

Primary Health Care Limited

Annual Report for the Year Ended 30 June 2010

ACN 064 530 516

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Review of operations

For the year ended 30 June 2010

Overview

	2010	2009
\$000	Total	Total
Revenue including share of net profits of associates	1,296,818	1,336,567
Expenses	965,796	981,239
EBITDA	331,022	355,328
Depreciation	55,016	52,850
Amortisation	17,901	14,927
EBIT	258,105	287,551
Finance costs	77,841	128,089
Profit for the year before income tax and non-recurring items	180,264	159,462
Non-recurring items	-	9,821
Profit for the year before income tax	180,264	149,641
Income tax expense	46,111	31,333
Profit for the year from continuing operations	134,153	118,308
(Loss) for the year from discontinued operations	-	(7,603)
Profit for the year	134,153	110,705
Profit attributable to non-controlling interest	2,156	2,203
Profit attributable to members of the parent entity	131,997	108,502
	2010	2009
Cents per share	Total	Total
Basic earnings per share ¹	27.8	28.7
Final dividend ^{2,3}	10.0	7.0
Interim dividend ²	15.0	7.0
	25.0	14.0

¹ Diluted earnings per share is materially consistent with basic earnings per share.

² All dividends paid were 100% franked at the corporate income tax rate (2010: 30%, 2009: 30%)

³ The record date for determining entitlement to the final dividend is 24 September 2010 and is payable on 11 October 2010.

Summary

The Directors of Primary Health Care Limited (Primary) announce the results for the year ended 30 June 2010. Key points of the results are:

- EBITDA: \$331.0m (2009: \$355.3m)
- Profit before tax: \$180.3m (2009: \$149.6m)
- Net profit from continuing operations: \$134.2m (2009: \$118.3m)
- Basic EPS: 27.8cps (2009: 28.7cps)
- Final dividend: 10.0cps (100% franked) (2009: 7.0cps (100% franked))

The following external influences have contributed to Primary's FY2010 result:

There have been Federal Government Funding cuts for Medicare services outside of hospitals in 2009 of \$11.10 for each individual Australian. (Source: Report on Government Services 2010, Productivity Commission, Canberra). There have been further cuts in 2010, an estimated \$234m. The latter funding cuts include non-renewal of some Practice Incentive Programs, Item Numbers associated with Joint Injections, together with Pathology and other cuts.

The costs of medical practice service provision continue to increase (rents, rates, electricity, wages). Primary, in order to maintain affordability for patients, continues to bulk bill more than 90% of its ten million GP services provided each year.

Outside of Primary's service providers, there has been significant increase in out-of-pocket expenses for patients. There has been a 30% increase reported. As a consequence of Federal Government funding cuts and the related increase in out-of-pocket expenses, there has been less access to care for patients due to a loss of affordability.

6% of Australians, over the age of 15 years, have deferred or not seen a GP because of cost. (Source: Australian Bureau of Statistics, 30 July 2010). This decline in attendances is also confirmed by Medicare data. There is also noted an increasing decline in preventative healthcare service provision. (Source: Medicare).

The results of each division are discussed in more detail below.

Segment analysis

\$m	Year ended 30 June 2010 Total	Year ended 30 June 2009 Total	6 months to 31 December 2009 Total
Revenue			
Medical Centres	259.0	252.0	131.8
Pathology	720.7	737.4	363.5
Imaging	289.1	314.4	147.1
Health Technology	46.4	49.4	24.1
Corporate	9.8	7.3	3.2
Intersegment	(28.2)	(23.9)	(13.8)
Total	1,296.8	1,336.6	655.9
EBITDA			
Medical Centres	142.4	140.9	73.8
Pathology	135.3	145.2	73.4
Imaging	42.6	54.8	23.0
Health Technology	20.0	16.8	9.7
Corporate	(9.3)	(2.4)	(4.9)
Total	331.0	355.3	175.0
Margin			
Medical Centres	55.0%	55.9%	56.0%
Pathology	18.8%	19.7%	20.2%
Imaging	14.7%	17.4%	15.6%
Health Technology	43.1%	34.0%	40.7%
Total	25.5%	26.6%	26.7%

Review of operations

For the year ended 30 June 2010

Medical Centres

EBITDA for the division was \$142.4m compared to \$140.9m for the prior year. EBITDA/Revenue margin for the year was 55.0% compared to 55.9%.

