Primary does not have any service contracts with its specified Senior Executives.

There were no key changes to the remuneration policy of Senior Executives during the year.

### Company strategy and performance

Primary's medical centre management business was formally established in 1985 with one medical centre and Primary has been listed on the ASX since 1998. Primary has since grown to become Australia's largest medical centre operator with a network of 41 large scale medical centres across Australia. In addition Primary now delivers a broad range of pathology services and is a leading provider of health technology services to medical practitioners.

The table below demonstrates the continued growth and strong performance of the Group over the four years ended 30 June 2007. The financial results for the year ended 30 June 2008 were significantly affected by the acquisition of Symbion Health Limited. The Company incurred significant one-off costs in relation to the transaction which materially affected the Profit Attributable to Equity holders and Earnings Per Share.

It is anticipated that the Symbion acquisition in 2008 will provide Primary with an expanded base for the continued implementation of Primary's growth strategy, through:

- backfilling of existing medical centres;
- continued medical centre roll out;
- benefits of scale in diagnostics; and
- further penetration of health technology.

Primary is now included in the S&P/ASX 100 index effective 19 September 2008.

	YEAR ENDED 30 JUNE				
	2008	2007	2006	2005	2004
Profit Attributable to Equity holders of Primary Health Care Ltd (\$000)	6,777	56,903	47,480	37,622	18,041
Share price at end of year (\$)	5.20	12.68	11.85	9.10	5.55
Interim dividend (cents per share)	22.00	21.00	20.00	12.00	7.50
Final dividend (cents per share)	5.00	24.00	22.00	13.00	10.00
Special dividend (cents per share)	-	-	8.00	-	-
Earnings Per Share (cents)	2.47	32.48	27.95	24.02	17.69

#### Notes

- Primary adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004, which resulted in various changes in its accounting policies from that date. The NPAT and the earnings used in the EPS calculation for the year ended 30 June 2004 are reported in accordance with Primary's previous accounting policies as permitted under Australian accounting standards as applicable at that time.
- All dividends are franked to 100% at 30% corporate income tax rate.
- Final and special dividends were declared after the balance date and were therefore paid in the following financial year.
- The weighted average number of shares used in the calculation of EPS in all years, except 30 June 2004, has been adjusted for the impact of the pro-rata entitlement offer that took place in February and March 2008.

### Components of Remuneration

As indicated above, remuneration for Senior Executives has the following components:

#### **Fixed remuneration**

The terms of employment for all Senior Executives contain a fixed remuneration component expressed as a dollar amount. The executive may take this amount in a form agreed with the Company. Fixed remuneration is made up of base salary, company superannuation contributions and benefits, including fringe benefits tax. This amount of remuneration is not "at risk" but is set by reference to appropriate benchmark information for an individual's responsibilities, performance, qualifications, experience and location.

# DIRECTORS' REPORT

For the year ended 30 June 2008

## *"At risk" remuneration – option plan*

Options may be issued to Senior Executives under the Company's Employee Option Plan at the sole discretion of the Board. Further details of the Plan are included in note 6 to the financial statements. The Board will not consider issuing options to a Senior Executive in the normal course of events until the executive has served a minimum of two years with the Company. The options will normally be exercisable a minimum of three years after date of issue to senior executive. Options are not linked to performance.

During the current financial year, no options were issued to Senior Executives and none of their existing options lapsed or were exercised. The exercise price of all outstanding options was revised downwards by \$2.95 per share after the pro-rata entitlement offer completed during February 2008. This downwards revision of exercise price was made with the intention of preserving the value of options for option holders. In the case of employees, a formula in the terms of the option contract already implemented that intention. The market price of shares in Primary Health Care Limited, immediately before the pro-rata entitlement offer opened, on 13 February 2008 was \$10.22.

Full details of options held by Senior Executives can be found in note 25.

## **Bonus**

In addition to fixed remuneration and options, the Senior Executives remuneration included a non-recurring bonus to key executives on completion of the successful takeover of Symbion Health Limited. The bonuses do not form part of a recurring payment program nor do they entitle the recipient to any future payment. The Remuneration Committee determined the bonuses paid were appropriate to grant in light of the extra ordinary and professional work undertaken to ensure a successful takeover of Symbion Health Limited. The Senior Executives to whom these non-recurring bonuses were paid have also been an integral part of the growth of the business over the past five years which enabled such a significant takeover to succeed.

## **Details of contracts of CEO and Senior Executives**

The remuneration and other terms of employment for Senior Executives are not formalised in employment and service agreements, however each Senior Executive is entitled to leave and notice provisions in accordance with the relevant state or commonwealth legislation.

## **Details of remuneration paid**

The following tables disclose the total remuneration of the KMP of the Company and Group (excluding Non-executive Directors) and prior year comparisons. The 2008 table also discloses the five group executives that received the highest remuneration for this year.

<b>2008</b>	<b>SHORT TERM EMPLOYEE BENEFITS: SALARY/ FEES</b>	<b>BENEFITS: BONUS</b>	<b>POST EMPLOYMENT BENEFITS: SUPER- ANNUATION</b>	<b>SHARE BASED PAYMENTS: OPTIONS<sup>1</sup></b>	<b>TOTAL</b>	<b>OPTIONS AS A % OF TOTAL</b>
<b>Managing Director</b>						
E Bateman	386,871	-	13,129	-	<b>400,000</b>	-
<b>Senior Executives</b>						
H Bateman	186,954	500,000	13,129	13,914	<b>713,997</b>	1.9
J Bateman	362,141	3,000,000	13,129	-	<b>3,375,270</b>	-
A Duff	361,957	2,000,000	13,129	84,095	<b>2,459,181</b>	3.4
J Frost	302,752	250,000	27,248	95,958	<b>675,958</b>	14.2
S James	308,414	250,000	13,129	118,803	<b>690,346</b>	17.2
A Lieutenant	186,954	500,000	13,129	13,914	<b>713,997</b>	1.9
<b>TOTAL</b>	<b>2,096,043</b>	<b>6,500,000</b>	<b>106,022</b>	<b>326,684</b>	<b>9,028,749</b>	<b>3.6</b>

# DIRECTORS' REPORT

For the year ended 30 June 2008

<b>2007</b>	<b>SHORT TERM EMPLOYEE BENEFITS:</b>	<b>EMPLOYEE BENEFITS:</b>	<b>POST EMPLOYMENT BENEFITS: SUPER-ANNUATION</b>	<b>SHARE BASED PAYMENTS: OPTIONS<sup>1</sup></b>	<b>TOTAL</b>	<b>OPTIONS AS A % OF TOTAL</b>
	<b>SALARY/ FEES</b>	<b>BONUS</b>				
<b>Managing Director</b>						
E Bateman	370,450	-	6,343	-	<b>376,793</b>	-
<b>Senior Executives</b>						
H Bateman	181,057	-	12,686	18,552	<b>212,295</b>	8.7
J Bateman	363,406	-	12,686	-	<b>376,092</b>	-
A Duff	356,066	-	12,686	111,212	<b>479,964</b>	23.2
J Frost	309,813	-	12,686	121,524	<b>444,023</b>	27.4
S James	-	-	-	-	-	-
A Lieutenant	181,057	-	12,686	18,552	<b>212,295</b>	8.7
<b>TOTAL</b>	<b>1,761,849</b>	<b>-</b>	<b>69,773</b>	<b>269,840</b>	<b>2,101,462</b>	<b>12.8</b>

<sup>1</sup> Options are valued at grant date using a binomial option-pricing model. The total fair value of options at grant date is allocated evenly over each of the reporting periods between grant date and vesting date. That portion of the fair value of options granted in any financial year which has been allocated to the current and previous financial year are shown in the tables above.

## B. NON-EXECUTIVE DIRECTOR REMUNERATION

### Board policy on non-executive remuneration

Non-executive Directors receive a fixed fee, which includes superannuation contributions. Fees are not linked to the performance of the Company so that independence and impartiality is maintained. Superannuation contributions are made at a rate of 9%, which satisfies the Company's statutory superannuation obligations.

An additional fee (currently \$30,000) is paid to the Chairman of the Board, recognising the additional time commitment required. There has been no change in the fees paid to non-executive Directors in the current financial year. The last increase occurred in May 2007.

Non-executive Directors do not accrue separate retirement benefits in addition to statutory superannuation entitlements.

<b>2008</b>	<b>GROSS SALARY</b>	<b>SUB COMMITTEE FEES</b>	<b>SUPER CONTRIBUTIONS</b>	<b>TOTAL</b>
<b>Directors</b>				
Greg Gardiner	82,568	250,000	7,432	<b>340,000</b>
Brian Ball	60,000	-	-	<b>60,000</b>
John Crawford	55,045	100,000	4,955	<b>160,000</b>
Michael Christie	55,045	-	4,955	<b>60,000</b>
Stephen Higgs	55,045	-	4,955	<b>60,000</b>
Terrence Smith <sup>1</sup>	9,174	-	826	<b>10,000</b>
<b>TOTAL</b>	<b>316,877</b>	<b>350,000</b>	<b>23,123</b>	<b>690,000</b>

# DIRECTORS' REPORT

For the year ended 30 June 2008

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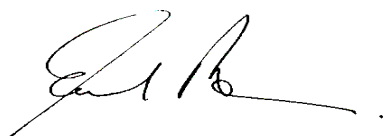
<b>2007</b>	<b>GROSS SALARY</b>	<b>SUB COMMITTEE FEES</b>	<b>SUPER CONTRIBUTIONS</b>	<b>TOTAL</b>
<b>Directors</b>				
Greg Gardiner	81,422	-	7,328	<b>88,750</b>
Brian Ball	58,750	-	-	<b>58,750</b>
John Crawford	53,899	-	4,851	<b>58,750</b>
Michael Christie	53,899	-	4,851	<b>58,750</b>
Stephen Higgs	53,899	-	4,851	<b>58,750</b>
John Joseph <sup>2</sup>	21,789	-	1,961	<b>23,750</b>
<b>TOTAL</b>	<b>323,658</b>	<b>-</b>	<b>23,842</b>	<b>347,500</b>

<sup>1</sup>Mr Smith became a Non-executive Director on 21 April 2008 and therefore no comparative year figures. Figures shown in 2008 are remuneration paid from this appointment date.

<sup>2</sup>Mr Joseph retired from his position of Non-executive Director on 22 November 2006. Figures shown in 2007 are remuneration paid up to his retirement date.

Signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors



**Edmund Bateman - Director**

Sydney 29 September 2008

# CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2008

The Directors of Primary Health Care Limited are responsible for the corporate governance practices of the Company and the Group (**Primary**). In August 2007 the ASX Corporate Governance Council released its revised Corporate Governance Principles & Recommendations (**Recommendations**). Whilst the Company is not required to report against the revised Recommendations until the 2009 financial year, the ASX is encouraging companies to transition to the revised Recommendations as early as possible. Accordingly, this statement reports the Company's main corporate governance practices as currently in operation against the revised Recommendations.

## CORPORATE GOVERNANCE PRINCIPLES

Prior to the takeover of Symbion Health Limited in March 2008, Primary had a close and long standing senior executive team managed by a long standing Board. This flat line management structure ensured Primary's corporate governance policies and procedures were entrenched within the Board, senior executives and employees. With the recent takeover activity and the resultant increase in company size, as well as the need to transition to the revised Recommendations, the Company determined that it was necessary to formalise the existing policies and procedures and to undertake an extensive review of its corporate governance policies and procedures as part of this process. This review has resulted in formalised, or new and updated, if appropriate, policies and procedures to comply with the Revised Recommendations.

Copies of the charters and policies, or summaries thereof, referred to in this Corporate Governance Statement are available on our website, [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au).

## ROLE AND RESPONSIBILITY OF BOARD AND MANAGEMENT

The Board has adopted a formal Board Charter which includes details in relation to the responsibilities of the Board and its relationship with management. The management function is conducted by, or under the supervision of, the CEO as directed by the Board (and by other officers to whom management function is properly delegated by the CEO).

The Charter also sets out the role of the Board which is to:

- represent and serve the interests of shareholders by overseeing and appraising the strategies, policies and performance of the Company;
- overview the financial and human resources the Company has in place to meet its objectives and review management performance;
- protect and optimise Company performance and build sustainable value for shareholders;
- monitor and review the effectiveness of the occupational health, safety and environment practices of the Company; and
- ensure shareholders are kept informed of the Company's performance and major developments affecting its state of affairs.

In carrying out its responsibilities and functions, the Board may delegate any of its powers to a Board committee, a director, employee or other person. However, the Board acknowledges that it retains ultimate responsibility for the exercise of such powers under the Corporations Act.

### *General*

General responsibilities/function of the Board include:

- selecting, appointing and evaluating the performance of, determining the remuneration of, and planning for the successor of, the Managing Director ("MD");
- reviewing procedures in place for appointment of and monitoring of senior management, its performance and succession planning;
- approval of, management and development of corporate strategy;
- reviewing and guiding systems of risk management and internal control and ethical and legal compliance;
- monitoring corporate performance and implementation of strategy and policy; and
- monitoring and reviewing management processes in place aimed at ensuring the integrity of financial and other reporting.

# CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2008

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## *Risk management*

The Board's specific function with respect to risk management is to review and satisfy itself that:

- the Company's ongoing risk management program effectively identifies all areas of potential risk;
- adequate policies and procedures have been designed and implemented to manage identified risks;
- proper remedial action is undertaken to redress areas of weakness; and
- overseeing the most significant risks, how they are changing and how they are being mitigated.

The Board has determined that due to the small size of the Board, it is not considered necessary or appropriate to maintain a separate Occupational Health, Safety & Environment Committee and Nomination Committee and that the responsibilities generally performed by these Committees are assumed by the Board. These responsibilities are included in the Board Charter and can be summarised as follows:

## *Occupational Health, Safety & Environment (OHS&E)*

- monitoring and reviewing all aspects of OHS&E risks that are relevant to Primary's operations;
- reviewing all significant OHS&E policies;
- ensuring adequate procedures are in place to support Primary's OHS&E policies;
- monitoring compliance with Primary's policies and procedures and overseeing incident investigations and receiving and monitoring reports from management regarding the adequacy of performance and compliance; and
- reviewing major initiatives, developments and long term strategies in the health, safety and environment area.

## *Nomination of Directors and Corporate Governance*

- reviewing the size and composition of the Board, criteria for Board membership, membership of the Board, and potential candidates for appointment;
- reviewing succession plans;
- considering the appointment and removal of directors to the Board;
- arranging for the performance evaluation of the Board, its Committees and individual Directors;
- reviewing corporate governance issues; and
- ensuring effective induction process is in place for new Directors.

As part of its role in relation to the nomination of directors, the Board devises criteria for Board membership. The key criteria for the selection of suitable candidates is their capacity to contribute to the ongoing development of Primary, having regard to Primary's business and the candidate's experience and the attributes of existing Board members. Where a vacancy exists on the Board, or where it is considered that the Board would benefit from the services of a new director with particular skills, suitable candidates will be proposed for consideration. Where appropriate, the services of external consultants will be engaged.

## **BOARD COMPOSITION**

The Board has seven Directors – six Non-executive Directors, including the Chairman, and one Executive Director, the Managing Director. The names, skills, experience, expertise and appointment dates of the current Directors of the Company are set out on page 8 of the Annual Report.

The size and composition of the Board is determined by the full Board and pursuant to the Board Charter, it is intended that the Board should comprise a majority of independent Non-executive Directors and comprise directors with a broad range of skills, expertise and experience from a diverse range of backgrounds.

# CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2008

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## *Director Independence and Professional Advice*

Having considered the various positions and relationships of each of the Non-executive Directors, and in light of the definition of independence and assessment procedures discussed below, the Board considers all current Non-executive Directors, including the Chairman, to be independent.

The Board has adopted the definition of, and the guidelines for assessing, "independence" set out in the Revised Recommendations. These guidelines seek to determine whether the Director is independent of management and generally free of any interest and any business or other relationship that could, or could be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

The Board assesses materiality on a case by case basis and has adopted the following materiality threshold to assist that assessment. Where the Director has an affiliation with a business that provides to, or acquires from, Primary goods or services in the ordinary course of business on an arms-length basis and that, during the last three years, accounts for less than 2% of consolidated gross revenue or costs (from the separate perspectives of both the Company and the particular business in question), this should be regarded as immaterial for the purpose of determining independence.

The Board periodically reviews the independence of each Director in light of the interests disclosed to the Board and has procedures for potential conflicts to be raised.

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfill their duties and responsibilities as directors.

The Board has previously determined that it is not necessary or appropriate to maintain a Nomination Committee. As outlined above, the responsibilities traditionally performed by such a Committee are assumed by the Board.

In relation to new Non-executive Director appointments, the Director participates in an induction program involving one-on-one information sessions with senior management.

A copy of the Board Charter is available on Primary's website [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au).

## **PERFORMANCE REVIEW OF THE BOARD, COMMITTEES, INDIVIDUAL DIRECTORS AND SENIOR EXECUTIVES**

During the year, an informal review of the Board and individual Directors' was conducted by the Chairman. From 1 August the Board Charter has formalised the review procedure and it is intended to conduct reviews of the Directors, its committees and individual Directors in line with these procedures in future.

As noted above, the Board is responsible for selecting, appointing and evaluating the performance of the CEO and the monitoring of senior management's performance. During the year, the performance of the CEO was evaluated by the Board and the Remuneration Committee and the performance of senior executives was evaluated by the CEO and the Remuneration Committee in line with previous policies. The Remuneration Committee has since adopted a formal charter on 1 August 2008 (as discussed on page 20).

## **ETHICAL AND RESPONSIBLE DECISION MAKING**

### *Code of Conduct*

A Code of Conduct was adopted by the Company on 1 August 2008 and sets out the principles by which Primary directors and employees will conduct business. The Code of Conduct covers the following: compliance with law and regulations; corporate integrity and social responsibility; conflicts of interest; maintaining information privacy and confidentiality; copyright; action with delegated authority; use of systems; inside information; improper benefits; misappropriation; conduct with the workplace and political activities. Where a breach of Code of Conduct is believed to have occurred it is to be reported in line with the policy.

# CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2008

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## *Trading in Company securities*

The Board has written policies and procedures in place to ensure directors, officers and employees do not trade in the Company's shares in breach of the Corporations Act prohibitions on insider trading and/or compromise confidence in the Company's practices in relation to share dealings.

Directors, officers, employees and their associates (where the transaction are known to the employee) are not permitted to buy or sell Company shares where they are in possession of unpublished price-sensitive information in relation to the securities. In respect of all Directors and Senior Executives, the Chairman must be informed of any trading prior to transaction. The trading restriction also applies where an individual is in possession of unpublished price-sensitive information in relation to the securities of any other listed entity by virtue of their position in the Company. Any breaches of this policy may lead to disciplinary action, including termination.