Federal Budget changes, introduced on 1 July 2009, directly removed \$4m per annum from revenue and EBITDA to Primary's practices. Additionally, Accounting Standard changes, introduced 1 July 2009, require costs incurred in the acquisition of businesses to be expensed which decreased profit before tax by \$1.8m. The underlying organic growth of medical centre business was 10% after excluding both of these items and a \$5m decrease in EBITDA contribution from clinical trials over prior year.

Eight new medical centres have been opened since 30 June 2009 and a total of 53 large-scale Primary centres are now in operation. Doctor practice acquisitions are currently strong. A further two new centres are planned to be opened in FY2011.

GP attendances for the year were below the normal anticipated growth for the reasons outlined.

The next 12 months will see a significant contribution from our 53 large scale centres. The 15 newest centres have been open for an average of 15 months. Our focus is on the development of these centres and the back-filling of GP and other services, into all centres.

We believe our medical centre model can provide strong long term growth for Primary as a whole.

Pathology

EBITDA for the division was \$135.3m, compared to \$145.2m for the prior year. EBITDA/Revenue margin for the year was 18.8% compared to 19.7%.

Synergies from the Symbion acquisition have continued to be realised in line with original expectations. Savings in labour and consumables have been achieved.

The May 2009 Federal Budget Pathology funding changes took effect on 1 November 2009. It is estimated that over a full twelve month period Primary's pathology division will be adversely impacted by up to \$45m in both revenue and EBITDA terms (\$30m for the eight months to 30 June 2010). As a consequence of these funding cuts, and combined with unprecedented flat volumes across the industry throughout FY2010, revenue was down on the prior year at \$720.7m compared to \$737.4m. Various initiatives did recoup a small proportion of these funding cuts. Primary continues to bulk bill the vast majority of Pathology services, as it has done historically.

Primary successfully acquired and integrated a small pathology provider in Victoria in March 2010.

Imaging

Imaging reported revenue of \$289.1m and EBITDA of \$42.6m, compared to \$314.4m and \$54.8m for the prior year. EBITDA margins for the period were 14.7% compared to 17.4%.

The revenue reductions occurred primarily in Queensland and to a lesser extent New South Wales. The revenue losses are a result of increased competition as well our response to competition (i.e. a reduction in co-payments and an increase in bulk billing) leading to reductions in average fee billed per consultation. While FY2009 saw synergies achieved, particularly through labour and consumables efficiencies, the continuing effect of significant wage and cost increases are not being matched by long term Medicare rebate increases.

Primary is focused on a number of initiatives to improve the profitability of the Imaging business including further labour efficiencies as well as improved productivity across its group of radiologists. This combined with the roll-out of upgraded reporting technology is expected to lead to efficiency gains in FY2011.

Health Technology

EBITDA improved by 19% to \$20.0m. Subscription renewal rates remain high for all general practitioner and specialist software products. The strong performance of the software products has offset the removal of lower margin revenues from advertising on the flagship Medical Director product as well as a reduced contribution from the knowledge resources product operating in a more challenging environment for that product. Transactional revenues from e-health products continue to grow well.

Interest expense and debt

At 30 June 2009, Primary carried \$1,211m of net debt on its balance sheet. All proceeds from capital raisings and share purchase plans during FY2010 (a total of c\$270m) received during the period were used to reduce debt, resulting in net debt of \$979m at 30 June 2010.

On 23 December 2009, Primary successfully completed the refinancing of its debt facilities for a further three years, to December 2012. The margin payable on the facility is in the range of 2.50%-3.00% above BBSY depending on gearing ratios during the facility period.

As confirmed on 12 August 2010 Primary is currently considering a proposal for the issue of Retail Bonds. The purpose of the Bonds would be to diversify its debt term and type profile. Any funds raised would pay down bank debt. The proposal is currently not complete and under review and no decision has been made that the matter will proceed.

Corporate Costs

Revenues within comprise interest earned on the short term investment of funds received from share placements and the profit on disposal of share investments. Corporate expenses include a non cash expensing of share options of \$1.6m.

In addition, 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. Pan was subsequently placed in liquidation, and Faulding lodged a proof of debt in the liquidation. Pan's liquidators have subsequently issued interim dividends to Symbion in the amount of approximately \$13.5m, including \$3.4m received in FY2010.

Taxation

The effective tax rate on operating earnings for the year was 25.6%. Primary has benefited from an overprovision from prior years of \$6.3m. This is a one off benefit and is not expected to recur.

Outlook

The continuing background for healthcare delivery is one of increasing patient numbers and needs. The under-funding by government has led in FY2010 to reduced access to GP, Pathology and healthcare services. While this will lead to reduced access to those not able to afford care, the demand by those who can pay will lead to renewed growth. The timing of this is hard to determine. Notwithstanding this the underlying drivers of healthcare demand will provide underlying long term volume growth in each of Primary's divisions.

In mid May 2010 Primary gave FY2011 guidance of EBITDA \$360-\$380m. Demand for services for the balance of May and June 2010 remained subdued.

Subject to no significant changes in current market conditions, Primary currently would expect to achieve the lower range of its FY2011 earnings guidance of \$360m.

Directors' Report

For the year ended 30 June 2010

The Directors of Primary Health Care Limited submit their Directors' Report for the financial year ended 30 June 2010 (referred to as "the year" or "2010") accompanied by the financial report of the Company and the entities it controlled from time to time during the year (referred to as "Primary" or "the Group"). 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 full 2010 financial year and up to the date of this report were:

- Mr. Robert Ferguson
- Dr. Edmund Gregory Bateman
- Mr. Brian Ball
- Dr. Michael Joseph Christie
- Mr. John David Crawford
- Mr. Stephen Higgs
- Mr. Terence Smith

Details of the qualifications and experience of each of the Directors are set out on page 9 of this report.

Company Secretaries

Details of the qualifications and experience of each of Mr. Andrew Duff and Ms. Yvette Cachia, the Company Secretaries, are set out on page 10 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
R Ferguson	11	11	2	2	4	3
EG Bateman*	11	11	2	1	4	3
B Ball	11	11	2	2	4	4
MJ Christie	11	11	2	N/A	4	N/A
JD Crawford	11	10	2	2	4	3
S Higgs	11	10	2	2	4	3
T Smith^	11	10	2	2	4	3

Note: The Audit Committee for the year ended 30 June 2010 comprised Mr. Brian Ball (Chair), Mr. Rob Ferguson, Mr. John Crawford and Mr. Stephen Higgs. The Remuneration Committee for the year ended 30 June 2010 comprised Mr. Rob Ferguson (Chair), Mr. Brian Ball, Mr. John Crawford, Mr. Stephen Higgs and Mr. Terence Smith.

*Attended Audit and Remuneration Committee meetings by invitation.

^Attended Audit Committee meetings by invitation.

Details of committee membership and functions are set out in the Corporate Governance Statement on pages 16 to 21 of the Annual Report.

Significant change in the state of affairs

There was no significant change in the state of affairs of the Group during the financial year.

Principal activities

During the year, the principal continuing activities of the 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 43 to 45 of the Annual Report.

Review and results of operations

A review of the operations of the Group during the year, and the results of those operations, can be found on pages 2 to 5 of the Annual Report.

Events after the end of the year

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 the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the Group 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 the Group. Accordingly, no further information is included in this Report.

Dividends

In respect of the financial year ended 30 June 2009, a final dividend of 7.0 cents per share (100% franked), was paid to the holders of fully paid ordinary shares on 28 September 2009.