A copy of the Code of Conduct and a summary of the trading in securities policy are available on Primary's website [www.primaryhealthcare.com.au](http://www.primaryhealthcare.com.au).

## **AUDIT COMMITTEE**

An Audit Committee Charter was endorsed by the Board on 1 August 2008. The Audit and Compliance Committee Charter sets out the key responsibilities and functions of the Audit Committee which are to:

- oversee the Company's relationship with the external auditor and the external audit function generally;
- oversee the preparation of the financial statements and reports; and
- oversee the Company's financial controls and systems.

During the year until April 2008, the Audit Committee comprised of the whole Board, however following a review in April 2008, the structure of the Audit Committee was changed so that its members consist only of Non-executive Directors. The Charter further provides that the Audit Committee shall consist of a majority of independent Directors, an independent Chair who is not Chairman of the Board and a minimum of three Board members. The current members of the Audit Committee who were also members for the year are:

- Mr B Ball (Chairman);
- Mr J Crawford;
- Mr G Gardiner; and
- Mr S Higgs.

At least one member of the Audit Committee must have past employment experience in finance and accounting, requisite professional certification in accounting, or other comparable experience or background. Details of the member's qualifications are set out on page 8 of the Annual Report. Details of the number of Committee meetings held during the year and attendance at those meetings are set out in the Directors Report on page 5 of the Annual Report.

The Audit Committee invites the Chief Financial Officer and the external auditors to attend Audit Committee meetings. Other individual (such as the Managing Director) may also attend meetings of the Audit Committee by invite. The Audit Committee also meets with and receives reports from the external auditors concerning any matters which arise in connection with the performance of their role, including the adequacy of internal controls. The external auditors have been appointed since the Company listed in 1995, and their continued appointment is periodically reviewed. The Lead External Audit Engagement Partner was rotated during the year and, under current policy, is required to rotate at least once every five years.

# CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2008

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## TIMELY AND BALANCED DISCLOSURE

Primary has put in place mechanisms to ensure the provision of timely, full and accurate disclosure to the market. In order to comply with the continuous disclosure obligations under the Corporations Act and Australian Stock Exchange (ASX) Listing Rules, the Company has an entrenched continuous disclosure policy which aims to ensure that all investors have equal and timely access to material information concerning Primary – including its financial situation, performance, ownership and governance and that company announcements are factual and presented in a clear and balanced way.

The identification and monitoring of matters which may require disclosure in accordance with the Company's continuous disclosure policy occurs on a regular basis at weekly management meetings attended by Senior Management. If a matter is identified as potentially requiring disclosure the matter is reported through to the Board by the Managing Director, Chief Financial Officer and Company Secretary.

## RIGHTS OF SHAREHOLDERS

The Company's shareholder communication strategy has been developed to provide shareholders with accurate, relevant and timely information to enable them to exercise their rights as shareholders in an informal manner and to provide potential investors and other interested stakeholders equal and timely access to information about the Company.

In particular Primary provides a comprehensive website that includes copies of all information lodged with the ASX as well as other Company information. It also encourages shareholders to provide email addresses in order to receive email notification of all Company announcements. In addition, the AGM provides an open forum for the Board to engage in direct dialogue with the Company's shareholders and is an opportunity for shareholders to express views and respond to Board proposals.

## RISK MANAGEMENT

The Board is responsible for the Company's system of internal controls. The Board through reporting by management constantly monitors the operational and financial aspects of the Company's activities and, through the Audit Committee, the Board considers the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the Company.

The Board ensures that recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

The identification, monitoring and reporting of risk occurs on a continuous basis at weekly management meetings attended by Senior Management and where necessary is reported through to the Board by the Managing Director and Chief Financial Officer. Due to this regular review and reporting process, formalised policies for the oversight and management of material business risks have not previously been prepared. However, such policies are being developed for the reasons referred to earlier in this Corporate Governance Statement. Management has separately reported to the Board as to the effectiveness of the Company's management of its material business risks based on the processes and procedures in place to date.

It is intended that the Symbion internal audit function, formerly located in Melbourne, will be replaced with one located in Sydney during FY09/10.

# CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2008

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## *Declaration of the Managing Directors and Chief Financial Officer*

The Managing Director and Chief Financial Officer provide the Board with written confirmation that:

- The financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- This statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and control system is operating effectively in all material respects in relation to financial reporting risks.

The Board has received the above declaration from the Managing Director and Chief Financial Officer for this year.

## **REMUNERATION COMMITTEE**

A Remuneration Committee Charter was endorsed by the Board on 1 August 2008. The Remuneration Committee is responsible for:

- reviewing and determining the remuneration arrangements for the Managing Director and other senior executives including short term incentive strategies, performance targets and bonus payments;
- reviewing Primary's remuneration policies and personnel practices and strategies generally;
- reviewing and recommending to the Board major changes/developments to long term incentive plans and approving allocation of securities and other equity instruments within the delegated authority from the Board;
- reviewing and recommending to the Board the remuneration arrangements for Non-executive members of the Board; and
- reviewing and recommending to the Board the remuneration report prepared in accordance with the Corporations Act.

The Charter provides that the Remuneration Committee shall consist of a majority of independent Directors, an independent Chair and a minimum of three Non-executive Directors. The current members of the Remuneration Committee who were also members for the year are:

- GJ Gardiner (Chairman);
- B Ball;
- S Higgs.

Details of Directors' attendance at meetings of the Remuneration Committee are included in the Directors' Report. The Remuneration Committee reviews the remuneration packages of all directors and executive officers on an annual basis and makes recommendations to the Board. Remuneration packages, which consist of base salary, superannuation and entitlements upon retirement or termination, are reviewed with due regard to performance and other relevant factors.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the Remuneration Committee seeks the advice of external advisers in connection with the structure of remuneration packages.

Particulars concerning Directors' and Senior Executives' remuneration are set out in the Directors' Report.

**AUDITOR'S INDEPENDENCE DECLARATION**  
For the year ended 30 June 2008

**Deloitte.**

The Board of Directors  
Primary Health Care Limited  
30-38 Short Street  
LEICHHARDT NSW 2040

Deloitte Touche Tohmatsu  
A.B.N. 74 490 121 060

Grosvenor Place  
225 George Street  
Sydney NSW 2000  
PO Box N250 Grosvenor Place  
Sydney NSW 1220 Australia

DX 10307SSE  
Tel: +61 (0) 2 9322 7000  
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www.deloitte.com.au

Dear Directors

**Primary Health Care Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of Primary Health Care Limited.

As lead audit partner for the audit of the financial statements of Primary Health Care Limited for the financial year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Helen Hamilton-James  
Partner  
Chartered Accountants  
Sydney, 29 September 2008

# INDEPENDENT AUDIT REPORT

To the members of Primary Health Care Limited

# Deloitte.

Deloitte Touche Tohmatsu  
A.B.N. 74 490 121 060

Grosvenor Place  
225 George Street  
Sydney NSW 2000  
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## **Report on the Financial Report**

We have audited the accompanying financial report of Primary Health Care Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, cash flow statement and statement of changes in equity 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 as set out on pages 24 to 82.

### *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 Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control 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 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### *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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. 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.

### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's Opinion*

In our opinion:

- (a) the financial report of Primary Health Care limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their 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*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

# INDEPENDENT AUDIT REPORT

To the members of Primary Health Care Limited

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## **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 10 to 14 of the Directors' Report for the year ended 30 June 2008. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's Opinion*

In our opinion the Remuneration Report of Primary Health Care limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Helen Hamilton - James  
Partner  
Chartered Accountants  
Sydney, 29 September 2008

# DIRECTORS' DECLARATION

For the year ended 30 June 2008

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1. In the opinion of the Directors of Primary Health Care Limited (the Company):
  - (a) the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the Group;
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
  - (c) there are reasonable grounds to believe that the Company and the controlled entities identified in note 27 will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.
2. The Directors have been given the declarations required by s.295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2008.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.



Edmund Bateman  
Director

Sydney 29 September 2008

# INCOME STATEMENT

For the year ended 30 June 2008

	NOTE	CONSOLIDATED		COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Trading revenue	3	649,641	272,262	-	-
Other revenue	4	12,369	8,122	100,235	74,111
Share of net profits of associates accounted for using the equity method	26	353	-	-	-
Employee benefits expense		295,855	79,929	-	-
Share based payments expense	6	1,741	2,566	-	-
Operating lease rental expense		50,063	15,430	-	-
Other property expenses		13,708	10,184	-	-
Consumables		67,809	21,596	-	-
Consultancy fees		11,159	11,083	-	-
Health technology expenses		10,388	10,060	-	-
Communication expense		15,552	6,282	-	-
Transport expense		8,661	1,840	-	-
Loss on sale of plant and equipment		-	31	-	-
Other expenses		27,643	7,077	-	-
Impairment of plant and equipment	10	6,500	-	-	-
Impairment of other financial assets		3,915	-	3,915	-
Depreciation	10	31,583	15,938	-	-
Amortisation of intangibles	12	8,387	5,185	-	-
Finance costs	5	102,254	12,064	87,943	-
<b>Profit for the year before income tax</b>		<b>7,145</b>	<b>81,119</b>	<b>8,377</b>	<b>74,111</b>
Income tax (benefit) expense	7a	(2,254)	24,357	(15,071)	21,343
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>		<b>9,399</b>	<b>56,762</b>	<b>23,448</b>	<b>52,768</b>
Loss for the year from discontinued operations	32	(1,810)	-	-	-
<b>PROFIT FOR THE YEAR</b>		<b>7,589</b>	<b>56,762</b>	<b>23,448</b>	<b>52,768</b>
Attributable to:					
Equity holders of Primary Health Care Limited		6,777	56,903	23,448	52,768
Minority interest		812	(141)	-	-
<b>PROFIT FOR THE YEAR</b>		<b>7,589</b>	<b>56,762</b>	<b>23,448</b>	<b>52,768</b>

Notes to the financial statements are included on pages 30 to 82

## FURTHER INCOME STATEMENT DISCLOSURES

For the year ended 30 June 2008

<b>EARNINGS PER SHARE (CONSOLIDATED)</b>	NOTE	<b>2008 CENTS PER SHARE</b>	2007 CENTS PER SHARE
<b>Basic earnings per share</b>			
From continuing operations		<b>3.13</b>	32.48
From discontinued operations		<b>-0.66</b>	-
Total basic earnings per share	20	<b>2.47</b>	32.48
<b>Diluted earnings per share</b>			
From continuing operations		<b>3.11</b>	31.35
From discontinued operations		<b>-0.66</b>	-
Total diluted earnings per share	20	<b>2.45</b>	31.35

<b>DIVIDENDS (COMPANY &amp; CONSOLIDATED)</b>	<b>2008 CENTS PER SHARE</b>	2007 CENTS PER SHARE	<b>2008 \$000</b>	2007 \$000
<b>Recognised amounts</b>				
Final dividend – previous financial year	<b>24.0</b>	22.0	<b>30,143</b>	27,111
Special dividend - previous financial year	-	8.0	-	9,944
Interim dividend – this financial year	<b>22.0</b>	21.0	<b>31,359</b>	26,159
Dividend forgone under the Bonus Share Plan	-	-	<b>(5,564)</b>	(12,441)
	<b>46.0</b>	51.0	<b>55,938</b>	50,773
<b>Unrecognised amounts</b>				
Final dividend - this year	<b>5.0</b>	24.0	<b>18,555</b>	30,090

All dividends are fully franked at the corporate income tax rate (2008: 30%, 2007: 30%). The record date for determining entitlement to the final dividend is 12 September 2008. The final dividend is payable on 9 October 2008. The Company offers a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP). The last date for the receipt of an election notice for participation in these plans is 12 September 2008.

**BALANCE SHEET**  
For the year ended 30 June 2008

	NOTE	CONSOLIDATED		COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Current assets</b>					
Cash	30a	7,784	780	-	-
Income tax receivable		11,061	-	11,061	-
Receivables	9a	141,004	30,960	115	73,034
Consumables		21,228	5,044	-	-
		181,077	36,784	11,176	73,034
Non-current assets classified as held for sale		1,286,412	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>1,467,489</b>	<b>36,784</b>	<b>11,176</b>	<b>73,034</b>
<b>Non-current assets</b>					
Receivables	9b	2,014	-	1,099,424	176,798
Property, plant and equipment	10	349,006	151,366	-	-
Goodwill	11	2,836,728	372,255	-	-
Other intangible assets	12	79,166	39,919	-	-
Investments in associates accounted for using the equity method		2,850	-	-	-
Other investments	13	1,648	2,440	2,835,143	180,058
Deferred tax asset	7b	59,409	3,738	26,901	3,561
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,330,821</b>	<b>569,718</b>	<b>3,961,468</b>	<b>360,417</b>
<b>TOTAL ASSETS</b>		<b>4,798,310</b>	<b>606,502</b>	<b>3,972,644</b>	<b>433,451</b>
<b>Current liabilities</b>					
Payables	14a	103,785	13,839	3,630	-
Deferred revenue		11,951	5,527	-	-
Tax liabilities	7c	21,171	7,851	211	7,617
Provisions	15a	104,298	2,984	-	-
Interest bearing liabilities	17a	2,196,419	6,240	2,178,455	117
		2,437,624	36,441	2,182,296	7,734
Liabilities directly associated with non-current assets classified as held for sale		535,762	-	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,973,386</b>	<b>36,441</b>	<b>2,182,296</b>	<b>7,734</b>
<b>Non-current liabilities</b>					
Payables	14b	1,504	336	-	-
Provisions	15b	58,964	1,694	-	-
Interest bearing liabilities	17b	3,311	158,625	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>63,779</b>	<b>160,655</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>3,037,165</b>	<b>197,096</b>	<b>2,182,296</b>	<b>7,734</b>
<b>NET ASSETS</b>		<b>1,761,145</b>	<b>409,406</b>	<b>1,790,348</b>	<b>425,717</b>
<b>Equity</b>					
Issued Capital	19	1,705,351	310,834	1,725,216	330,699
Reserves	21	7,574	4,748	7,352	4,748
Retained profits	22	44,241	93,402	57,780	90,270
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>1,757,166</b>	<b>408,984</b>	<b>1,790,348</b>	<b>425,717</b>
Minority Interest		3,979	422	-	-
<b>TOTAL EQUITY</b>		<b>1,761,145</b>	<b>409,406</b>	<b>1,790,348</b>	<b>425,717</b>

Notes to the financial statements are included on pages 30 to 82

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
<b>BALANCE AT THE BEGINNING OF THE YEAR</b>	<b>408,984</b>	392,415	<b>425,717</b>	412,984
Foreign currency translation reserve				
Currency translation differences arising during year	<b>222</b>	-	-	-
Available-for-sale investments revaluation reserve				
Valuation (loss) gain taken to equity – gross	<b>(1,771)</b>	3,091	<b>(1,771)</b>	(1,842)
Transfer to income statement – gross	<b>3,915</b>	(6,007)	<b>3,915</b>	(1,074)
Deferred tax movement	<b>(643)</b>	875	<b>(643)</b>	875
Cash flow hedges reserve				
Realised (loss) gain amortised to the income statement, net of tax	-	(209)	-	90
Valuation gain taken to equity – gross	<b>115</b>	-	<b>115</b>	-
Deferred tax movement	<b>(34)</b>	-	<b>(34)</b>	-
Capital raising costs, net of tax, taken directly to equity	<b>(31,772)</b>	(50)	<b>(31,772)</b>	(50)
<b>NET EXPENSE RECOGNISED DIRECTLY IN EQUITY</b>	<b>(29,968)</b>	(2,300)	<b>(30,190)</b>	(2,001)
Profit attributable to equity holders	<b>6,777</b>	56,903	<b>23,448</b>	52,768
<b>TOTAL RECOGNISED INCOME AND EXPENSE ATTRIBUTABLE TO EQUITY HOLDERS</b>	<b>(23,191)</b>	54,603	<b>(6,742)</b>	50,767
Other equity transactions				
Share based payments expense	<b>1,741</b>	2,566	<b>1,741</b>	2,566
Share options exercised	<b>3,307</b>	2,137	<b>3,307</b>	2,137
Other share issues	<b>1,416,208</b>	-	<b>1,416,208</b>	-
Dividends recognised	<b>(55,938)</b>	(50,773)	<b>(55,938)</b>	(50,773)
Dividends reinvested under DRP	<b>6,055</b>	8,036	<b>6,055</b>	8,036
<b>BALANCE AT THE END OF THE YEAR</b>	<b>1,757,166</b>	408,984	<b>1,790,348</b>	425,717

Notes to the financial statements are included on pages 30 to 82

# CASH FLOW STATEMENT

For the year ended 30 June 2008

	NOTE	CONSOLIDATED		COMPANY	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Cash flows from operating activities</b>					
Receipts from customers		661,170	283,454	-	-
Distributions received		-	-	-	98,799
Payments to suppliers and employees		(479,182)	(180,191)	-	-
Income tax paid		(20,667)	(21,109)	(17,391)	(21,109)
Proceeds on cancellation of interest rate swap		7,225	-	-	-
Interest received		5,583	380	1,486	3
Dividends received		6,916	-	-	-
Interest paid		(127,791)	(11,907)	(123,978)	-
<b>Net cash provided by (used in) continuing operating activities</b>		<b>53,254</b>	<b>70,627</b>	<b>(139,883)</b>	<b>77,693</b>
Net cash used in discontinued operating activities		(1,255)	-	-	-
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	30b	<b>51,999</b>	<b>70,627</b>	<b>(139,883)</b>	<b>77,693</b>
<b>Cash flows from investing activities</b>					
Payment for property plant and equipment		(65,579)	(35,129)	-	-
Payment for businesses purchased	30e	(2,708,142)	(44,721)	-	-
Payments for subsidiaries	30e	-	-	(2,652,315)	(1,146)
Payment for other intangibles		(5,841)	(4,880)	-	-
Payment for investments		(201)	(167,057)	(201)	(3,596)
Proceeds from the sale of property plant and equipment		136	8,743	-	-
Proceeds from the sale of other intangibles		505	171,351	-	2,707
Loans from (to) related entities		-	-	(749,847)	(35,031)
<b>Net cash used in continuing investing activities</b>		<b>(2,779,122)</b>	<b>(71,693)</b>	<b>(3,402,363)</b>	<b>(37,066)</b>
Net cash used in discontinued investing activities		(2,549)	-	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(2,781,671)</b>	<b>(71,693)</b>	<b>(3,402,363)</b>	<b>(37,066)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares		1,419,515	2,137	1,419,515	2,137
Payments for share issue costs		(45,389)	(50)	(45,389)	(50)
Proceeds from borrowings		2,218,000	48,000	2,218,000	-
Repayment of borrowings and finance lease liabilities		(783,219)	(5,756)	-	-
Dividends paid		(83,185)	(42,737)	(49,883)	(42,737)
<b>Net cash provided by (used in) continuing financing activities</b>		<b>2,725,722</b>	<b>1,594</b>	<b>3,542,243</b>	<b>(40,650)</b>
Net cash used in discontinued financing activities		(89)	-	-	-
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		<b>2,725,633</b>	<b>1,594</b>	<b>3,542,243</b>	<b>(40,650)</b>
<b>NET (DECREASE) INCREASE IN CASH HELD</b>		<b>(4,039)</b>	<b>528</b>	<b>(3)</b>	<b>(23)</b>
Cash at the beginning of the year		(2,605)	(3,133)	(117)	(94)
Effect of exchange rate movements on cash held in foreign currencies		(260)	-	-	-
<b>CASH AT THE END OF THE YEAR</b>	30a	<b>(6,904)</b>	<b>(2,605)</b>	<b>(120)</b>	<b>(117)</b>

Notes to the financial statements are included on pages 30 to 82

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Statement of compliance*

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the Company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 26 September 2008.