In respect of the financial year ended 30 June 2010:

- an interim dividend of 15.0 cents per share (100% franked), was paid to the holders of fully paid ordinary shares on 29 March 2010; and
- the Directors have approved the payment of a final dividend of 10.0 cents per share (100% franked), to the holders of fully paid ordinary shares, the record date being 24 September 2010, payable on 11 October 2010.

The Company operates a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP). During the financial year ended 30 June 2010, shares issued pursuant to the DRP and BSP were 11,564,922 (2009: 5,531,230) and 151,803 (2009: 20,470) 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 2010

Shares under option

Options are held by both employees and independent contractors of the Group. 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 8 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	Number
Issue 101	28 Feb 2003	30 Dec 2013	\$0.43	195,000
Issue 102	25 Jul 2003	30 Dec 2011	\$1.15	10,000
Issue 103	27 Feb 2004	24 Sep 2012	\$2.10	196,000
Issue 104	29 Oct 2004	2 Dec 2011	\$3.14	433,500
Issue 7a	16 Feb 2005	7 Mar 2012	\$5.35	200,000
Issue 106	1 Jun 2005	1 Jun 2014	\$5.18	150,000
Issue 107	5 Oct 2005	1 Nov 2013	\$7.51	812,500
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 109	2 May 2006	2 Jun 2013	\$8.99	575,000
Issue 110	31 Oct 2006	13 Dec 2013	\$9.02	617,500
Issue 12	31 Oct 2006	29 Sep 2011	\$9.02	110,000
Issue 111	1 Jun 2007	19 Dec 2012	\$9.35	320,000
Issue 13	1 Jun 2007	1 Jul 2012	\$9.35	30,000
Issue 112	2 Nov 2007	6 Dec 2014	\$9.15	1,325,000
Issue 15	2 Oct 2009	1 Oct 2015	\$5.75	1,361,000
Issue 16	2 Oct 2009	31 Aug 2018	\$5.93	1,003,000
Issue 113	2 Oct 2009	27 Aug 2017	\$5.75	2,600,000
Issue 114	2 Oct 2009	27 Feb 2019	\$5.93	5,520,000
Issue 17	23 Nov 2009	1 Oct 2015	\$5.93	715,500
Issue 115	25 Jan 2010	29 May 2019	\$6.03	1,615,000
Balance at date of this Report				17,919,000

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	Number	
During the year	Issue 101	\$0.43	643,000	
	Issue 102	\$1.15	52,500	
	Issue 103	\$2.10	329,000	
	Issue 104	\$3.14	461,500	
	Issue 106	\$5.18	30,000	
	Issue 8	\$5.15	220,000	
	Issue 9	\$5.18	44,000	
	Since the end of the year	Issue 101	\$0.43	47,000
		Issue 103	\$2.10	15,000

Qualifications, experience and special responsibilities of directors

Robert Ferguson. B.Ec (Hons). Non-executive Chairman (age 64)

Mr. Ferguson was appointed Non-executive Chairman of the Board on 1 July 2009. He is Chairman of the Remuneration Committee and member of the Audit Committee.

Mr. Ferguson is currently Non-executive Chairman of IMF (Australia) Limited, a Director of MoneySwitch Limited and Chairman of GPT Management Holdings Limited. Mr. Ferguson is also Deputy Chair of the Sydney Institute and a Director of the Lowy Institute.

Edmund Gregory Bateman. M.B.,B.S. Managing Director (age 68)

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

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 61)

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 Managing Director of Advent III Private Equity Ltd (unlisted 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 68)

Dr. Christie joined the Board in 1994 as an Executive Director and is now a Non-executive Director.

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 71)

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

Stephen Higgs. B.Ec. Non-executive Director (age 63)

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). Mr. Higgs spent over 20 years in investment banking at UBS and its predecessors, including as head of corporate finance.

Terence Smith. AM MBE RFD ED. Non-executive Director (age 67)

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

Mr. Smith was the Managing Director and Chief Executive Officer of the Hospital Contribution Fund of Australia Ltd group of companies from February 1990 until 9 July 2010. He is a Vice President of the International Federation of Health Funds, past President of the Australian Health Insurance Association Limited (from November 2001 to November 2008), a Director of HCF Life Insurance Pty Ltd and the Managing Director of Manchester Unity Friendly Society Ltd since December 2008. He is also a trustee for the HCF Health and Medical Research Foundation which he helped establish in 2001 and a Trustee for the Royal New South Wales Regiment Trust. Mr. Smith has particular experience in the delivery and quality of private hospital, medical and ancillary services.