### *Adoption of new and revised standards*

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The following standards adopted by the Group have only impacted on the Group's financial statements with respect to disclosure - AASB 101 'Presentation of Financial Statements', AASB 7 'Financial Instruments: Disclosures' and AASB 2008-4 'Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities'.

### *Early adoption of Standards*

None of the following Australian Accounting Standards, which have been issued but apply to accounting periods beginning on or after 1 January 2009, have been early adopted.

AASB 8 'Operating Segments' and AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8' potentially change the composition of operating segments which must be based on the internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The changes affect disclosure only and have no impact on the reported results or the financial position of the Group.

AASB 3 'Business Combinations', AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127' change the treatment of several aspects of acquisition accounting which would impact the reported results and the financial position of the Group in respect of acquisitions made after 1 July 2009.

AASB 2008-1 'Amendments to Australian Accounting Standard – Share Based Payments: Vesting Conditions and Cancellations' clarifies the treatment of vesting conditions and cancellations in AASB 2 'Share Based Payments'. These clarifications are not expected to have a material impact on the reported results and the financial position of the Group.

AASB 101 'Presentation of Financial Statements' (September 2007). The changes affect disclosure only and have no impact on the reported results or the financial position of the Group.

### *Critical accounting estimates*

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

### *Going concern*

The Group has a net current asset deficiency of \$1,505,897 and the parent entity has a net current asset deficiency of \$2,171,120 due to the group's borrowings being classified as current. The Group has an option to extend the current facility for a further 12 months and therefore the Directors of the Company believe that the entity will continue operating as a going concern. As a result, the financial statements have been prepared on a going concern basis.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Basis of preparation*

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars.

The Company is a Company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

### (a) Basis of consolidation

The consolidated financial report comprises the financial statements of the parent company (holding company) and all its controlled entities (subsidiaries) and equity accounting of all its associated entities.

### *Subsidiaries*

Subsidiaries are those entities controlled by the Company. Control is the power of an entity, directly or indirectly, to govern the financial and operating policies of another entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial report from the date that control is obtained until the date that control ceases.

All inter-entity transactions, balances and any unrealised gains and losses arising from inter-entity transactions have been eliminated on consolidation. Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Accounts of foreign controlled entities, prepared in accordance with foreign accounting principles are, for consolidation purposes, amended to conform with A-IFRS and the policies adopted by the consolidated entity.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

### *Associated entities*

Associates are entities over which the consolidated entity has significant influence, but not control, over the financial and operating policies of the entity. The consolidated entity's share of the total recognised gains and losses of associates is included in the consolidated financial statements on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

When the consolidated entity's share of the losses exceeds its interest in the associate, the consolidated entity's carrying amount of the associate investment is reduced to nil and no further losses are recognised unless the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

Unrealised gains arising from transactions with associates are eliminated to the extent of the consolidated entity's interest in the entity with adjustments made to "investment in associates" and "share of associates net profit". Unrealised losses are eliminated in the same way as unrealised gains.

In the Company's financial statements, investments in associates are carried at the lower of cost and recoverable amount.

### *Jointly controlled entities*

Jointly controlled entities are those entities over whose activities the consolidated entity has joint control, established by a contractual agreement, including partnerships.

The consolidated entity's share of the jointly controlled entity's net profit or loss is recognised in the consolidated income statement, on an equity accounted basis, from the date joint control is established until the date joint control ceases. Other reserve movements are recognised directly in consolidated reserves. Investments in jointly controlled entities are carried at the lower of the equity accounted amount and recoverable amount.

In the Company's financial statements, investments in jointly controlled entities are carried at cost and recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 Business Combinations are recognised at their fair values at acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell. (refer note 1(q))

Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

If the fair values to be assigned to the acquiree's identifiable assets can only be determined provisionally by the first balance date after acquisition, then the acquirer will use provisional acquisition accounting for the first balance date. Any adjustments to those provisional values as a result of completing the initial accounting will be recognised within twelve months of the acquisition date and from the acquisition date.

Provisions for the cost of restructuring entities acquired can only be recognised as part of the acquisition accounting if the acquiree had, at the acquisition date, recognised an existing liability for restructuring.

### (c) Foreign Currency

#### *Foreign currency transactions*

Foreign currency transactions are translated to functional currency at the foreign exchange rate ruling at the transaction dates.

At balance date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling on that date. Exchange differences arising on retranslation are brought to account as exchange gains or losses in the income statement in the period in which the exchange rates change.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated at exchange rates ruling at the date the fair value was determined. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are not retranslated.

#### *Foreign statements of foreign operations*

The results and financial position of foreign operations of controlled entities have been translated to Australian dollars as follows:

- assets and liabilities including goodwill and fair value adjustments arising on consolidation are translated at the closing rate ruling at balance sheet date;
- income and expenses are translated at rates approximating the foreign exchange rate ruling at the date of the transactions; and
- all foreign exchange differences arising on translation are recognised directly in a separate component of equity.

### (d) Revenue recognition

#### *Rendering of health related services*

Revenue generated from the rendering of health related services is recognised once the services have been provided.

#### *Government grants*

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the period in which it becomes receivable.

#### *Software revenue*

Fees and royalties paid for the use of the Group's health technology software are recognised in accordance with the relevant agreement. Where the agreement includes an identifiable amount for subsequent servicing, that amount is deferred and recognised as revenue over the period during which the service is performed. The expenses in relation to this revenue are also recognised over the period during which the service is performed. All other amounts are typically recognised as revenue immediately.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Revenue recognition (continued)

#### *Dividend and Interest revenue*

Dividend revenue from investments is recognised when the Group's right to receive payment has been established. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### *Rental income*

Revenue from operating leases is recognised in accordance with the Group's accounting policy outlined in Note 1(l).

### (e) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 July 2004, are measured at fair value at the date of grant. Fair value is measured by use of an appropriate option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. At each balance sheet date, the company revises its estimates of the number of instruments that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to reserves.

### (f) Finance costs

Finance costs comprise interest expense and the amortisation of costs associated with arranging finance. Interest costs directly attributable to construction in progress are capitalised as part of the cost of the construction in progress. All other interest costs are recognised in profit or loss in the period in which they are incurred. Costs associated with arranging finance are amortised to the profit and loss statement over the life of the related finance. See also note 1(t).

### (g) Income tax

#### *Current tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### *Deferred tax*

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### *Current and deferred tax for the period*

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Income tax (continued)

#### *Tax consolidation*

Primary Health Care Limited and all of its Australian wholly-owned controlled entities have implemented the tax consolidation legislation. The head entity, Primary Health Care Limited, and the controlled entities in the tax consolidated group continue to account for their own deferred tax amounts in relation to temporary differences. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right. In addition to its own current and deferred tax amounts, Primary Health Care Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group. Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

### (h) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

### (i) Consumables

Consumables represent medical and laboratory supplies. They are valued at the lower of cost, on a first in first out basis, and net realisable value.

### (j) Financial assets

The consolidated entity classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables, investments and available-for-sale financial assets. The classification of the financial asset depends upon the purpose for which the investment was acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

#### *Financial assets at fair value through profit or loss*

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- has been acquired principally for the purpose of selling in the near future;
- is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost, using the effective interest rate method, less impairment losses. Interest calculated using the effective interest rate method is recognised in the income statement.

#### *Available-for-sale financial assets*

Certain shares held by the Group are classified as being available-for-sale and are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period. Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive the dividends is established.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Property, plant and equipment

Construction in Progress is carried at the lower of initial cost plus capitalised development expenditure and recoverable amount.

Land and buildings, plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is calculated on a straight line basis so as to write off the net cost of each asset to its estimated residual value, over its expected useful life, or for leasehold improvements, over the period of the lease or its expected useful life, whichever is the shorter. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- Buildings on freehold land 40 years
- Freehold land Not depreciated
- Plant and equipment 3 – 20 years
- Leasehold improvements 1 – 20 years

### (l) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *Group entity as lessor*

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

#### *Group entity as lessee*

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### (m) Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired.

### (n) Other intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment, and are amortised on a straight line basis over their useful lives. The useful lives used in the calculation of amortisation are disclosed in note 12. All of the consolidated entity's intangible assets have been acquired apart from development costs. The conditions under which development costs can be capitalised are set out below. All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Other intangible assets (continued)

#### *Research and development costs*

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

### (o) Useful lives

The useful life of property, plant and equipment and other intangibles shall be reviewed at least annually and, where changed, shall be accounted for as a change in accounting estimate. Where useful lives are changed, the net written down value of the asset is depreciated or amortised from the date of the change in accordance with the new useful life. Depreciation and amortisation recognised in prior financial years shall not be changed, that is, the change in useful life shall be accounted for on a 'prospective basis'.

### (p) Impairment of assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss relating to an asset other than Goodwill subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

An impairment of Goodwill is not subsequently reversed.

### (q) Non-current assets held for sale and discontinued operations

When the consolidated entity acquires a non-current asset (or disposal group) exclusively with a view to its subsequent disposal, it classifies the non-current asset (or disposal group) as held for sale at the acquisition date. If the newly acquired asset is acquired as part of a business combination, it is measured at fair value less costs to sell. Non-current assets and the assets and liabilities of disposal groups are presented separately on the balance sheet.

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale. The single amount disclosed on the face of the profit and loss statement and entitled 'profit for the year from discontinued operations' comprises;

- the post-tax profit or loss of discontinued operations; and
- the post-tax gain or loss on the disposal of the assets or disposal group constituting discontinued operations.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

### (s) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

### (t) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest method.

### (u) Provisions

Provisions are recognised when the Group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

#### *Self-insured workers' compensation*

Australian businesses provide for self-insured workers' compensation under the licensing conditions of the respective States. The provisions are based on independent actuarial assessments of claim liabilities and IBNR factors.

#### *Restructuring*

A provision for restructuring is recognised when a detailed and formal restructuring plan has been approved and the restructuring has either commenced or has been publicly announced by the consolidated entity. Future operating costs are not provided for.

#### *Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived by the consolidated entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

### (v) Financial instruments issued by the Company

#### *Debt and equity instruments*

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

#### *Transaction costs on the issue of equity instruments*

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

#### *Interest and dividends*

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (w) Derivatives

The consolidated entity uses derivative financial instruments to hedge its foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the consolidated entity does not enter, hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Controls have been put in place to monitor compliance with this policy.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The gain or loss on derivatives which are not part of a hedging relationship are recognised immediately in the income statement. The method of recognising the gain or loss on derivatives that are part of a hedging transaction depends on the nature of the item being hedged (see below).

#### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in equity. The gain or loss relating to the ineffective portion of the derivative financial instrument is recognised immediately in the income statement.

When the forecasted transaction subsequently results in the recognition of a non-financial asset or liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or liability, then the associated gains and losses previously recognised in equity are reclassified into profit or loss in the same period during which the asset acquired or liability assumed affects profit or loss.

Excluding cash flow hedges covered by the preceding two policy statements, the associated cumulative gain or loss on a cash flow hedge is removed from equity and recognised in the income statement in the same period during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is immediately recognised in the income statement.

#### *Hedge of monetary assets and liabilities*

When a derivative financial instrument is used to hedge economically the foreign exchange exposure of a recognised monetary asset or liability, hedge accounting is not applied and any gain or loss on the hedging instrument is recognised in the income statement.

## 2. SEGMENT INFORMATION (CONSOLIDATED)

The Group operates substantially within Australia. For management purposes, the Group is organised into the four major operating divisions described below;

Medical centres – This division provides a range of services and facilities to general practitioners, specialists and other health care providers who conduct their own practices and businesses at its medical centres.

Imaging – This division provides imaging and scanning services from stand-alone imaging sites and from within the consolidated entity's medical centres.

Pathology operations – This division provides pathology services.

Health Technology – This division develops, sells and supports health related software products.

The consolidated entity's discontinued operations relate to newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition. The operations of these subsidiaries are not consistent with the operations of any of the four major operating segments described above and as such, segment information for these subsidiaries has not been disclosed. For more information on the consolidated entity's discontinued operations, refer to note 32.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 2. SEGMENT INFORMATION (CONSOLIDATED) (continued)

<b>2008</b>	Medical Centres \$000	Imaging \$000	Pathology \$000	Health Technology \$000	Unallo- cated \$000	<b>Total \$000</b>
<b>Segment revenue</b>	<b>189,144</b>	<b>128,826</b>	<b>310,278</b>	<b>38,611</b>	-	<b>666,859</b>
Intersegment sales	(12,234)	-	-	(4,984)	-	(17,218)
<b>TRADING REVENUE</b>	<b>176,910</b>	<b>128,826</b>	<b>310,278</b>	<b>33,627</b>	-	<b>649,641</b>
<b>Segment EBITDA before restructuring costs and impairment losses</b>	<b>105,512</b>	<b>19,171</b>	<b>53,215</b>	<b>11,362</b>	<b>(14,509)</b>	<b>174,751</b>
Depreciation	(11,341)	(12,853)	(5,851)	(536)	(1,002)	(31,583)
Amortisation of intangibles	(1,365)	(1,058)	(645)	(4,635)	(684)	(8,387)
<b>Segment result before restructuring costs and impairment losses</b>	<b>92,806</b>	<b>5,260</b>	<b>46,719</b>	<b>6,191</b>	<b>(16,195)</b>	<b>134,781</b>
Direct restructuring expenses	(7,403)	(8,939)	(4,213)	-	(7,134)	(27,689)
Impairment of plant and equipment	(1,125)	(4,205)	(1,170)	-	-	(6,500)
Impairment of other financial assets	-	-	-	-	(3,915)	(3,915)
<b>Segment result</b>	<b>84,278</b>	<b>(7,884)</b>	<b>41,336</b>	<b>6,191</b>	<b>(27,244)</b>	<b>96,677</b>
Other revenue						12,369
Share of net profits of associates accounted for using the equity method						353
Finance costs						(102,254)
<b>Profit for the year before income tax from continuing operations</b>						<b>7,145</b>
Segment assets	1,324,619	506,874	1,556,029	139,475	17,092	3,544,089
Intersegment assets	-	-	-	-	(107,159)	(107,159)
Investments accounted for using the equity method	-	2,850	-	-	-	2,850
Other investments	-	-	-	-	1,648	1,648
Tax balances	-	-	-	-	70,470	70,470
Assets classified as held for sale	-	-	-	-	1,286,412	1,286,412
<b>CONSOLIDATED ASSETS</b>	<b>1,324,619</b>	<b>509,724</b>	<b>1,556,029</b>	<b>139,475</b>	<b>1,268,463</b>	<b>4,798,310</b>
Segment liabilities	132,042	72,324	98,021	15,808	65,836	384,031
Intersegment liabilities	-	-	-	-	(107,159)	(107,159)
Accrued interest	-	-	-	-	3,630	3,630
Interest bearing liabilities	-	-	-	-	2,199,730	2,199,730
Tax balances	-	-	-	-	21,171	21,171
Liabilities associated with assets classified as held for sale	-	-	-	-	535,762	535,762
<b>CONSOLIDATED LIABILITIES</b>	<b>132,042</b>	<b>72,324</b>	<b>98,021</b>	<b>15,808</b>	<b>2,718,970</b>	<b>3,037,165</b>
<b>CAPITAL EXPENDITURE</b>	<b>50,597</b>	<b>7,519</b>	<b>6,704</b>	<b>749</b>	<b>10</b>	<b>65,579</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 2. SEGMENT INFORMATION (CONSOLIDATED) (continued)

	Medical Centres	Imaging	Pathology	Health Technology	Unallo- cated	Total
<b>2007</b>	\$000	\$000	\$000	\$000	\$000	\$000
<b>Segment revenue</b>	<b>140,134</b>	<b>22,017</b>	<b>88,854</b>	<b>31,375</b>	-	<b>282,380</b>
Intersegment sales	(10,118)	-	-	-	-	(10,118)
<b>TRADING REVENUE</b>	<b>130,016</b>	<b>22,017</b>	<b>88,854</b>	<b>31,375</b>	-	<b>272,262</b>
<b>Segment EBITDA</b>	<b>86,929</b>	<b>6,909</b>	<b>14,256</b>	<b>10,241</b>	<b>(12,151)</b>	<b>106,184</b>
Depreciation	(9,345)	(4,304)	(1,368)	(436)	(485)	(15,938)
Amortisation of intangibles	(304)	-	-	(4,881)	-	(5,185)
<b>Segment result</b>	<b>77,280</b>	<b>2,605</b>	<b>12,888</b>	<b>4,924</b>	<b>(12,636)</b>	<b>85,061</b>
Other revenue						8,122
Finance costs						(12,064)
<b>Profit for the year before income tax from continuing operations</b>						<b>81,119</b>
Segment assets	500,126	-	120,235	133,856	-	754,217
Intersegment assets	-	-	-	-	(153,893)	(153,893)
Other investments	-	-	-	-	2,440	2,440
Tax balances	-	-	-	-	3,738	3,738
<b>CONSOLIDATED ASSETS</b>	<b>500,126</b>	<b>-</b>	<b>120,235</b>	<b>133,856</b>	<b>(147,715)</b>	<b>606,502</b>
Segment liabilities	90,899	-	84,101	13,402	-	188,402
Intersegment liabilities	-	-	-	-	(153,893)	(153,893)
Tax balances	-	-	-	-	7,617	7,617
Interest bearing liabilities	-	-	-	-	154,970	154,970
<b>CONSOLIDATED LIABILITIES</b>	<b>90,899</b>	<b>-</b>	<b>84,101</b>	<b>13,402</b>	<b>8,694</b>	<b>197,096</b>
<b>CAPITAL EXPENDITURE</b>	<b>32,958</b>	<b>-</b>	<b>1,620</b>	<b>551</b>	<b>-</b>	<b>35,129</b>

In the 2007 financial statements, Primary Health Care's imaging segment result was included in its medical centre segment result. In the current financial year, Primary Health Care's imaging segment result has been included with the results of Symbion Health's imaging segment. The segment result comparatives have been restated however, it is not practical to restate the segment asset and liability comparatives.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

### 3. TRADING REVENUE

Consolidated trading revenue includes \$309,000 (2007: \$1,073,000) of Government Grants. Government Grants received by the Group are part of the Commonwealth Government's 'Investing in After Hours GP Services Program' which provides funding to assist medical practices to remain open outside of normal hours. There are no unfulfilled conditions in relation to these grants. These grants are shown gross, before related expenses.