Directors' Report

For the year ended 30 June 2010

Joint company secretaries

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.

Yvette Cachia. B.Ed, MA (Dist.), LLB (Hons 1) ACIS., Company Secretary

Ms. Cachia was appointed to the position of company secretary in 2008.

Ms. Cachia is a member of the New South Wales Bar Association, the Australasian Compliance Institute and the International Institute of Chartered Secretaries and Administrators. Before joining Primary Health Care Limited, Ms. Cachia worked as a company secretary for a range of ASX listed entities in the technology and mining sectors in addition to her work as a barrister.

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 ordinary options over shares in the Company were held by Directors at the date of this Report.

	Number of shares
R Ferguson	190,800
EG Bateman	33,275,985
B Ball	87,000
MJ Christie	3,592,488
JD Crawford	76,772
S Higgs	606,278
T Smith	-

Note: EG Bateman and his associates also hold 21,846,041 call options over issued ordinary shares in Primary Health Care Limited.

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 was 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 16 to 21 of the Annual Report.

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 10 on page 54 of the Annual Report.

Management of safety risks

Primary is committed to ensuring that the health and safety of all employees, sub-contractors and the general public is given the highest priority. Primary's Occupational Health & Safety (OHS) performance is monitored through regular monthly reports being provided to senior management and quarterly performance reporting to the Board. Health and safety is incorporated into business planning, purchasing and contracting policies and the design of workplaces.

Primary's key strategic goal is to minimise the number of incidents that result in lost time by the employees, and our performance in this area is regularly monitored. In order to improve our health and safety performance, full-time resources are allocated to the maintenance and improvement of the OHS management system throughout Australia. During the year ended 30 June 2010, the numerical resources devoted to health and safety were increased by approximately 20%. The professional health and safety staff work very closely with the Employee Representative Committees that have been established over a number of years, in order to incorporate employee representation and consultation into health and safety initiatives, as well as a forum for disseminating information to improve health and safety.

Primary also recognises its responsibilities to contractors. Health and safety procedures require contractors to provide evidence that they have OHS management systems in place, and workplace induction is provided to contractors prior to the commencement of any work. We also have monitoring procedures in place for addressing any health and safety issues that may arise.

Key health and safety performance indicators are as follows:

	2010	2009
Number of WorkCover prosecutions	Nil	Nil
Number of sites subject to OHS Internal Audit	21	14
Number of Incidents Resulting in Lost Time Injuries	109	79

The increase in number of incidents resulting in Lost Time Injuries has been the subject of investigation and it is considered there was no systematic breakdown in the OHS Management System during the year.

Primary has a comprehensive program of health and safety internal audits that are conducted over all business units during the course of the year. Audit findings may constitute either areas of non-conformance with OHS procedures, or areas for improvement. All findings are discussed with auditees before being finalised. The final reports are presented to senior management and include the findings, recommendations to address findings, persons responsible and timeframes for implementation.

Training in health and safety is provided to staff at induction to ensure all staff perform their duties safely. Further training is provided when specific issues are identified through regular workplace supervision, hazard reporting and regular inspections.

Primary is engaged in continuous improvement to raise health and safety standards. During the current financial year Primary implemented the Checkpoint Program. This health and safety initiative is designed to reinforce key parts of the OHS management system to all business units in a 12 month cycle.

During the last quarter of the current financial year Primary completed a comprehensive review of the OHS Management System. The major initiative planned for the 2011 financial year is to act on the findings of this review by updating and re-issuing the OHS Policy and Procedures of Primary across all business units.

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 2010

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 2010.

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 Group (other than the Non-executive Directors) – namely the Managing Director and KMP with authority and responsibility for planning, directing and controlling the activities of the Group during the financial year. This table also represents the five Company and KMP who received the highest remuneration for the 2010 financial year.