4. OTHER REVENUE	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Dividends:				
Controlled entities	-	-	40,000	-
Other entities	6,471	-	-	-
	6,471	-	40,000	-
Interest:				
Controlled entities	-	-	2,569	-
Other entities	5,583	380	1,486	3
	5,583	380	4,055	3
Distributions from wholly-owned unit trusts	-	-	56,180	73,034
Net profit on sale of investments	-	6,007	-	1,074
Net profit on sale of property, plant and equipment	32	702	-	-
Realised gain on interest rate swaps	197	299	-	-
Unrealised gain on interest rate swaps	-	135	-	-
Reversal of associate losses booked in prior years	-	599	-	-
Discount on acquisition	86	-	-	-
	12,369	8,122	100,235	74,111

5. FINANCE COSTS	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Interest – finance leases	548	755	-	-
Interest – other borrowings	106,407	11,014	59,385	-
Unwinding present value of payables and provisions	264	-	-	-
Interest rate swap payments	599	-	599	-
Borrowing costs	33,144	560	27,959	-
<b>TOTAL FINANCE COSTS</b>	140,962	12,329	87,943	-
Less capitalised interest	-	(265)	-	-
<b>FINANCE COSTS EXPENSED</b>	140,962	12,064	87,943	-
Attributable to:				
Continuing operations	102,254	12,064	87,943	-
Discontinued operations	38,708	-	-	-
<b>FINANCE COSTS EXPENSED</b>	140,962	12,064	87,943	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 6. SHARE BASED PAYMENTS

### (a) Overview

The Company issues share options to both independent contractors and employees of the Group.

Prior to the 2003 financial year, the Company issued share options to three of the Group's key executives (issues 1 to 4). These issues were not made under a formalised Option Plan and their vesting was conditional upon the market price of Primary Health Care Limited shares exceeding various levels up to \$7.50.

During the 2003 financial year, the Company introduced an Employee Option Plan to formalise the issue of options to employees. Under this Plan, at the discretion of management, the Company may grant (without payment) share options to long term key employees, including executives, allowing them to participate in the future growth of the Company. Each option is convertible into one ordinary share of the Company on payment of the exercise price during the two years following the vesting date, which is generally three years after the option is granted. The exercise price is the weighted average market price for the five days preceding the date the option is granted. The options hold no voting or dividend rights and are not transferable. The Company does not provide any loans or guarantees to enable employees to finance the exercise of their options. Options lapse if the employee ceases to be employed by the Group.

The Company has also issued options to some of its key independent contractors. These options are not issued under a Plan. They are made from time to time at the discretion of the Board. Options issued to independent contractors to date have been issued without payment. They have vesting periods of between one and eight years. Once vested, they are convertible into one ordinary share of the Company on payment of the exercise price. The exercise price is generally the weighted average market price for the five days preceding the date the option is granted. The options hold no voting or dividend rights and are not transferable. The Company does not provide any loans or guarantees to enable independent contractors to finance the exercise of their options. Options lapse if the independent contractor ceases to have a contractual relationship with the Group or if they are not exercised before their expiry date which is generally two years after their vesting date.

A summary of options issued is set out on the following pages. Issues 1 to 14 have been issued to employees and issues 100 to 112 have been issued to independent contractors.

The exercise price of all outstanding options was revised downwards by \$2.95 per share after the pro-rata entitlement offer completed during February 2008. This downwards revision of exercise price was made with the intention of preserving the value of options for option holders. In the case of employees, a formula in the terms of the option contract already implemented that intention. In the case of options held by independent contractors, shareholders approved the revision on 30 May 2008.

### (b) Expenses arising from share based payment transactions

Options are valued at grant date using a binomial option-pricing model. The option-pricing model inputs for options granted in the current financial year include:

(i) expected price volatility of the Company's shares:	15.0%	(2007: 15.0%)
(ii) expected dividend yield:	4.5%	(2007: 4.5% - 5.1%)
(iii) risk free interest rate:	6.5%	(2007: 5.1% - 5.8%)

Exercise prices and expiry dates of options granted in the year are contained in the tables on the following pages. Expected volatility is based on the historical share price volatility. The total fair value of options at grant date is allocated evenly over each of the reporting periods between grant date and vesting date. That portion of the fair value of options granted in any financial year which has been allocated to the current and previous financial year is shown in the table below.

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Options issued to independent contractors	1,306	1,902	-	-
Options issued to employees	435	664	-	-
	<b>1,741</b>	<b>2,566</b>	<b>-</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 6. SHARE BASED PAYMENTS (continued)

### (c) Details of option issues

	GRANT DATE	VALUE PER OPTION AT GRANT DATE	EXPIRY DATE	EXERCISE PRICE		EARLIEST DATE EXERCISABLE
				PRE 1 MAR 08	POST 1 MAR 08	
Issue 4	9 Nov 2001	1.71	27 Jul 2011	\$4.50	NA	One third after 27 Jul 2004
		1.88				One third after 27 Jul 2005
		2.03				One third after 27 Jul 2006
Issue 5	28 Feb 2003	0.65	28 Feb 2008	\$3.38	\$0.43	28 Feb 2006
Issue 6	1 Mar 2004	0.70	28 Feb 2009	\$5.05	\$2.10	1 Mar 2007
Issue 7	16 Feb 2005	1.31	7 Mar 2010	\$8.30	\$5.35	7 Mar 2008
Issue 7a	16 Feb 2005	1.51	7 Mar 2012	\$8.30	\$5.35	7 Mar 2010
Issue 8	1 Apr 2005	1.11	1 Apr 2010	\$8.10	\$5.15	1 Apr 2008
Issue 9	1 Jun 2005	1.12	1 Jun 2010	\$8.13	\$5.18	1 Jun 2008
Issue 10	13 Feb 2006	1.37	13 Feb 2010	\$11.23	\$8.28	13 Feb 2008
Issue 10a	13 Feb 2006	1.59	13 Feb 2011	\$11.23	\$8.28	13 Feb 2009
Issue 11	13 Feb 2006	1.38	13 Feb 2010	\$11.20	\$8.25	13 Feb 2008
Issue 12	31 Oct 2006	1.06	29 Sep 2011	\$11.97	\$9.02	29 Sep 2009
Issue 13	1 Jun 2007	1.24	1 Jul 2012	\$12.30	\$9.35	1 July 2010
Issue 14	2 Nov 2007	1.40	1 Nov 2012	\$12.10	\$9.15	1 Nov 2010
Issue 101	28 Feb 2003	0.65 – 1.04	30 Dec 2013	\$3.38	\$0.43	23 Feb 2006
Issue 102	25 Jul 2003	0.60 – 1.20	30 Dec 2011	\$4.10	\$1.15	6 Jan 2005
Issue 103	27 Feb 2004	0.58 – 0.92	24 Sep 2012	\$5.05	\$2.10	1 Jul 2005
Issue 104	29 Oct 2004	0.72 – 0.94	2 Dec 2011	\$6.09	\$3.14	1 Oct 2006
Issue 105	11 Apr 2005	1.21 – 1.39	24 Mar 2012	\$8.40	\$5.45	11 Apr 2008
Issue 106	1 Jun 2005	0.97 – 1.36	1 Jun 2014	\$8.13	\$5.18	1 Jun 2007
Issue 107	5 Oct 2005	1.56 – 1.94	1 Nov 2013	\$10.46	\$7.51	2 Oct 2008
Issue 108	13 Feb 2006	1.74	13 Feb 2012	\$11.25	\$8.30	13 Feb 2010
Issue 109	2 May 2006	1.17 – 1.97	2 Jun 2013	\$11.94	\$8.99	6 Jul 2007
Issue 110	31 Oct 2006	1.04 – 1.25	13 Dec 2013	\$11.97	\$9.02	1 Aug 2009
Issue 111	1 Jun 2007	1.10 – 1.39	19 Dec 2012	\$12.30	\$9.35	1 Oct 2009
Issue 112	2 Nov 2007	1.15 – 1.75	6 Dec 2014	\$12.10	\$9.15	1 Nov 2009

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 6. SHARE BASED PAYMENTS (continued)

### (d) Movement in number of options outstanding

<b>2008</b>	OPENING BALANCE	GRANTED DURING YEAR	EXERCISED DURING YEAR	LAPSED DURING YEAR	<b>CLOSING BALANCE</b>	VESTED AND EXERCISABLE AT END OF YEAR
Issue 5	20,000	-	(20,000)	-	-	-
Issue 6	20,000	-	(20,000)	-	-	-
Issue 7	250,000	-	-	-	<b>250,000</b>	250,000
Issue 7a	200,000	-	-	-	<b>200,000</b>	-
Issue 8	485,000	-	-	(20,000)	<b>465,000</b>	465,000
Issue 9	460,000	-	(2,000)	-	<b>458,000</b>	458,000
Issue 10	100,000	-	-	-	<b>100,000</b>	100,000
Issue 10a	100,000	-	-	-	<b>100,000</b>	-
Issue 12	130,000	-	-	-	<b>130,000</b>	-
Issue 13	30,000	-	-	-	<b>30,000</b>	-
Issue 14	-	100,000	-	-	<b>100,000</b>	-
Issue 101	2,131,000	-	(676,000)	(20,000)	<b>1,435,000</b>	335,000
Issue 102	365,000	-	(129,000)	-	<b>236,000</b>	86,000
Issue 103	1,137,000	-	(26,000)	(58,000)	<b>1,053,000</b>	175,000
Issue 104	1,235,000	-	(30,000)	(90,000)	<b>1,115,000</b>	35,000
Issue 105	150,000	-	-	(50,000)	<b>100,000</b>	50,000
Issue 106	540,000	-	-	(40,000)	<b>500,000</b>	350,000
Issue 107	1,232,500	-	-	(207,500)	<b>1,025,000</b>	-
Issue 108	30,000	-	-	-	<b>30,000</b>	-
Issue 109	810,000	-	-	-	<b>810,000</b>	90,000
Issue 110	972,500	-	-	-	<b>972,500</b>	-
Issue 111	425,000	-	-	-	<b>425,000</b>	-
Issue 112	-	1,550,000	-	-	<b>1,550,000</b>	-
	<b>10,823,000</b>	<b>1,650,000</b>	<b>(903,000)</b>	<b>(485,500)</b>	<b>11,084,500</b>	<b>2,394,000</b>
Weighted average exercise price	\$7.68	\$12.10	\$3.67	\$8.21	<b>\$5.69</b>	\$7.36

Options were exercised regularly during the year ended 30 June 2008 at the weighted average share price of \$11.19.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 6. SHARE BASED PAYMENTS (continued)

### (d) Movement in number of options outstanding (continued)

<b>2007</b>	OPENING BALANCE	GRANTED DURING YEAR	EXERCISED DURING YEAR	LAPSED DURING YEAR	CLOSING BALANCE	VESTED AND EXERCISABLE AT END OF YEAR
Issue 4	13,334	-	(13,334)	-	-	-
Issue 5	70,000	-	(50,000)	-	<b>20,000</b>	20,000
Issue 6	235,000	-	(200,000)	(15,000)	<b>20,000</b>	20,000
Issue 7	250,000	-	-	-	<b>250,000</b>	-
Issue 7a	200,000	-	-	-	<b>200,000</b>	-
Issue 8	485,000	-	-	-	<b>485,000</b>	-
Issue 9	480,000	-	-	(20,000)	<b>460,000</b>	-
Issue 10	100,000	-	-	-	<b>100,000</b>	-
Issue 10a	100,000	-	-	-	<b>100,000</b>	-
Issue 11	100,000	-	-	(100,000)	-	-
Issue 12	-	130,000	-	-	<b>130,000</b>	-
Issue 13	-	30,000	-	-	<b>30,000</b>	-
Issue 101	2,395,000	-	-	(264,000)	<b>2,131,000</b>	133,000
Issue 102	527,500	-	(142,500)	(20,000)	<b>365,000</b>	20,000
Issue 103	1,249,000	-	(32,000)	(80,000)	<b>1,137,000</b>	34,000
Issue 104	1,313,000	-	(25,000)	(53,000)	<b>1,235,000</b>	30,000
Issue 105	150,000	-	-	-	<b>150,000</b>	-
Issue 106	540,000	-	-	-	<b>540,000</b>	140,000
Issue 107	1,232,500	-	-	-	<b>1,232,500</b>	-
Issue 108	30,000	-	-	-	<b>30,000</b>	-
Issue 109	810,000	-	-	-	<b>810,000</b>	-
Issue 110	-	1,050,000	-	(77,500)	<b>972,500</b>	-
Issue 111	-	425,000	-	-	<b>425,000</b>	-
	<b>10,280,334</b>	<b>1,635,000</b>	<b>(462,834)</b>	<b>(629,500)</b>	<b>10,823,000</b>	<b>397,000</b>

Weighted average exercise price	\$6.76	\$12.06	\$4.62	\$6.33	<b>\$7.68</b>	\$5.52
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Options were exercised regularly during the year ended 30 June 2007 at the weighted average share price of \$12.31.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>7. TAX BALANCES</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>

## (a) Income tax expense

The prima facie income tax expense on pre tax accounting profit reconciles to the income tax expense in the financial statements as follows :

Continuing operations	7,145	81,119	8,377	74,111
Discontinued operations	(2,650)	-	-	-
Profit before income tax expense	4,495	81,119	8,377	74,111
Income tax calculated at 30% (2007 – 30%)	1,349	24,336	2,513	22,233
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Research and development allowance	(225)	(225)	-	-
Share based payments expense	522	770	462	770
Amortisation	-	-	(1,297)	(1,445)
Fully franked dividend income	(1,942)	-	(13,942)	-
Reversal of associate losses booked in prior years	-	(180)	-	-
Costs relating to acquisition of subsidiary	(2,800)	-	(2,800)	-
Share of net profits of associates accounted for using equity method	(105)	-	-	-
Other	276	-	-	-
	(2,925)	24,701	(15,064)	21,558
Under (over) provision in prior years	(169)	22	(7)	15
Current year income tax losses not booked (from partly owned subsidiary)	-	94	-	-
Recoupment of income tax losses not previously booked	-	(230)	-	-
Recoupment of capital tax losses not previously booked	-	(230)	-	(230)
	(3,094)	24,357	(15,071)	21,343
Comprising :				
Current tax	14,265	23,849	(4,664)	21,535
Deferred tax	(17,190)	486	(10,400)	(207)
Under (over) provision in prior years	(169)	22	(7)	15
	(3,094)	24,357	(15,071)	21,343
Attributable to:				
Continuing operations	(2,254)	24,357	(15,071)	21,343
Discontinued operations	(840)	-	-	-
	(3,094)	24,357	(15,071)	21,343

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 7. TAX BALANCES (continued)

### (b) Reconciliation of deferred tax balances

<b>2008</b>	OPENING BALANCE	ACQUIRED	CHARGED TO INCOME	CHARGED TO EQUITY	CLOSING BALANCE
<b>CONSOLIDATED</b>					
Receivables	(835)	(7,967)	773	-	<b>(8,029)</b>
Consumables	(1,513)	(4,000)	(298)	-	<b>(5,811)</b>
Cash flow hedges	-	(2,067)	2,067	(34)	<b>(34)</b>
Available-for-sale investments	643	-	1,175	(643)	<b>1,175</b>
Other	-	(14,034)	-	-	<b>(14,034)</b>
Provisions	1,307	40,375	4,049	-	<b>45,731</b>
Finance leases	203	(465)	(10)	-	<b>(272)</b>
Payables	633	6,629	(220)	-	<b>7,042</b>
Intangibles	1,849	-	(1,410)	-	<b>439</b>
Amortisation of share issue expenses	247	-	(2,847)	13,617	<b>11,017</b>
Amortisation of takeover costs	288	5,154	5,248	-	<b>10,690</b>
Other	-	1,916	(3,428)	-	<b>(1,512)</b>
Net temporary differences	2,822	25,541	5,099	12,940	<b>46,402</b>
Tax losses – revenue	916	-	12,091	-	<b>13,007</b>
<b>DEFERRED TAX ASSET</b>	<b>3,738</b>	<b>25,541</b>	<b>17,190</b>	<b>12,940</b>	<b>59,409</b>
<b>COMPANY</b>					
Receivables	(808)	-	(3)	-	<b>(811)</b>
Consumables	(1,513)	-	(346)	-	<b>(1,859)</b>
Cash flow hedges	-	-	-	(34)	<b>(34)</b>
Available-for-sale investments	643	-	1,175	(643)	<b>1,175</b>
Provisions	1,081	-	68	-	<b>1,149</b>
Finance leases	203	-	(93)	-	<b>110</b>
Payables	512	-	1,055	-	<b>1,567</b>
Intangibles	2,280	-	(700)	-	<b>1,580</b>
Amortisation of share issue expenses	247	-	(2,847)	13,617	<b>11,017</b>
Net temporary differences	2,645	-	(1,691)	12,940	<b>13,894</b>
Tax losses – revenue	916	-	12,091	-	<b>13,007</b>
<b>DEFERRED TAX ASSET</b>	<b>3,561</b>	<b>-</b>	<b>10,400</b>	<b>12,940</b>	<b>26,901</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 7. TAX BALANCES (continued)

### (b) Reconciliation of deferred tax balances (continued)

<b>2007</b>	OPENING BALANCE	CHARGED TO INCOME	CHARGED TO EQUITY	CLOSING BALANCE
<b>CONSOLIDATED</b>				
Receivables	(709)	(258)	-	(967)
Consumables	(1,325)	(188)	-	(1,513)
Capitalised interest	(51)	51	-	-
Available-for-sale investments	(232)	-	875	643
Doubtful debts	120	12	-	132
Provisions	1,432	(125)	-	1,307
Finance leases	331	(128)	-	203
Payables	528	105	-	633
Accumulated amortisation	1,301	548	-	1,849
Amortisation of share issue expenses	444	(197)	-	247
Amortisation of takeover costs	432	(144)	-	288
Cash flow hedges	-	(90)	90	-
Net temporary differences	2,271	(414)	965	2,822
Tax losses – revenue	988	(72)	-	916
<b>DEFERRED TAX ASSET</b>	<b>3,259</b>	<b>(486)</b>	<b>965</b>	<b>3,738</b>
<b>COMPANY</b>				
Receivables	(643)	(263)	-	(906)
Consumables	(1,325)	(188)	-	(1,513)
Capitalised interest	(51)	51	-	-
Available-for-sale investments	(232)	-	875	643
Doubtful debts	88	10	-	98
Provisions	1,097	(16)	-	1,081
Finance leases	326	(123)	-	203
Payables	396	116	-	512
Accumulated amortisation	1,301	979	-	2,280
Amortisation of share issue expenses	444	(197)	-	247
Cash flow hedges	-	(90)	90	-
Net temporary differences	1,401	279	965	2,645
Tax losses – revenue	988	(72)	-	916
<b>DEFERRED TAX ASSET</b>	<b>2,389</b>	<b>207</b>	<b>965</b>	<b>3,561</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

7. TAX BALANCES (continued)	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000

**(c) Current tax liabilities**

Income tax payable is attributable to;

Entities in the tax consolidated group	211	7,617	211	7,617
Other	<b>20,960</b>	234	-	-
	<b>21,171</b>	7,851	<b>211</b>	7,617

**(d) Unrecognised deferred tax balances**

The following deferred tax assets have not been brought to account as assets

Tax losses revenue	-	-	-	-
Tax losses capital	-	-	-	-
	-	-	-	-

**(e) Tax consolidation legislation**

Primary Health Care Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(g). The entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Primary Health Care Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Primary Health Care Limited for any current tax payable assumed and are compensated by Primary Health Care Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Primary Health Care Limited under the tax consolidation legislation.