Senior Executives

Throughout this Remuneration Report, the term KMP is used to refer to:

- the five most highly remunerated 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, including the Managing Director.

Current KMP (2010)	Title
Dr. Edmund Bateman	Managing Director
Mr. Henry Bateman	General Manager – Medical Centres
Mr. James Bateman	Chief Operating Officer & General Manager – Pathology
Mr. Andrew Duff	Chief Financial Officer
Mr. John Frost	Chief Executive Officer – Health Technology
Mr. Carl Adams	General Manager – Diagnostic Imaging
Mr. Matthew Bardsley	Chief Information Officer
Mr. Stephen James	General Manager – Risk & Insurance

Former KMP (2009)	Title
Dr. Edmund Bateman	Managing Director
Mr. Henry Bateman	General Manager – Medical Centres
Mr. James Bateman	Chief Operating Officer & General Manager – Pathology
Mr. Andrew Duff	Chief Financial Officer
Mr. John Frost	Chief Executive Officer – Health Technology
Mr. Matthew Bardsley	Chief Information Officer
Mr. Stephen James	General Manager – Diagnostic Imaging

Board policy on remuneration

The Board's policy on remuneration recognises the importance of an alignment between executive remuneration and Primary's performance and 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 KMP on an annual basis and makes recommendations to the Board. Independent experts are available to the Remuneration Committee, if required, to assist with its deliberations. Remuneration packages are reviewed with due regard to performance and other relevant factors.

As well as a base salary, KMP remuneration packages include superannuation and fringe benefits, without creating additional cost for the Company. KMP may also be eligible to participate in the Company's Employee Option Plan.

In the financial year ended 30 June 2010, no offer of Options and no discretionary incentive payments were made to any KMP.

During the financial year ended 30 June 2010, the Remuneration Committee engaged an external remuneration consultant to independently assess the current remuneration strategy in relation to Primary's KMP. Recommendations were made to the Remuneration Committee that Primary's remuneration strategy could be more appropriately positioned relative to the external market and aligned more effectively with its business strategy. As a result, a number of increases were recommended by the Remuneration Committee in relation to the base salaries of KMP, effective for the year ended 30 June 2011. The Remuneration Committee is also currently considering a

recommendation to implement an incentive scheme incorporating short and long term reward levers, with mandatory deferral arrangements. Any decision to formally implement such a scheme will be subject to shareholder approval.

Company strategy and performance

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

The table below demonstrates the performance of the Group over the five years ended 30 June 2010.

	Year ended 30 June				
	2010	2009	2008	2007	2006
Profit Attributable to Equity Holders of Primary Health Care Ltd (\$000)	131,997	108,502	7,862	56,903	47,480
Share price at end of year (\$)	3.56	5.25	5.20	12.68	11.85
Interim dividend (cents per share)	15.0	7.0	22.0	21.0	20.0
Final dividend (cents per share)	10.0	7.0	5.0	24.0	22.0
Special dividend (cents per share)	-	-	-	-	8.0
Basic Earnings Per Share (cents)	27.8	28.7	3.2	32.4	27.9

Notes

- All dividends paid were 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.

Components of Remuneration

Remuneration for KMP has the following components:

Fixed remuneration

The terms of employment for all KMP include a fixed remuneration component expressed as a dollar amount. KMP 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.

"At risk" remuneration

Option plan

Options may be issued to KMP under the Company's Employee Option Plan at the sole discretion of the Board. Further details of the Plan are included in note 8 to the financial statements. The Board will not consider issuing options to KMP 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 KMP. Options are not linked to performance, and there is no ability to hedge options issued. No offer of Options was made to any KMP in 2010.

During the current financial year, the following KMP exercised options that were granted to them as part of their compensation. Each option exercised converts into one ordinary share of Primary Health Care Limited.

Name	No. of options exercised	No. of ordinary shares of Primary Health Care Limited	Amount paid	Amount unpaid
A Duff	200,000	200,000	\$1,030,000	-

Bonus

No bonuses were paid in 2010 (30 June 2009: \$nil).

Directors' Report

For the year ended 30 June 2010

Details of contracts of CEO and Senior Executives

The remuneration and other terms of employment for KMP are not formalised in employment and service agreements. However, KMP are entitled to leave and notice provisions in accordance with the relevant state or commonwealth legislation. During the year the base salary of the Managing Director, Dr. Edmund Bateman was increased from \$400,000 to \$950,000 following an independent external review and advice provided to the Remuneration Committee, based on the significant responsibilities associated with Dr. Bateman's role in Primary and relative to the external market.

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 2010 table also discloses the five group executives that received the highest remuneration for this year.

2010	Short term employee benefits	Post employment benefits	Share based payments	Total	Options as a %
	Salary/ fees	Superannuation	Options ¹		Of total
Managing Director					
E Bateman	935,539	14,461	-	950,000	-
KMP					
H Bateman ²	295,539	14,461	-	310,000	-
J Bateman ²	360,539	14,461	-	375,000	-
A Duff ²	360,539	14,461	-	375,000	-
J Frost	302,860	27,140	-	330,000	-
M Bardsley ²	312,214	18,513	23,640	354,367	6.7
S James ²	305,539	14,461	40,807	360,807	11.3
C Adams	201,564	8,436	-	210,000	-
Total	3,074,333	126,394	64,447	3,265,174	2.0

2009

Managing Director					
E Bateman	386,255	13,745	-	400,000	-
KMP					
H Bateman	186,255	13,745	-	200,000	-
J Bateman	304,841	48,606	-	353,447	-
A Duff	361,255	13,745	-	375,000	-
J Frost	302,860	27,140	33,119	363,119	9.1
M Bardsley	304,469	13,745	25,680	343,894	7.5
S James	306,255	13,745	59,578	379,578	15.7
Total	2,152,190	144,471	118,377	2,415,038	4.9

¹ 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.

² Following independent external review of the remuneration arrangements for KMP, the Remuneration Committee has approved an increase in the base salary remuneration of the following KMP: Mr. H Bateman (\$420,000); Mr. J Bateman (\$500,000); Mr. M Bardsley (\$335,000); Mr. S James (\$380,000); and Mr. A Duff (\$500,000). These changes are effective from 1 July 2010.

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.

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

	Gross salary	Audit committee fees	Super contributions	Total
2010				
Robert Ferguson ¹	210,539	-	14,461	225,000
Brian Ball	100,000	7,500	-	107,500
John Crawford	50,000	-	50,000	100,000
Michael Christie	91,743	-	8,257	100,000
Stephen Higgs	91,743	-	8,257	100,000
Terence Smith	91,743	-	8,257	100,000
Total	635,768	7,500	89,232	732,500
2009				
Greg Gardiner ²	68,807	-	6,193	75,000
Brian Ball ³	75,000	-	-	75,000
John Crawford	55,046	-	4,954	60,000
Michael Christie	55,046	-	4,954	60,000
Stephen Higgs	55,046	-	4,954	60,000
Terence Smith	54,220	-	5,780	60,000
Total	363,165	-	26,835	390,000

¹Mr. Ferguson's remuneration is a fixed fee inclusive of fees for his role as Chairman of the Remuneration Committee.

²Mr. Gardiner resigned 12 May 2009.

³Mr. Ball was acting Chairman from 1 February 2009 to 30 June 2009.

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

On behalf of the Directors



Edmund Bateman - Director
Sydney 17 August 2010

Corporate governance statement

For the year ended 30 June 2010

Corporate Governance Statement

The following description of the governance arrangements of Primary Health Care Limited ("Primary") for the year ended 30 June 2010 addresses those principles set out in the 2nd edition of the ASX Corporate Governance Principles and Recommendations.

Copies of Primary's charters and policies are available via the Company's website at www.primaryhealthcare.com.au.

Principle 1: Lay solid foundations for management and oversight

The Board has adopted a formal Board Charter which outlines the Board's role and responsibilities, including its relationship with management, in line with good corporate governance principles.