The amounts receivable/payable under the tax funding agreement are due upon demand by the head entity, which may be oral or written. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

8. REMUNERATION OF AUDITOR	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	<b>\$</b>	\$	<b>\$</b>	\$
Auditing the financial report	<b>860,000</b>	360,000	-	-
Other services;				
Tax consulting	<b>119,500</b>	44,799	-	-
Advisory services	<b>1,750,256</b>	28,675	-	-
Other audit services	<b>15,000</b>	15,000	-	-
	<b>2,744,756</b>	448,474	-	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>9. RECEIVABLES</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>(a) Current</b>				
Trade receivables (refer note 9(c))	103,346	21,370	-	-
Allowance for doubtful debts (refer note 9(d))	(7,321)	(441)	-	-
	<b>96,025</b>	20,929	-	-
Amounts receivable from controlled entities	-	-	-	73,034
Unrealised interest rate swap	115	135	115	-
Other receivables and prepayments	44,864	9,896	-	-
	<b>141,004</b>	30,960	<b>115</b>	73,034
<b>(b) Non-current</b>				
Amounts receivable from controlled entities	-	-	1,099,424	176,798
Other	2,014	-	-	-
	<b>2,014</b>	-	<b>1,099,424</b>	176,798
<b>(c) Ageing of trade receivables</b>				
Current	68,840	15,859	-	-
30-60 days	15,503	2,517	-	-
60-90 days	5,121	754	-	-
90 days +	13,882	2,240	-	-
	<b>103,346</b>	21,370	-	-
<b>(d) Movement in allowance for doubtful debts</b>				
Balance at beginning of year	441	399	-	-
Balance acquired during year	5,409	-	-	-
Impairment losses recognised on receivables	1,471	42	-	-
	<b>7,321</b>	441	-	-

The average credit period on sales of goods is 30 days from the date of invoice. No interest is charged on trade receivables. The Group's policy requires customers to pay the Group in accordance with agreed payment terms. All credit and recovery risk associated with trade receivables has been provided for in the balance sheet. Trade receivables have been aged according to their original due date in the above aging analysis.

The Group has used the following basis to assess the allowance loss for trade receivables:

- a collective impairment based on historical bad debt experience;
- an individual account by account specific risk assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

Further discussion of the credit risk associated with trade receivables is included in note 29.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 10. PROPERTY, PLANT AND EQUIPMENT (CONSOLIDATED)

<b>2008</b>	FREEHOLD LAND AND BUILDINGS \$000	CONST- RUCTION IN PROGRESS \$000	LEASEHOLD IMPROVE- MENTS \$000	PLANT AND EQUIPMENT \$000	TOTAL \$000
<b>Net book value</b>					
Opening balance	-	-	89,912	61,454	151,366
Acquisition of controlled entity	6,266	4,177	22,240	137,758	170,441
Additions	-	6,527	33,130	25,971	65,628
Transfers	(81)	(1,028)	515	401	(193)
Impairment loss (refer note 31(iii))	-	-	(2,350)	(4,150)	(6,500)
Disposals	-	-	-	(104)	(104)
Depreciation expense	(33)	-	(7,556)	(23,994)	(31,583)
Foreign exchange differences	-	(37)	(1)	(11)	(49)
Closing balance	6,152	9,639	135,890	197,325	349,006
Cost	6,552	9,639	178,574	462,906	657,671
Accumulated depreciation	(400)	-	(40,334)	(261,431)	(302,165)
Impairment provision	-	-	(2,350)	(4,150)	(6,500)
Closing balance	6,152	9,639	135,890	197,325	349,006

<b>2007</b>	FREEHOLD LAND AND BUILDINGS \$000	CONST- RUCTION IN PROGRESS \$000	LEASEHOLD IMPROVE- MENTS \$000	PLANT AND EQUIPMENT \$000	TOTAL \$000
<b>Net book value</b>					
Opening balance	-	4,564	78,456	56,591	139,611
Acquisition of controlled entity	-	-	-	201	201
Additions	-	7,919	13,057	14,323	35,299
Capitalised interest	-	265	-	-	265
Reclassification	-	(4,753)	2,937	1,816	-
Disposals and write offs	-	(7,995)	-	(77)	(8,072)
Depreciation expense	-	-	(4,538)	(11,400)	(15,938)
Closing balance	-	-	89,912	61,454	151,366
Cost	-	-	109,852	115,941	225,793
Accumulated depreciation	-	-	(19,940)	(54,487)	(74,427)
Closing balance	-	-	89,912	61,454	151,366

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

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	<b>2008</b>	2007
<b>11. GOODWILL (CONSOLIDATED)</b>	<b>\$000</b>	<b>\$000</b>

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**(a) Carrying value**

Opening balance	<b>372,255</b>	326,914
Acquisition of subsidiaries	<b>2,403,021</b>	1,052
Acquisition of businesses	<b>61,452</b>	44,289
Closing balance	<b>2,836,728</b>	372,255

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**(b) Impairment tests**

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. The following is a segment-level summary of the goodwill allocation:

Medical centres	<b>934,094</b>	253,923
Imaging	<b>309,207</b>	-
Pathology	<b>1,529,046</b>	53,951
Health Technology	<b>64,381</b>	64,381
	<b>2,836,728</b>	372,255

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The carrying amount of goodwill is tested for impairment annually at 30 June and whenever there is an indicator that the asset may be impaired. If an asset is impaired, it is written down to its recoverable amount. The recoverable amount is based on a value in use calculation using cash flow projections based on the FY2009 budget. Key assumptions used for impairment testing for 30 June 2008 include a discount rate of 14.11% (2007: 10.22%), expected future profits and a future annual growth rate of 1% for Medical Centres segment, 2% for Imaging segment, 4% for Pathology segment and 5% for Health Technology segment for a period of 20 years. This 20 year period has been used to align with the lease term of most of the Group's property leases and the growth rates for each of the CGU's does not exceed the long-term average growth rate for the business in which the CGU operates. Sensitivity analysis is used to determine whether the carrying value is supported by different assumptions. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of those cash generating units at 30 June 2008.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 12. OTHER INTANGIBLES (CONSOLIDATED)

The following estimated useful lives used in the calculation of amortisation;

Copyright in computer software programs	9.5 years
Capitalised development costs	9 years
Operating rights and licences	3-15 years
Computer software	3-10 years

During the financial year, the Directors reassessed the useful life of the Group's copyright in computer software programs from 9 years to 9.5 years. The financial effect of this reassessment on amortisation expense in the current and future financial years is as follows;

Year ended 30 June	2008	2009	2010	2011	2012	2013	2014	2015
Increase (Decrease) expense (\$'000's)	(856)	(286)	(286)	(286)	(286)	(286)	1,102	1,184

Details of the Group's other intangible assets are shown in the tables below.

<b>2008</b>	COPY-RIGHT IN COMPUTER SOFTWARE PROGRAMS \$000	CAPITALISED DEVELOP- MENT COSTS \$000	OPERATING RIGHTS AND LICENCES \$000	COMPUTER SOFTWARE \$000	<b>TOTAL \$000</b>
<b>Net book value</b>					
Opening balance	35,406	1,437	3,076	-	<b>39,919</b>
Acquisition of controlled entity	-	-	34,428	7,677	<b>42,105</b>
Disposals and write offs	-	-	(502)	(3)	<b>(505)</b>
Additions	-	2,677	2,891	273	<b>5,841</b>
Transfer from construction in progress (note 10)	-	-	-	193	<b>193</b>
Amortisation expense	(4,324)	(311)	(2,686)	(1,066)	<b>(8,387)</b>
Closing balance	31,082	3,803	37,207	7,074	<b>79,166</b>
Cost	46,500	4,177	46,995	27,765	125,437
Accumulated amortisation	(15,418)	(374)	(9,788)	(20,691)	(46,271)
Closing Balance	31,082	3,803	37,207	7,074	<b>79,166</b>

<b>2007</b>	COPY-RIGHT IN COMPUTER SOFTWARE PROGRAMS \$000	CAPITALISED DEVELOP- MENT COSTS \$000	OPERATING RIGHTS AND LICENCES \$000	COMPUTER SOFTWARE \$000	<b>TOTAL \$000</b>
<b>Net book value</b>					
Opening balance	40,224	-	-	-	<b>40,224</b>
Additions	-	1,500	3,380	-	<b>4,880</b>
Amortisation expense	(4,818)	(63)	(304)	-	<b>(5,185)</b>
Closing balance	35,406	1,437	3,076	-	<b>39,919</b>
Cost	46,500	1,500	3,380	-	<b>51,380</b>
Accumulated amortisation	(11,094)	(63)	(304)	-	<b>(11,461)</b>
Closing Balance	35,406	1,437	3,076	-	<b>39,919</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>13. INVESTMENTS</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Available for sale financial asset - quoted shares at market value	870	2,440	870	2,440
Unquoted notes at fair value	30	-	-	-
Interest in partnerships	748	-	-	-
Shares in controlled entities at cost	-	-	2,779,809	123,154
Units in wholly-owned unit trusts at cost	-	-	54,464	54,464
	<b>1,648</b>	<b>2,440</b>	<b>2,835,143</b>	<b>180,058</b>

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>14. PAYABLES</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>

**(a) Current**

Trade payables and accruals	93,727	13,616	-	-
Payables and accruals relating to acquisitions	6,428	223	-	-
Accrued interest	3,630	-	3,630	-
	<b>103,785</b>	<b>13,839</b>	<b>3,630</b>	<b>-</b>

**(b) Non-current**

Payables and accruals relating to acquisitions	1,504	336	-	-
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	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>15. PROVISIONS</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>

**(a) Current**

Provision for employee benefits (note 16)	38,977	2,984	-	-
Provision for third party break fees	27,460	-	-	-
Self Insurance provision	13,006	-	-	-
Restructuring and onerous contract provision	24,855	-	-	-
	<b>104,298</b>	<b>2,984</b>	<b>-</b>	<b>-</b>

**(b) Non-current**

Provision for employee benefits (note 16)	46,376	1,694	-	-
Self insurance provision	6,370	-	-	-
Restructuring and onerous contract provision	6,218	-	-	-
	<b>58,964</b>	<b>1,694</b>	<b>-</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>15. PROVISIONS (continued)</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>

## (c) Movements in provisions

### Provision for third party break fees

Opening balance	-	-	-	-
Increase through acquisitions	<b>27,460</b>	-	-	-
Closing balance	<b>27,460</b>	-	-	-

### Self insurance provision

Opening balance	-	-	-	-
Increase through acquisitions	<b>19,279</b>	-	-	-
Additional provisions recognised	<b>2,735</b>	-	-	-
Payments and other sacrifices of economic benefits	<b>(2,638)</b>	-	-	-
Closing balance	<b>19,376</b>	-	-	-

### Restructuring and onerous contract provision

Opening balance	-	277	-	-
Increase through acquisitions	<b>8,875</b>	-	-	-
Unwinding present value interest cost	<b>217</b>	-	-	-
Additional provisions recognised	<b>27,689</b>	-	-	-
Payments and other sacrifices of economic benefits	<b>(5,708)</b>	(277)	-	-
Closing balance	<b>31,073</b>	-	-	-

## (d) Nature and purpose of provisions

### Provision for third party break fees

The Group has recognised a Contingent Liability of \$27.46m as part of the acquisition accounting of Symbion Health Limited relating to an unresolved legal claim that existed as at acquisition date. Although the Company does not believe that this matter qualifies for recognition under AASB 137, this amount has been recognised under AASB 3 that requires Contingent Liabilities to be recognised as part of the business combination.

### Self insurance provision

The provision relates primarily to self-insured workers' compensation liabilities under the licensing conditions of the respective state authorities of Victoria, New South Wales, South Australia and Western Australia. The provision for workers' compensation is based upon an independent actuarial assessment of claims liabilities and IBNR factors.

### Restructuring and onerous contract provision

The provision relates to expenditure connected to restructuring the entity's operations. The estimated costs are based on detailed plans agreed between management and employee representatives. Restructuring provisions 'acquired' relate to restructuring plans put in place by the previous Symbion Health Management. The additional provisions recognised during the year relate to the plans of current management to integrate Symbion Health Limited with the existing Primary Health Care business. Refer to note 31 for further details.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>16. EMPLOYEE BENEFITS</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>

**(a) Provisions**

The aggregate employee benefit and related on-cost liability recognised and included in the financial statements is as follows:

Provision for employee benefits – current (note 15a)	<b>38,977</b>	2,984	-	-
Provision for employee benefits - non-current (note 15b)	<b>46,376</b>	1,694	-	-
	<b>85,353</b>	4,678	-	-

**(b) Employee numbers**

No. of employees at end of financial year	<b>11,638</b>	2,243	-	-
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**(c) Superannuation commitments**

The Company does not maintain a superannuation fund.

The Company and its related entities meet their obligations under the Superannuation Guarantee Charge Act 1992 by making superannuation contributions, at the statutory rate, to complying superannuation funds on behalf of their employees.

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>17. INTEREST BEARING LIABILITIES</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>

**(a) Current**

Gross bank loan	<b>2,218,000</b>	-	<b>2,218,000</b>	-
Unamortised borrowing costs	<b>(39,665)</b>	-	<b>(39,665)</b>	-
Bank Loan at amortised cost	<b>2,178,335</b>	-	<b>2,178,335</b>	-
Bank overdraft	<b>14,688</b>	3,385	<b>120</b>	117
Finance lease liabilities (note 18)	<b>3,396</b>	2,855	-	-
	<b>2,196,419</b>	6,240	<b>2,178,455</b>	117

**(b) Non-current**

Commercial bills	-	154,970	-	-
Finance lease liabilities (note 18)	<b>3,311</b>	3,655	-	-
	<b>3,311</b>	158,625	-	-

All interest bearing liabilities are secured by mortgages over the Group's freehold land and buildings, mortgages of lease and consent to charge over the Group's leasehold properties and registered debenture charges over the Group's assets. A deed of cross guarantee is in place (refer note 28).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

18. COMMITMENTS FOR EXPENDITURE	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	<b>\$000</b>	\$000	<b>\$000</b>	\$000

**(a) Finance lease commitments**

Commitments in relation to finance leases are payable as follows:

Within one year	3,719	3,217	-	-
Later than 1 year but not later than 5 years	3,707	3,866	-	-
Minimum future lease payments	7,426	7,083	-	-
Less future finance charges	(719)	(573)	-	-
Present value of minimum lease payments	6,707	6,510	-	-

Included in the financial statements as:

Current (note 17a)	3,396	2,855	-	-
Non-current (note 17b)	3,311	3,655	-	-

**(b) Non-cancellable operating lease commitments**

Commitments for minimum lease payments in relation to non-cancellable operating leases not recognised as liabilities, payable;

Within one year	74,022	13,021	-	-
Later than 1 year but not later than 5 years	150,183	31,548	-	-
Later than 5 years	20,436	19,973	-	-
	244,641	64,542	-	-

**(c) Capital commitments**

Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable;

Within one year	4,008	14,102	-	-
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**(d) Operating and finance lease terms**

Operating leases relate to medical centres and pathology sites with lease terms of between 1 and 20 years. Most of these leases have options to extend. The Group does not have an option to purchase the leased asset at the expiry of the lease term.

Finance leases are secured by the assets leased and relate to medical and pathology equipment with lease terms of between 5 and 7 years. The Group has options to purchase the equipment for a nominal amount at the conclusion of the lease.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

19. ISSUED CAPITAL (COMPANY & CONSOLIDATED)	2008	2007	2008	2007
	NO. OF SHARES 000's	NO. OF SHARES 000's	\$000	\$000
Opening balance	125,376	123,188	330,699	320,234
Exercise of share options	903	463	3,307	2,137
Transfer from share based payments reserve	-	-	719	342
Shares issued via Dividend Reinvestment Plan	750	677	6,055	8,036
Shares issued via Bonus Share Plan	466	1,048	-	-
Share placement <sup>1</sup>	15,500	-	184,450	-
Pro-rata entitlement offer <sup>2</sup>	228,029	-	1,231,358	-
Other share issues	71	-	400	-
Capital raising/share issue costs, net of tax	-	-	(31,772)	(50)
<b>CLOSING BALANCE – COMPANY</b>	<b>371,095</b>	<b>125,376</b>	<b>1,725,216</b>	<b>330,699</b>
Reverse acquisition adjustment (1994)			(19,865)	(19,865)
<b>CLOSING BALANCE – CONSOLIDATED</b>			<b>1,705,351</b>	<b>310,834</b>

<sup>1</sup> This share placement took place in November 2007

<sup>2</sup> This pro-rata entitlement offer took place in February and March 2008

Issued capital consists of fully paid ordinary shares carrying one vote per share and the right to dividends.

## 20. EARNINGS PER SHARE

Earnings (\$000)	CONSOLIDATED	
	2008	2007
The earnings used in the calculation of basic and diluted earnings per share are the same and can be reconciled to the profit and loss statement as follows;		
Profit attributable to equity holders of Primary Health Care Limited	6,777	56,903
Loss for the year from discontinued operations	1,810	-
Earnings from continuing operations	8,587	56,903

Weighted average number of shares ('000s)	2008	2007 <sup>2</sup>
The weighted average number of shares used in the calculation of basic earnings per share (continuing and discontinued)	274,046	175,188
Potential ordinary shares <sup>1</sup>	2,134	6,314
The weighted average number of shares used in the calculation of diluted earnings per share (continuing and discontinued)	276,180	181,502

<sup>1</sup> Potential ordinary shares represent share options, but only to the extent that they are considered dilutive.

<sup>2</sup> Earnings per share for the year ended 30 June 2007 have been restated in the current financial year to account for the impact of the pro-rata entitlement offer that took place in February and March 2008 (see note 19). This restatement is in accordance with AASB 133 Earnings per Share.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

21. RESERVES	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
<b>(a) Closing balances</b>				
Foreign currency translation reserve	222	-	-	-
Available-for-sale investments revaluation reserve	-	(1,501)	-	(1,501)
Cash flow hedges reserve	81	-	81	-
Share-based payments reserve	7,271	6,249	7,271	6,249
	<b>7,574</b>	<b>4,748</b>	<b>7,352</b>	<b>4,748</b>
<b>(b) Movements</b>				
<b>Foreign currency translation reserve</b>				
Opening balance	-	-	-	-
Currency translation differences arising during the period	222	-	-	-
Closing balance	222	-	-	-
<b>Available-for-sale investments revaluation reserve</b>				
Opening balance	(1,501)	540	(1,501)	540
Valuation (loss) gain taken to equity – gross	(1,771)	3,091	(1,771)	(1,842)
Transfer to income statement – gross	3,915	(6,007)	3,915	(1,074)
Deferred tax movement	(643)	875	(643)	875
Closing balance	-	(1,501)	-	(1,501)
<b>Cash flow hedges reserve</b>				
Opening balance	-	209	-	(90)
Realised (loss) gain amortised to the income statement, net of tax	-	(209)	-	90
Valuation gain taken to equity – gross	115	-	115	-
Deferred tax movement	(34)	-	(34)	-
Closing balance	81	-	81	-
<b>Share based payments reserve</b>				
Opening balance	6,249	4,025	6,249	4,025
Share based payments expense	1,741	2,566	1,741	2,566
Transfer to share capital (options exercised)	(719)	(342)	(719)	(342)
Closing balance	7,271	6,249	7,271	6,249
<b>22. RETAINED PROFITS</b>				
	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Opening balance	93,402	87,272	90,270	88,275
Profit attributable to equity holders	6,777	56,903	23,448	52,768
Dividends provided or paid	(55,938)	(50,773)	(55,938)	(50,773)
Closing balance	44,241	93,402	57,780	90,270

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<b>23. FRANKING ACCOUNT</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Franking credits available for subsequent financial years based on a tax rate of 30% (2007 – 30%)	<b>31,068</b>	31,752	<b>31,068</b>	31,752

The above amounts represent the balance of the franking account as at the end of the financial year. The amounts have not been adjusted for franking credits that will arise from the payment of the current tax liability.

## 24. RELATED PARTY DISCLOSURES

### (a) Key management personnel

Disclosures relating to key management personnel are set out in note 25.

### (b) Equity interests in related entities

Details of interests in associates are shown in note 26. Details of interests in controlled entities are shown note 27.

### (c) Transactions with associates

Transactions with associates are disclosed in note 26.

### (d) Transactions within the wholly-owned group

Details of dividends and interest received by the parent entity from controlled entities are disclosed in note 4.

Details of amounts due and receivable from controlled entities within the wholly-owned group are disclosed in note 9. Loans between entities in the wholly-owned group are repayable at call. If both parties to the loan are within the same tax consolidated group, no interest is charged on the loan. If this is not the case, interest is charged on the loan at normal commercial rates.

During the financial year rental of premises and the rendering of IT services occurred between entities within the wholly-owned group at commercial rates.

## 25. KEY MANAGEMENT PERSONNEL DISCLOSURES

The Directors of the Company during the financial year were:

B Ball	Non-executive Director
EG Bateman	Executive Director - Group Managing Director
MJ Christie	Non-executive Director
JD Crawford	Non-executive Director
GJ Gardiner	Non-executive Director - Chairman
S Higgs	Non-executive Director
T Smith	Non-executive Director

T Smith was appointed as a Director of Primary Health Care Limited on 21 April 2008.

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

H Bateman	General Manager – Medical Centres
J Bateman	Chief Operating Officer – Diagnostic Services
A Duff	Chief Financial Officer
J Frost	Chief Executive Officer – Health Technology
S James	General Manager – Diagnostic Imaging
A Lieutenant	Property Manager

All of the above persons were also key management personnel during the year ended 30 June 2007, with the exception of S James.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 25. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (a) Key management personnel compensation

2008	SHORT TERM EMPLOYEE	EMPLOYEE	POST	SHARE BASED	TOTAL	OPTIONS AS A % OF TOTAL
	SALARY/ FEES	BENEFITS: OTHER	EMPLOYMENT EMPLOYEE BENEFITS: SUPER- ANNUATION	PAYMENTS: OPTIONS <sup>2</sup>		
	\$	\$	\$	\$	\$	
<b>Sub committee fees</b>						
<b>Directors</b>						
B Ball	60,000	-	-	-	<b>60,000</b>	-
EG Bateman	386,871	-	13,129	-	<b>400,000</b>	-
MJ Christie	55,045	-	4,955	-	<b>60,000</b>	-
JD Crawford	55,045	100,000	4,955	-	<b>160,000</b>	-
GJ Gardiner	82,568	250,000	7,432	-	<b>340,000</b>	-
S Higgs	55,045	-	4,955	-	<b>60,000</b>	-
T Smith <sup>1</sup>	9,174	-	826	-	<b>10,000</b>	-
<b>Executives</b>						
<b>Bonuses</b>						
H Bateman	186,954	500,000	13,129	13,914	<b>713,997</b>	1.9
J Bateman	362,141	3,000,000	13,129	-	<b>3,375,270</b>	-
A Duff	361,957	2,000,000	13,129	84,095	<b>2,459,181</b>	3.4
J Frost	302,752	250,000	27,248	95,958	<b>675,958</b>	14.2
S James	308,414	250,000	13,129	118,803	<b>690,346</b>	17.2
A Lieutenant	186,954	500,000	13,129	13,914	<b>713,997</b>	1.9
<b>TOTAL</b>	<b>2,412,920</b>	<b>6,850,000</b>	<b>129,145</b>	<b>326,684</b>	<b>9,718,749</b>	<b>1.9</b>

2007	SHORT TERM EMPLOYEE	EMPLOYEE	POST	SHARE BASED	TOTAL	OPTIONS AS A % OF TOTAL
	SALARY/ FEES	BENEFITS: OTHER	EMPLOYMENT EMPLOYEE BENEFITS: SUPER- ANNUATION	PAYMENTS: OPTIONS <sup>2</sup>		
	\$	\$	\$	\$	\$	
<b>Directors</b>						
B Ball		58,750	-	-	<b>58,750</b>	-
EG Bateman		370,450	6,343	-	<b>376,793</b>	-
MJ Christie		53,899	4,851	-	<b>58,750</b>	-
JD Crawford		53,899	4,851	-	<b>58,750</b>	-
GJ Gardiner		81,422	7,328	-	<b>88,750</b>	-
S Higgs		53,899	4,851	-	<b>58,750</b>	-
JA Joseph <sup>3</sup>		21,789	1,961	-	<b>23,750</b>	-
<b>Executives</b>						
H Bateman		181,057	12,686	18,552	<b>212,295</b>	8.7
J Bateman		363,406	12,686	-	<b>376,092</b>	-
A Duff		356,066	12,686	111,212	<b>479,964</b>	23.2
J Frost		309,813	12,686	121,524	<b>444,023</b>	27.4
A Lieutenant		181,057	12,686	18,552	<b>212,295</b>	8.7
<b>TOTAL</b>		<b>2,085,507</b>	<b>93,615</b>	<b>269,840</b>	<b>2,448,962</b>	<b>11.0</b>

<sup>1</sup> Amounts are from appointment date of 21 April 2008.

<sup>2</sup> Options are valued at grant date using a binomial option-pricing model. The total fair value of options at grant date is allocated evenly over each of the reporting periods between grant date and vesting date. That portion of the fair value of options granted in any financial year which has been allocated to the current and previous financial year are shown in the table above.

<sup>3</sup> Amounts are up until retirement date of 22 November 2006.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 25. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

No options have been issued to Directors. During the current financial year, no options were issued to executives classified as key management personnel and none of their existing options were exercised or lapsed.

(ii) Option holdings

None of the Company's Directors hold options. The numbers of options over ordinary shares in the Company held during the financial year by each of the key management personnel, including their personally-related entities, are set out below.

<b>2008</b>	OPENING BALANCE	GRANTED DURING YEAR	EXERCISED DURING YEAR	LAPSED DURING YEAR	<b>CLOSING BALANCE</b>	VESTED AT END OF YEAR
H Bateman	50,000	-	-	-	<b>50,000</b>	50,000
J Bateman	-	-	-	-	-	-
A Duff	300,000	-	-	-	<b>300,000</b>	300,000
J Frost	200,000	-	-	-	<b>200,000</b>	100,000
S James	400,000	-	-	-	<b>400,000</b>	200,000
A Lieutenant	50,000	-	-	-	<b>50,000</b>	50,000

<b>2007</b>	OPENING BALANCE	GRANTED DURING YEAR	EXERCISED DURING YEAR	LAPSED DURING YEAR	<b>CLOSING BALANCE</b>	VESTED AT END OF YEAR
H Bateman	50,000	-	-	-	<b>50,000</b>	-
J Bateman	-	-	-	-	-	-
A Duff	313,334	-	(13,334)	-	<b>300,000</b>	-
J Frost	200,000	-	-	-	<b>200,000</b>	-
A Lieutenant	50,000	-	-	-	<b>50,000</b>	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 25. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (iii) Share holdings

The number of shares in the Company held during the financial year by each of the key management personnel, including their personally-related entities, is set out below.

<b>2008</b>	<b>OPENING BALANCE</b>	<b>RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS</b>	<b>OTHER CHANGES DURING THE YEAR</b>	<b>CLOSING BALANCE</b>
B Ball	20,000	-	42,000	<b>62,000</b>
EG Bateman	22,722,907	-	28,017,855	<b>50,740,762</b>
MJ Christie	3,235,488	-	357,000	<b>3,592,488</b>
JD Crawford	22,924	-	38,798	<b>61,722</b>
GJ Gardiner	-	-	-	-
S Higgs	514,777	-	297,000	<b>811,777</b>
T Smith	-	-	-	-
H Bateman	229,708	-	71,425	<b>301,133</b>
J Bateman	1,003,186	-	-	<b>1,003,186</b>
A Duff	98,050	-	(10,050)	<b>88,000</b>
J Frost	-	-	10,000	<b>10,000</b>
S James	-	-	1,000	<b>1,000</b>
A Lieutenant	255,263	-	361,000	<b>616,263</b>

<b>2007</b>	<b>OPENING BALANCE</b>	<b>RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS</b>	<b>OTHER CHANGES DURING THE YEAR</b>	<b>CLOSING BALANCE</b>
B Ball	20,000	-	-	<b>20,000</b>
EG Bateman	21,654,473	-	1,068,434	<b>22,722,907</b>
MJ Christie	3,235,488	-	-	<b>3,235,488</b>
JD Crawford	18,583	-	4,341	<b>22,924</b>
GJ Gardiner	-	-	-	-
S Higgs	514,777	-	-	<b>514,777</b>
JA Joseph <sup>1</sup>	1,541,145	-	-	<b>1,541,145</b>
H Bateman	199,096	-	30,612	<b>229,708</b>
J Bateman	1,003,186	-	-	<b>1,003,186</b>
A Duff	186,666	13,334	(101,950)	<b>98,050</b>
J Frost	-	-	-	-
A Lieutenant	229,753	-	25,510	<b>255,263</b>

<sup>1</sup> Balance is at 22 November 2006 when JA Joseph ceased to be a Director

### (c) Loans to key management personnel

No loans have been made to any of the key management personnel.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 25. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (d) Other transactions with key management personnel

From time to time, Directors and group executives (and their personally related entities) enter into transactions with entities in the economic entity, including the use or provision of services under normal customer, supplier or employee relationships. These transactions:

- occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the Director or their personally-related entity at arm's length in the same circumstances;
- do not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the Director or executive; and
- are trivial or domestic in nature.

During the financial year, the following related parties of Directors were employed by the Group on normal commercial terms:

Name	Capacity
James Bateman	Chief Operating Officer – Diagnostic Services
Henry Bateman	General Manager - Medical Centres
Greg Bateman	General Counsel
Belinda Christie	Human Resources Manager

## 26. INVESTMENTS IN ASSOCIATES (CONSOLIDATED)

NAME OF ASSOCIATED ENTITY	COUNTRY OF INCORPORATION	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST	
			2008 %	2007 %
Campsie Nuclear Medicine Pty Ltd	Australia	Imaging services	50%	-
Bondi Nuclear Medicine Pty Ltd	Australia	Imaging services	50%	-
North Coast Nuclear Medicine (Qld) Pty Ltd	Australia	Imaging services	40%	-
Southport Diagnostic Imaging Pty Ltd	Australia	Imaging services	50%	-
Eastern Radiology Services Pty Ltd	Australia	Imaging services	33%	-

These associated entities were acquired by the Group as part of the acquisition of Symbion Health Limited (refer note 31) and as such have only been equity accounted by the Group from 1 March 2008.

The Group's share of profits and losses, assets and liabilities of associates is:

	<b>2008</b>
	<b>\$000</b>
<hr/>	
<b>Income Statement – 4 months ended 30 June</b>	
Revenues of associates	2,954
Profit of associate	828
<b>Share of profit as disclosed by associates</b>	<b>353</b>
<hr/>	
<b>Balance Sheet</b>	
Assets	4,945
Liabilities	(1,170)
Net assets	3,775
<b>Investments in associates accounted for using the equity method</b>	<b>2,850</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 26. INVESTMENTS IN ASSOCIATES (CONSOLIDATED) (continued)

Related party transactions between associates and the wholly-owned group in the four months ended 30 June 2008 are detailed below;

### *Campsie Nuclear Medicine Pty Ltd*

An entity within the consolidated entity charged rent and outgoings and provided accounting services for Campsie Nuclear Medicine Pty Ltd. In the four months to 30 June 2008, these charges totalled \$36,000 of which \$9,000 was outstanding at period end.

### *Bondi Nuclear Medicine Pty Ltd*

An entity within the consolidated entity charged rent and outgoings and salary and wage expenses, and provided accounting services for Bondi Nuclear Medicine Pty Ltd. In the four months to 30 June 2008, these charges totalled \$25,000 of which \$5,000 was outstanding at period end.

### *Northcoast Nuclear Medicine (Qld) Pty Ltd*

An entity within the consolidated entity charged rent and outgoings and imaging services expenses for Northcoast Nuclear Medicine (Qld) Pty Ltd. In the four months to 30 June 2008, these charges totalled \$43,000. The total amount outstanding from Northcoast Nuclear Medicine (Qld) Pty Ltd at period end was \$84,000.

### *Eastern Radiology Services Pty Ltd*

An entity within the consolidated entity charged salary and wage expenses, and provided accounting services for Eastern Radiology Services Pty Ltd. In the four months to 30 June 2008, these charges totalled \$272,000 of which \$208,000 was outstanding at period end.

27. CONTROLLED ENTITIES	COUNTRY OF INCORPORATION	EQUITY HOLDING	
		2008 %	2007 %
Primary Health Care Limited	Australia		
Idameneo (No. 123) Pty Ltd	Australia	100%	100%
Artlu Unit Trust	Australia	100%	100%
Digital Diagnostic Imaging Pty Ltd	Australia	72%	55.16%
John R Elder Pty Ltd	Australia	100%	100%
Idameneo (No. 124) Pty Ltd	Australia	100%	100%
PHC (No. 01) Pty Limited	Australia	100%	100%
PHC Nominees Pty Ltd	Australia	100%	100%
Specialist Diagnostic Services Pty Ltd	Australia	100%	100%
Sydney Diagnostic Services Unit Trust	Australia	100%	100%
Abbott Pathology Pty Ltd	Australia	100%	100%
Health Communication Network Limited	Australia	100%	100%
Amokka Java Pty Limited	Australia	100%	100%
Mediboss Pty Limited (d)	Australia	-	100%
Caseg Pty Limited (d)	Australia	-	100%
Health Communication Network (UK) Holdings Limited	UK	100%	100%
Symbion Health Limited	Australia	100%	-
Saftsal Pty Ltd	Australia	100%	-
Aksertel Pty Ltd	Australia	100%	-
Onosas Pty Ltd	Australia	100%	-
MGSF Pty Ltd	Australia	100%	-
PSCP Holdings Pty Ltd	Australia	100%	-
Wellness Holdings Pty Ltd	Australia	100%	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

27. CONTROLLED ENTITIES (continued)	COUNTRY OF INCORPORATION	EQUITY HOLDING	
		2008 %	2007 %
Symbion CP Holdings Pty Ltd	Australia	100%	-
PSPA Pty Ltd	Australia	100%	-
Faulding Distributors (SEA) Pte Limited	Singapore	100%	-
MCP Direct Pty Ltd	Australia	100%	-
Medicine Man Labs Pty Ltd	Australia	100%	-
Carlson Health Pty Ltd	Australia	100%	-
Crimson Court (M) Sdn Bhd	Malaysia	100%	-
Optimum Healthcare Pty Ltd	Australia	100%	-
MCP Operations Pty Ltd	Australia	100%	-
BML Pharmaceuticals Pty Ltd	Australia	100%	-
Bullivant's Natural Health Products Pty Ltd	Australia	100%	-
Queensland Biochemics Pty Ltd	Australia	100%	-
Cenovis Health Co. Pty Ltd	Australia	100%	-
Cenovis Pty Ltd	Australia	100%	-
Faulding Healthcare Europe Holdings Ltd	United Kingdom	100%	-
Cenovis Health Co Sdn Bhd	Malaysia	100%	-
Faulding Consumer UK Limited	United Kingdom	100%	-
Bullivant's Natural Health Products (HK) Limited	Hong Kong	100%	-
Bullivant's Natural Health Products (International) Pty Ltd	Australia	100%	-
Symbion Consumer Products (NZ) Limited	New Zealand	100%	-
Symbion Healthcare Holdings Pty Ltd	Australia	100%	-
Symbion Medical Centre Holdings Pty Ltd	Australia	100%	-
Symbion Medical Centre Operations Pty Ltd	Australia	100%	-
Larches Pty Ltd	Australia	100%	-
Pacific Medical Centres Pty Ltd	Australia	100%	-
Kelldale Pty Ltd	Australia	100%	-
Symbion Pathology Holdings Pty Ltd	Australia	100%	-
Symbion Pathology (India) Private Limited	India	100%	-
AME Medical Services Pty Ltd	Australia	100%	-
Gippsland Pathology Service Pty Ltd	Australia	100%	-
Jandale Pty Ltd	Australia	100%	-
Integrated Health Care Pty Ltd	Australia	100%	-
Queensland Specialist Services Pty Ltd	Australia	100%	-
Symbion Pathology Holdings Asia Pty Ltd	Australia	100%	-
Symbion Pathology Pty Ltd	Australia	100%	-
Queensland Medical Services Pty Ltd	Australia	100%	-
Symbion Diagnostic Imaging Holdings Pty Ltd	Australia	100%	-
Norcoray Pty Ltd	Australia	50%	-
Norcoray Unit Trust (b)	Australia	50%	-
Orana Services Pty Ltd	Australia	50%	-
Orana Services Trust (b)	Australia	50%	-
Brystow Pty Ltd	Australia	100%	-
Western Suburbs Ultra-sound & radiology Services Trust	Australia	100%	-
Healthcare Imaging Services (Victoria) Pty Ltd	Australia	100%	-
Healthcare Imaging Services Pty Ltd	Australia	100%	-
Queensland Diagnostic Imaging Pty Ltd	Australia	100%	-
Cabramatta Imaging Pty Ltd	Australia	50%	-
Cabramatta Imaging Unit Trust (b)	Australia	100%	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

27. CONTROLLED ENTITIES (continued)	COUNTRY OF INCORPORATION	EQUITY HOLDING	
		2008 %	2007 %
Symbion Pharmacy Services Pty Ltd (b)	Australia	100%	-
ACN 086 061 207 Pty Ltd	Australia	100%	-
ACN 091 753 043 Pty Ltd	Australia	100%	-
Chem Mart Pharmaceuticals (New Zealand) Ltd	New Zealand	100%	-
Chem Mart Pty Ltd	Australia	100%	-
Pharmaceutical Care Information Services Pty Ltd	Australia	50%	-
Therapeutic Information Resources Australia Pty Ltd	Australia	100%	-
Faulding Healthcare Retail Pty Ltd	Australia	100%	-
Healthsense Pty Ltd	Australia	100%	-
Minfos Systems Pty Ltd	Australia	100%	-
Terry White Management Pty Ltd	Australia	100%	-
The Medicine Shoppe Australia Pty Ltd	Australia	100%	-
SYB (NZ) Limited	New Zealand	100%	-
The Ward Corporation Pty Ltd	Australia	100%	-
Symbion International BV	Netherlands	100%	-
Mayne Nickless Inc.	United States	100%	-
Symbion Holdings (NZ) Ltd	New Zealand	100%	-
Symbion Holdings (UK) Ltd	United Kingdom	100%	-
Mayne Nickless Italia SRL	Italy	100%	-
Mayne European Holdings Ltd	United Kingdom	100%	-
Security Express Ltd	United Kingdom	100%	-
Mayne SNC Van Der Heijden Logistics Services	Belgium	100%	-
ACN 008 103 599 Pty Ltd	Australia	100%	-
ACN 063 535 884 Pty Ltd	Australia	100%	-
ACN 063 535 955 Pty Ltd	Australia	100%	-
Symbion Employee Share Acquisition Plan Pty Ltd (b)	Australia	100%	-
Symbion Employee Share Acquisition Plan Trust (b)	Australia	100%	-
Senior Executive Short Term Incentive Plan Trust	Australia	100%	-
Symbion Finance (Australia) Pty Ltd	Australia	100%	-
Transport Security Insurance (Pte) Limited	Singapore	100%	-

- (a) All entities are domiciled in their country of incorporation. No controlled entities carry on material business operations other than in their country of incorporation.
- (b) The Australian controlled entities marked with a (b) in the table above are required to prepare audited financial reports.
- (c) None of the Australian controlled entities, other than those noted in (b) above, are required to prepare financial reports or to be audited for statutory purposes. These entities have obtained relief from these requirements because;
- they have entered into a Deed of Cross Guarantee (refer note 28); or
  - they are small proprietary companies; or
  - their trust deeds do not specify these requirements.
- (d) Deregistered during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 28. DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, certain wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports.

It is a condition of the Class Order that the relevant holding entity and each of the relevant subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that each holding entity guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries in each group under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Corporations Act 2001, each holding entity will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that each holding entity is wound up.

### Primary Health Care Group - Deed of Cross Guarantee dated 23 June 2008

Primary Health Care Limited entered into a Deed of Cross Guarantee with certain of its wholly-owned subsidiaries on 23 June 2008. The holding entity and subsidiaries subject to the Deed of Cross Guarantee as at 30 June 2008 are:

Primary Health Care Limited (holding entity)	Specialist Diagnostic Services Pty Ltd
Symbion Health Limited	Symbion Diagnostic Imaging Holdings Pty Limited
Health Communication Network Limited	Symbion Healthcare Holdings Pty Ltd
Healthcare Imaging Services (Victoria) Pty Limited	Symbion Medical Centre Holdings Pty Ltd
Healthcare Imaging Services Pty Limited	Symbion Medical Centre Operations Pty Ltd
Idameneo (No 123) Pty Ltd	Symbion Pathology Holdings Pty Ltd
Queensland Diagnostic Imaging Pty Ltd	Symbion Pathology Pty Ltd
Queensland Medical Services Pty Ltd	

### Symbion CP Holdings Group - Deed of Cross Guarantee dated 20 June 2008

Symbion CP Holdings Pty Ltd entered into a Deed of Cross Guarantee with certain of its wholly-owned subsidiaries on 20 June 2008. The holding entity and subsidiaries subject to the Deed of Cross Guarantee as at 30 June 2008 are:

Symbion CP Holdings Pty Ltd (holding entity)	Cenovis Pty Ltd
BML Pharmaceuticals Pty Ltd	MCP Direct Pty Ltd
Bullivants Natural Health Products Pty Ltd	MCP Operations Pty Ltd
Carlson Health Pty Ltd	Medicine Man Labs Pty Ltd

Consolidated income statements and consolidated balance sheets, comprising holding entities and subsidiaries which are parties to the above Deeds, after eliminating all transactions between parties to the Deeds, at 30 June 2008 are set out below.

	PRIMARY HEALTH CARE GROUP	SYMBION CP HOLDINGS GROUP
	\$000	\$000
<b>INCOME STATEMENTS</b>		
(Loss) profit for the year before income tax	(3,957)	39,771
Income tax (benefit) expense	(38,238)	12,121
<b>PROFIT FOR THE YEAR</b>	<b>34,281</b>	<b>27,650</b>
Accumulated profits (losses) at the beginning of the period	91,060	(12,593)
Dividends recognised during the period	(55,938)	(29,410)
Other appropriations	-	18,598
<b>ACCUMULATED PROFITS AT THE END OF THE PERIOD</b>	<b>69,403</b>	<b>4,245</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 28. DEED OF CROSS GUARANTEE (continued)

<b>BALANCE SHEETS</b>	<b>PRIMARY HEALTH CARE GROUP \$000</b>	<b>SYMBION CP HOLDINGS GROUP \$000</b>
<b>Current assets</b>		
Cash	56,851	1,941
Tax receivable	5,009	-
Receivables	14,391,234	262,829
Consumables	19,892	33,538
<b>TOTAL CURRENT ASSETS</b>	<b>14,472,986</b>	<b>298,308</b>
<b>Non-current assets</b>		
Receivables	716	31
Property, plant and equipment	339,354	28,204
Goodwill	2,860,286	98,093
Other intangible assets	77,468	93,864
Investments in associates accounted for using the equity method	-	153
Other investments	146,919	17,839
Deferred tax asset	49,136	2,143
<b>TOTAL NON-CURRENT ASSETS</b>	<b>3,473,879</b>	<b>240,327</b>
<b>TOTAL ASSETS</b>	<b>17,946,865</b>	<b>538,635</b>
<b>Current liabilities</b>		
Payables	13,835,668	520,921
Provisions	106,798	2,723
Interest bearing liabilities	2,178,527	325
<b>TOTAL CURRENT LIABILITIES</b>	<b>16,120,993</b>	<b>523,969</b>
<b>Non-current liabilities</b>		
Payables	116	-
Deferred tax liabilities	-	6,051
Provisions	41,539	1,597
Interest bearing liabilities	2,111	448
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>43,766</b>	<b>8,096</b>
<b>TOTAL LIABILITIES</b>	<b>16,164,759</b>	<b>532,065</b>
<b>NET ASSETS</b>	<b>1,782,106</b>	<b>6,570</b>
<b>Equity</b>		
Issued Capital	1,705,351	1,020
Reserves	7,352	1,305
Retained profits	69,403	4,245
<b>TOTAL EQUITY</b>	<b>1,782,106</b>	<b>6,570</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 29. FINANCIAL RISK MANAGEMENT

### Overview

The Company and the Group have exposure to the following risks from their use of financial instruments:

Credit risk  
Liquidity risk  
Market risk, including interest rate, currency and price risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and procedures for measuring and managing risk and the management of capital. Further quantitative disclosures are included throughout this financial report.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities.

### Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of financial assets represents the maximum credit exposure.

The Group's exposure to credit risk arises principally from its receivables due from external customers. The Group's external customer base varies by segment. The Group's maximum exposure to credit risk for trade receivables at the reporting date by segment was:

SEGMENT	CONSOLIDATED	
	2008	2007
	\$000	\$000
Pathology	67,622	10,140
Imaging	21,479	-
Medical centres	11,438	8,686
Health Technology	2,487	2,544
Unallocated	320	-
	<b>103,346</b>	<b>21,370</b>

In 2007, the Group's Imaging segment debtors were included in Medical centres segment.

The Group's exposure to credit risk is influenced mainly by the bulk billing of services by medical practitioners to whom the Group charges service fees for use of medical centre and imaging facilities. A large proportion of the Group's pathology receivables are due from Medicare Australia (bulk-billed services) and health funds. The remaining trade receivables are due from individuals. The concentration of credit risk relating to this remaining debt is limited due to the customer base being large and unrelated. Geographically there is no concentration of credit risk.

The ageing of the Group's trade receivables and an analysis of the Group's provision for doubtful debts is provided in note 9. This note also discusses the Group's process for identifying impaired trade receivables.

The Company's exposure to credit risk arises principally from its receivables due from subsidiaries.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

The following table details the Company's and the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	CARRYING AMOUNT \$000	TOTAL \$000	CONTRACTUAL CASH FLOWS		
			LESS THAN 1 YEAR \$000	1 TO 5 YEARS \$000	> 5 YEARS \$000
<b>2008</b>					
<b>CONSOLIDATED</b>					
Bank loans	2,178,335	(2,334,357)	(2,334,357)	-	-
Bank overdraft	14,688	(14,688)	(14,688)	-	-
Accrued interest	3,630	(3,630)	(3,630)	-	-
Finance lease liabilities	6,707	(7,426)	(3,719)	(3,707)	-
Trade payables and accruals	93,727	(93,727)	(93,727)	-	-
Payables relating to acquisitions	7,932	(7,932)	(7,932)	-	-
	2,305,019	(2,461,760)	(2,458,053)	(3,707)	-
<b>COMPANY</b>					
Bank loans	2,178,335	(2,334,357)	(2,334,357)	-	-
Bank overdraft	120	(120)	(120)	-	-
Accrued interest	3,630	(3,630)	(3,630)	-	-
	2,182,085	(2,338,107)	(2,338,107)	-	-
<b>2007</b>					
<b>CONSOLIDATED</b>					
Commercial bills	154,970	(180,678)	(11,005)	(169,673)	-
Bank overdraft	3,385	(3,385)	(3,385)	-	-
Finance lease liabilities	6,510	(7,083)	(3,217)	(3,866)	-
Trade payables and accruals	13,616	(13,616)	(13,616)	-	-
Payables relating to acquisitions	559	(559)	(559)	-	-
	179,040	(205,321)	(31,782)	(173,539)	-
<b>COMPANY</b>					
Bank overdraft	117	(117)	(117)	-	-
	117	(117)	(117)	-	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Interest rate risk

The Company and the Group are exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by the use of interest rate swap contracts.

The following table details the Company and the Group's exposure to interest rate risk as at 30 June 2008.

2008	AVERAGE INTEREST RATE %	VARIABLE INTEREST RATE \$000	FIXED INTEREST RATE		NON- INTEREST BEARING \$000	TOTAL \$000
			LESS THAN 1 YEAR \$000	1 TO 5 YEARS \$000		
<b>CONSOLIDATED</b>						
<b>Financial assets</b>						
Cash	4.0	7,784	-	-	-	7,784
Receivables	-	-	-	-	143,018	143,018
Investments	-	-	-	-	1,648	1,648
<b>Financial liabilities</b>						
Payables	-	-	-	-	(105,289)	(105,289)
Overdraft	9.07	(14,688)	-	-	-	(14,688)
Finance leases	7.49	-	(3,396)	(3,311)	-	(6,707)
Bank loans	10.1	(1,109,000)	(1,109,000)	-	-	(2,218,000)
		(1,115,904)	(1,112,396)	(3,311)	39,377	(2,192,234)
<b>COMPANY</b>						
<b>Financial assets</b>						
Receivables	-	-	-	-	115	115
Investments	-	-	-	-	2,835,143	2,835,143
<b>Financial liabilities</b>						
Payables	-	-	-	-	(3,630)	(3,630)
Overdraft	9.07	(120)	-	-	-	(120)
Bank loans	10.1	(1,109,000)	(1,109,000)	-	-	(2,218,000)
		(1,109,120)	(1,109,000)	-	2,831,628	613,508

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Interest rate risk (continued)

The following table details the Company and the Group's exposure to interest rate risk as at 30 June 2007.

<b>2007</b>	AVERAGE INTEREST RATE %	VARIABLE INTEREST RATE \$000	FIXED INTEREST RATE			NON- INTEREST BEARING \$000	<b>TOTAL \$000</b>
			LESS THAN 1 YEAR \$000	1 TO 5 YEARS \$000			
<b>CONSOLIDATED</b>							
<b>Financial assets</b>							
Cash	3.0	780	-	-	-		<b>780</b>
Receivables	-	-	-	-	30,960		<b>30,960</b>
Investments	-	-	-	-	2,440		<b>2,440</b>
<b>Financial liabilities</b>							
Payables	-	-	-	-	(14,175)		<b>(14,175)</b>
Overdraft	8.5	(3,385)	-	-	-		<b>(3,385)</b>
Finance leases	7.0	-	(2,855)	(3,655)	-		<b>(6,510)</b>
Commercial bills	7.0	(149,970)	-	(5,000)	-		<b>(154,970)</b>
		(152,575)	(2,855)	(8,655)	19,225		<b>(144,860)</b>
<b>COMPANY</b>							
<b>Financial assets</b>							
Receivables	-	-	-	-	73,034		<b>73,034</b>
Investments	-	-	-	-	180,058		<b>180,058</b>
<b>Financial liabilities</b>							
Overdraft	9.0	(117)	-	-	-		<b>(117)</b>
		(117)	-	-	253,092		<b>252,975</b>

### Interest rate swap contracts – cash flow hedge

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the interest rate curves at reporting date and the credit risk inherent in the contract, and are disclosed below.

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date for both the Company and the Group.

	Contracted fixed interest rate		Notional principal amount		Fair value	
	2008 %	2007 %	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
	Less than 1 year	7.91	-	1,109,000	-	115

The interest rate swaps settle on a monthly basis. The floating rate on the interest rate swaps is the Australian BBSW. The Group will settle the difference between the fixed and floating interest rates on a net basis.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 29. FINANCIAL RISK MANAGEMENT (CONTINUED)

### Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting dates and the stipulated change taking place at the beginning of the financial year, held constant throughout the reporting period and applied to interest payments made throughout the reporting period. A 50 basis point increase represents management's assessment of the possible change in interest rates. At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the impact on profit and loss would have been as follows:

	PROFIT (LOSS)	
	50bp increase	50bp decrease
	\$000	\$000
<b>CONSOLIDATED</b>		
30 June 2008 – variable rate instruments	(4,001)	4,001
30 June 2007 – variable rate instruments	(702)	702
<b>COMPANY</b>		
30 June 2008 – variable rate instruments	(4,035)	4,035
30 June 2007 – variable rate instruments	(715)	715

Variation in interest rates will also impact on equity, arising from the Group's interest rate swap contracts, but the impact is not considered material.

### Fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their net fair values.

### Currency risk

The Group transacts predominately in Australian dollars and has a relatively small exposure to offshore assets or liabilities. The Group predominately uses the spot foreign currency market to service any foreign currency transactions.

### Price risk

The Company and the Group are exposed to equity securities price risk. This arises from investments held by the Company. During the year, these investments were written down by \$3.9m from book to market value. A sensitivity analysis has not been performed on the price risk as this is not considered material.

### Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern whilst maximizing the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 19, 21 and 22. The Group's policy is to borrow centrally, using a variety of capital market issues and borrowing facilities to meet anticipated funding requirements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

30. NOTES TO THE CASH FLOW STATEMENT	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000

**(a) Reconciliation of cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in banks, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash	7,784	780	-	-
Bank overdraft	<b>(14,688)</b>	(3,385)	<b>(120)</b>	(117)
	<b>(6,904)</b>	(2,605)	<b>(120)</b>	(117)

**(b) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities**

Profit attributable to equity holders	6,777	56,903	23,448	52,768
Depreciation of plant and equipment	31,583	15,938	-	-
Amortisation of intangibles	8,387	5,185	-	-
Capitalised interest	-	(265)	-	-
Net profit on sale of property plant and equipment	(32)	(671)	-	-
Discount on acquisition	(86)	-	-	-
Impairment losses	10,415	-	3,915	-
Reversal of associate losses	-	(599)	-	-
Minority Interest	812	(141)	-	-
Net profit on sale of investments	-	(6,007)	-	(1,074)
Increase (decrease) in;				
Trade payables and accruals	13,668	604	3,630	-
Provision	24,884	(96)	-	-
Deferred revenue	6,424	(323)	-	-
Tax balances	(23,727)	3,158	(28,833)	1,357
Share option reserve	1,741	2,566	1,741	2,566
Hedging reserve	81	(209)	81	90
Decrease (increase) in;				
Consumables	(2,053)	(628)	-	-
Receivables and prepayments	12,760	(4,788)	(104,200)	21,986
Deferred borrowing costs	(39,635)	-	(39,665)	-
Net cash provided by operating activities	<b>51,999</b>	70,627	<b>(139,883)</b>	77,693

**(c) Non cash investing and financing**

During the financial year 749,915 (2007: 676,955) and 466,124 (2007: 1,048,446) shares were issued pursuant to the Dividend Reinvestment and Bonus Share Plans respectively.

These transactions are not reflected in the statement of cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 30. NOTES TO THE CASH FLOW STATEMENT (continued)

(d) Financing facilities (consolidated)	CONSOLIDATED		COMPANY	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Syndicated debt facilities – Tranche A				
Amount used	1,438,000	-	-	-
Amount unused	-	-	-	-
Syndicated debt facilities – Tranche B				
Amount used	780,000	-	-	-
Amount unused	-	-	-	-
Secured multi-option facility				
Amount used	-	158,355	-	-
Amount unused	100,000	278,445	-	-
	<b>2,318,000</b>	<b>436,800</b>	<b>-</b>	<b>-</b>

During the year, the Group entered into syndicated bridge facilities for the purposes of funding the acquisition of Symbion Health Limited (refer note 31) and repaying the existing indebtedness of the Group. The facilities are for a one year period, expiring on 13 February 2009. The Group has an option to extend Tranche A and the multi-option facility for a further 12 months from 13 February 2009, subject to commercial terms and conditions.

On sale of the Consumer and Pharmacy divisions of Symbion Health Limited (refer note 32), the net proceeds received by the Group must be used to repay Tranche B.

Interest is charged on the facilities at the Australian BBSY plus an applicable margin.

### (e) Businesses acquired

#### (i) Health related practices

Members of the Group continued to acquire health related practices to expand their existing businesses.

It is not practical to show the impact of the individual medical practices acquired during the year on the Group's results for the year (as required by AASB 3: Business Combinations), as it is impractical to allocate the costs associated with the Group's multi-disciplinary medical centres to the individual medical practices acquired.

#### (ii) Controlled entities

During February to April 2008, the Company acquired 100% of the share capital of Symbion Health Limited. Details of this acquisition are included in note 31.

During October 2007, the Group increased its ownership interest in Digital Diagnostic Imaging Pty Limited from 55.16% to 72%. The Group paid consideration of \$92,500, resulting in a discount on acquisition of \$86,299.

In the prior year, the Company paid an additional \$235,000 in relation to its 2005 acquisition of Abbott Pathology Pty Limited. The Group also increased its ownership interest in Digital Diagnostic Imaging Pty Ltd from 20% to 55.16%.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 30. NOTES TO THE CASH FLOW STATEMENT (continued)

(iii) Summary

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
The net outflow of cash to acquire businesses is reconciled as follows:	\$000	\$000	\$000	\$000
Fair value of identifiable net assets acquired				
Health related practices	-	-		
Digital Diagnostic Imaging Pty Ltd	179	94		
Symbion Health Limited (note 31)	253,541	-		
Other	-	-		
	<b>253,720</b>	<b>94</b>		
Goodwill (discount on acquisition)				
Health related practices	61,452	44,289		
Digital Diagnostic Imaging Pty Ltd	(86)	817		
Symbion Health Limited	2,403,021	-		
Other	-	235		
	<b>2,464,387</b>	<b>45,341</b>		
Consideration				
Health related practices	61,452	44,289	-	-
Digital Diagnostic Imaging Pty Ltd	93	911	93	911
Symbion Health Limited	2,656,562	-	2,656,562	-
Other	-	235	-	235
	<b>2,718,107</b>	<b>45,435</b>	<b>2,656,655</b>	<b>1,146</b>
Payables and accruals relating to acquisitions				
Opening balance	559	836	-	-
Increasing through acquisitions	4,358	-	-	-
Unwinding present value interest cost	47	-	-	-
Closing balance <sup>1</sup>	(7,932)	559	(4,340)	-
	<b>(2,968)</b>	<b>(277)</b>	<b>(4,340)</b>	<b>-</b>
Cash paid for acquisitions	2,715,139	45,712	2,652,315	1,146
Less cash acquired	6,997	991	-	-
Net payments for the purchase of businesses	<b>2,708,142</b>	<b>44,721</b>	<b>2,652,315</b>	<b>1,146</b>

<sup>1</sup> For the Company, amounts payable in relation to acquisitions will be paid by a controlled entity and recharged to the Company.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 31. ACQUISITION OF SYMBION HEALTH LIMITED

### (i) Overview

On 8 November 2007, the Company announced a \$4.10 cash per share off-market takeover bid for Symbion Health Limited ('Symbion'). The offer to Symbion shareholders expired on 27 March 2008 at which time the Company's interest in Symbion was in excess of 90%. The Company then proceeded to compulsorily acquire the remaining shares and now owns 100%. The results of Symbion have been included in the consolidated results of the Group from 1 March 2008. Symbion joined the Company's tax consolidated group with effect from 28 April 2008.

The initial accounting for the acquisition of Symbion has only been provisionally determined at reporting date. At the date of finalisation of this Report, not all the necessary market values and other calculations required to assign fair values to Symbion's identifiable assets had been finalised. The provisional accounting for the acquisition in this Report is based on the Directors' best estimate of fair values, with the exception of assets that were valued by Ernst & Young, an independent expert. These assets included hospital contracts, contracts under which the Group provides services to health care professionals and software.

Any adjustments to this provisional accounting as a result of receiving market valuations and finalising calculations, will be recognised within twelve months of the acquisition date and from the acquisition date.

During its acquisition of Symbion, the Company made it clear that it intended to attempt to on-sell the Consumer and Pharmacy divisions of Symbion. As such, the net assets of these two divisions have been shown as "assets available for sale" on both the acquisition date fair value balance sheet below and the 30 June 2008 balance sheet. Further details on the assets available for sale are included in note 32.

### (ii) Provisional fair value of assets at acquisition date

	<b>\$000</b>
<b>Assets</b>	
Cash	6,997
Receivables	124,726
Consumables	14,131
Property, plant and equipment	170,441
Other intangible assets	42,105
Investments in associates accounted for using the equity method	2,942
Other investments	778
Deferred tax asset	25,541
<b>TOTAL ASSETS</b>	<b>387,661</b>
<b>Liabilities</b>	
Payables	77,931
Tax liabilities	8,829
Provision for employee entitlements	78,086
Provision for dividend	32,353
Other provisions	55,614
Finance lease liabilities	3,416
Borrowings	625,000
<b>TOTAL LIABILITIES</b>	<b>881,229</b>
Net assets available for sale	750,650
Minority Interest in net assets	(3,541)
<b>FAIR VALUE OF IDENTIFIABLE NET ASSETS ACQUIRED</b>	<b>253,541</b>
Goodwill	2,403,021
<b>CONSIDERATION</b>	<b>2,656,562</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 31. ACQUISITION OF SYMBION HEALTH LIMITED (continued)

(iii) Impact of acquisition on the consolidated results of the Group for the year ended 30 June 2008

<b>\$000</b>	OPERATIONAL IMPACT	INTEGRATION/ RESTRUCT- URING IMPACT	TOTAL ACQUISITION IMPACT
Trading revenue	342,381	-	<b>342,381</b>
Other revenue	1,597	-	<b>1,597</b>
Share of net profits of associates accounted for using the equity method	178	-	<b>178</b>
Employee benefits expense	186,282	17,526	<b>203,808</b>
Property expenses	24,825	8,663	<b>33,488</b>
Other expenses	78,628	1,500	<b>80,128</b>
Impairment of plant and equipment	-	6,500	<b>6,500</b>
Depreciation	13,244	-	<b>13,244</b>
Amortisation of intangibles	2,768	-	<b>2,768</b>
<b>EBIT and Profit (loss) for the year before income tax</b>	<b>38,409</b>	<b>(34,189)</b>	<b>4,220</b>
Income tax expense (benefit)	11,764	(13,056)	<b>(1,292)</b>
<b>PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>26,645</b>	<b>(21,133)</b>	<b>5,512</b>
Loss for the year from discontinued operations	-	(1,810)	<b>(1,810)</b>
<b>PROFIT FOR THE YEAR</b>	<b>26,645</b>	<b>(22,943)</b>	<b>3,702</b>
Attributable to:			
Equity holders of Primary Health Care Limited	25,874	(22,943)	<b>2,931</b>
Minority interest	771	-	<b>771</b>
<b>PROFIT FOR THE YEAR</b>	<b>26,645</b>	<b>(22,943)</b>	<b>3,702</b>

### Notes on the integration/restructuring impact

During the year, Primary Health Care Ltd acquired 100% of Symbion Health Limited. In order to integrate the two businesses and achieve cost synergies, Primary has developed a detailed restructuring plan which involves the consolidation of medical centres and pathology laboratories. Costs are only recognised, on a site by site basis, once a detailed and formal restructuring plan has been approved for each site and the restructuring of that site has either commenced or been publicly announced by the consolidated entity.

Costs recognised to date have been disclosed in the financial statements as follows;

- Once a site has been identified for closure, its leasehold improvements are considered to be impaired. An impairment of \$6.5m has been shown as a reduction in the carrying value of plant and equipment and as a separate line item on the face of the profit and loss statement.
- Once a site has been identified for closure, the remaining operating lease payments for the site are considered to be onerous. An expense of \$8.7m in relation to onerous contracts has been included in the profit and loss statement as part of operating lease rental expense and the unpaid portion of this has been included in provisions (onerous contract provision).
- Site closures and the integration of head office functions inevitably result in staff redundancies. An expense of \$17.5m in relation to staff redundancies has been included in the profit and loss statement as part of employee benefits expense and the unpaid portion of this has been included in provisions (restructuring provision).
- Other miscellaneous costs associated with the restructurings to date, amount to \$1.5m. These costs have been included in the profit and loss statement as part of other expenses. The unpaid portion of these costs has been included in provisions (restructuring provision).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 32. NET ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

The assets and related liabilities classified as held for sale comprise the Consumer and Pharmacy divisions of Symbion Health Limited ("Symbion"). During its acquisition of Symbion in the current financial year, the Company made it clear that it intended to sell these two divisions of Symbion.

As at the date of this report, the sale of the Consumer and Pharmacy divisions has been successfully negotiated. Refer note 33 for further details.

The results of the operations of these divisions from acquisition date to 30 June 2008 are shown in the following table and have been disclosed on the face of the profit and loss statement as Loss from discontinued operations.

<b>\$000</b>	<b>CONSOLIDATED</b>
Operating result	36,058
Finance costs	(38,708)
Loss for the year before income tax	(2,650)
Income tax benefit	(840)
Loss for the year from discontinued operations	(1,810)

The net assets of these divisions are being carried at fair value less costs to sell.

<b>\$000</b>	<b>CONSOLIDATED</b>
Fair value less costs to sell has been determined as follows;	
Fair value of Consumer division	560,000
Fair value of Pharmacy division	505,000
Pharmacy securitisation balance	(300,000)
Costs to sell	(14,350)
	750,650

Fair value less costs to sell has been disclosed on the face of the balance sheet as follows;

Non-current assets classified as held for sale	1,286,412
Liabilities directly associated with non-current assets classified as held for sale	(535,762)
	750,650

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 33. SUBSEQUENT EVENTS

On 20 July 2008, the Group entered into a binding agreement to sell Symbion's Consumer business to sanofi-aventis Australia Pty Ltd. On 31 August 2008, the sale was completed and the cash proceeds of \$560m were applied to reduce the Group's debt.

On 19 August 2008, the Group entered into a binding agreement to sell Symbion's Pharmacy business to Zuellig Australia Pharmacy Services Pty Limited for \$505m. On completion of the transaction and after deducting the securitisation balance of Symbion Pharmacy at completion of approximately \$300m, the Group will receive net cash proceeds of approximately \$205m. The Group will use the net cash proceeds to reduce its debt facilities. Completion is expected to occur by 30 November 2008 and is subject to certain conditions including Zuellig obtaining written consent from the Commonwealth of Australia to the change of control of Symbion Pharmacy. The transaction is not subject to shareholder approval from Zuellig or the Group. Zuellig have received approval for the transaction from the Foreign Investment Review Board.

Apart from the sale of the Consumer and Pharmacy businesses, there has not been any other matter or circumstance, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## 34. CONTINGENT ASSETS

### Tax depreciation deductions – copyright

Primary Health Care Limited (the Company) has claimed appropriate deductions for expenditure on the purchase of intellectual property with the Group's medical practice acquisitions in the years 30 June 1999 to 30 June 2004 inclusive. To access these deductions, the Company has lodged objections with the Australian Taxation Office (ATO) against the Income Tax Assessments of the Company and its controlled entities for the years ending 30 June 1999 to 30 June 2004 inclusive.

The Company has now received Notice of Decisions on Objection (Objection Decisions) from the ATO that it has not allowed the Objections for the year ended 30 June 1999 to 30 June 2004 inclusive. The Directors obtained independent professional advice that the Company is entitled to the claimed amounts and decided to proceed to legally appeal the Objection Decisions.

Total deductions claimed for the years to 30 June 2004 amount to \$34.3m. This equates to a cash refund of \$10.3m, excluding any interest payable to the Company. As a result of these claims made, as at 30 June 2004, the Company also has further gross deductions of \$53.8m available for the years 2005 to 2028.

Estimated additional deductions of approximately \$12.8m for similar acquisitions in 2005 will also be available for deduction over the years 2005 to 2028 based on an external valuation now completed. Objections with the ATO against the Income Tax Assessment of the Company for the years ended 30 June 2005 to 30 June 2008 have not yet been lodged.

Of these \$66.6m future deductions, amounts available in the financial years 2008 to 2011 inclusive assuming a corporate tax rate of 30% are as follows:

Financial year ended 30 June 2008 (includes deductions from 1999-2007 inclusive)	\$ 21.3m
Financial year ended 30 June 2009	\$ 1.1m
Financial year ended 30 June 2010	\$ 0.8m
Financial year ended 30 June 2011	\$ 0.6m

No allowance has as yet been made for acquisitions for the years ended 30 June 2006, 30 June 2007 and 30 June 2008.

The intellectual property asset will continue to be included in goodwill in the balance sheet of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

## 34. CONTINGENT ASSETS (continued)

### Liquidation claim

Prior to April 2003, a (former) subsidiary of Symbion Health Limited ("Symbion"), FH Faulding & Co Limited ("Faulding") was a party to a supply agreement with Pan Pharmaceuticals Ltd ("Pan") pursuant to which it sourced approximately 30% of Symbion's Consumer Division's nutraceutical products. On 28 April 2003, the Australian Therapeutic Goods Administration required a recall of all products manufactured by Pan since 1 May 2002. Pan was subsequently placed in liquidation, and Faulding lodged a proof of debt in the liquidation.

Pursuant to arrangements entered into upon the demerger of Mayne Pharma Limited from Symbion in November 2005, any amount recovered by Faulding in connection with the Pan recall and Pan's alleged contractual breaches, as well as the costs incurred in pursuing such recovery, will be to the account of Symbion. Symbion settled its proof of debt claim with Pan's liquidators in May 2007. The liquidators admitted the debt in an agreed amount.

Pan's liquidators have subsequently issued interim dividends to Symbion in the amount of \$8.42m. A further dividend is expected to be received in FY 2010, but the exact amount depends primarily upon the liquidators settling the amount of claims that the liquidators are prepared to admit.

Symbion may have the right to recover an amount for damages from the Therapeutic Goods Administration. The Company is assessing the nature of its right and the likelihood of recovery.

### Other

There were no other contingent assets as at 30 June 2008.

35. CONTINGENT LIABILITIES	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	\$000	\$000	\$000	\$000
Continuing businesses:				
Treasury bank guarantees	41,331	-	-	-
Discontinuing businesses:				
Symbion Pharmacy services – pharmacy guarantee scheme	17,990	-	-	-
	<b>59,321</b>	-	-	-

# SHAREHOLDER AND CORPORATE INFORMATION

## 1. STOCK EXCHANGE LISTING AND DOMICILE

Primary Health Care Limited is a listed public company, incorporated and operating in Australia.

The shares of Primary Health Care Limited are listed by ASX Ltd on the Australian Stock Exchange and traded under the code "PRY".

## 2. VOTING RIGHTS

Votes of members are governed by the Company's Constitution. In summary, each member is entitled either personally or by proxy or attorney or representative, to be present at any general meeting of the Company and to vote on any resolution on a show of hands or upon a poll. Every member present in person, by proxy or attorney or representative, has one vote for every share held.

## 3. CORPORATE INFORMATION

### Auditor

Deloitte Touche Tohmatsu  
225 George Street  
SYDNEY NSW 2000

### Company's registered office

Level 1/30-38 Short St  
LEICHHARDT NSW 2040  
02 9561 3300

### Share Registry

Computershare Investor Services Pty Ltd  
Level 3, 60 Carrington St  
SYDNEY NSW 2000  
GPO Box 7045  
SYDNEY NSW 1115

## 4. NUMBER OF HOLDERS OF EQUITY INSTRUMENTS AS AT 31 AUGUST 2008

### Ordinary Share Capital

371,215,077 fully paid ordinary shares are held by 5,512 individual shareholders.

All issued ordinary shares carry one vote per share.

10,964,500 share options have been granted to 317 persons.

Share options do not carry any voting rights.

## 5. DISTRIBUTION OF SHAREHOLDERS AS AT 31 AUGUST 2008

Number of shares held			Individual shareholders
1	-	1,000	1,764
1,001	-	5,000	2,598
5,001	-	10,000	580
10,001	-	50,000	422
50,001	-	100,000	45
100,001 and over			103
			5,512

96 shareholders hold less than a marketable parcel of shares.

## SHAREHOLDER AND CORPORATE INFORMATION

### 6. TOP 20 SHAREHOLDERS AS AT 31 AUGUST 2008

Name	Number of fully paid ordinary shares	% of Total
National Nominees Limited	74,455,982	20.06
JP Morgan Nominees Australia Limited	47,190,357	12.71
UBS Nominees Pty Ltd	41,679,551	11.23
HSBC Custody Nominees (Australia) Limited	31,288,977	8.43
Dr. Edmund Bateman & Mrs. Belinda Bateman	24,418,796	6.58
Idameneo (No. 122) Pty Ltd	22,831,385	6.15
Citicorp Nominees Pty Ltd	12,409,094	3.34
ANZ Nominees Ltd (Cash Income Account)	12,001,527	3.23
Cogent Nominees Pty Limited	9,458,701	2.55
UBS Wealth Management Australia Nominees Pty Ltd	7,870,486	2.12
Queensland Investment Corporation	6,073,174	1.64
Citicorp Nominees Pty Ltd (CFS WSLE Imputation Fund Account)	3,900,636	1.05
Citicorp Nominees Pty Ltd (CFS WSLE Industrial Share Account)	3,563,239	0.96
Joseph Management Pty Ltd	3,000,230	0.81
Credit Suisse Securities (Europe) Limited	2,940,000	0.79
Abtourk (Syd No. 391) Pty Ltd	2,888,694	0.77
Citicorp Nominees Pty Ltd (CFS Imputation Fund Account)	2,682,865	0.72
Charado Pty Ltd	2,555,053	0.69
HSBC Custody Nominees (Australia) Ltd	2,379,333	0.64
Argo Investments Limited	1,990,845	0.54
	315,578,925	85.01

No share options are held by the top 20 shareholders.

### 7. SUBSTANTIAL SHAREHOLDERS

Ordinary Shareholders	Number of fully paid ordinary shares	% of Total
EG Bateman and related entities	50,740,762	13.67
UBS Nominees Pty Ltd	48,729,965	13.13
Caledonia Investments Pty Ltd	35,333,183	9.52
Schroder Investment Management Australia Ltd	35,133,921	9.47
ABN AMRO Asset Management Australia Ltd	22,644,176	6.10
IOOF Holdings Ltd	19,063,923	5.14

Information in the table above is as per the most recent substantial shareholder notices received by the Company as at 31 August 2008.

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