Under the Charter, the Board is responsible for:

- representing and serving the interests of shareholders by overseeing and appraising the strategies, policies and performance of the Company;
- overseeing the financial and human resources which the Company has in place to meet its objectives and for reviewing the performance of management;
- protecting and optimising Company performance and building sustainable value for shareholders;
- monitoring and reviewing the effectiveness of the occupational health, safety and environment practices of the Company; and
- ensuring that 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 2001 (Cth) (the Corporations Act).

The Board has guidelines for its Directors to address potential conflicts of interest, including a requirement that they declare their interests as required by the Corporations Act and the ASX Listing Rules.

Board Functions

General functions of the Board include:

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

A copy of the Board Charter is available on Primary's website at www.primaryhealthcare.com.au.

Principle 2: Structure the Board to add value

Directors' independence

The size and composition of Primary's Board is determined pursuant to the Board Charter and Primary's Constitution. The Board recognises that independent Directors are important in assuring shareholders that the Board is properly able to exercise independent judgement when meeting its responsibilities under the Charter. The Board also considers that its membership should comprise Directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The names, skills, experience, expertise and appointment dates of the current Directors of the Company are set out on page 9 of the Annual Report.

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, meet the definition of independence as prescribed in the ASX Corporate Governance Principles and Recommendations. These guidelines seek to determine whether the Director is independent of management and generally free from 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, including whether the Director:

- is a substantial shareholder or otherwise directly associated with a substantial shareholder of the Company;
- is employed, or was previously employed in an executive capacity in the Company or a group member within the previous 3 years prior to serving on the Board;
- has been a professional adviser or consultant, or a material supplier or customer of the Company or a group member; or
- has a material contractual relationship with the Company other than as a Director.

Board Membership

The Board has previously determined that it is inappropriate, given its size and scope, to maintain a separate Nomination Committee. As outlined above, the responsibilities traditionally performed by such a Committee are assumed by the Board. As part of its role in relation to the nomination of Directors, the Board develops 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 are proposed for consideration. Where appropriate, the services of external consultants are engaged.

The Board is involved in reviewing:

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

The Board is also responsible for selecting, appointing and evaluating the performance of the CEO and for monitoring the performance of Senior Management. 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.

Advice and Support

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.

Corporate governance statement

For the year ended 30 June 2010

The Company Secretaries also play an important role in supporting Board members by monitoring that policies and procedures are followed and by providing briefing material for the Board's consideration at Board and Committee meetings. This information includes regular reports from Primary's Senior Executives to ensure that the Board can discharge its duties effectively.

A copy of the Board Charter is available on Primary's website at www.primaryhealthcare.com.au.

Principle 3: Promote ethical and responsible decision-making

Code of Conduct

Primary's Code of Conduct promotes ethical and responsible decision-making throughout the Company. The Code's application is supported through a range of policies and management practices. It encompasses guidance to manage: compliance with law and regulations; corporate integrity and social responsibility; conflicts of interest; the maintenance of information privacy and confidentiality; copyright; inside information; improper benefits; misappropriation; and workplace conduct. Issues believed to amount to a breach of the Code are to be reported for investigation to those Senior Executives identified in the Code.

Trading in Securities

Primary recognises the importance of establishing and maintaining appropriate compliance standards and procedures to ensure that public confidence in the Company's market integrity is maintained. Primary 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 insider trading provisions of the Corporations Act.

Directors, officers and employees (and their associates), in possession of unpublished price-sensitive information, are not permitted to buy or sell Primary securities. Directors and Senior Executives inform the Chairman of any intended trade transactions. Any breaches of this policy may lead to disciplinary action, including termination.

Diversity

The ASX Corporate Governance Council has recently released changes to Principle 3 of the ASX Corporate Governance Principles and Recommendations in relation to diversity. The changes aim to provide greater transparency of the processes adopted to support and encourage gender diversity in organisations. One of these measures involves adopting and disclosing a diversity policy, with measurable objectives for achieving gender diversity. The proposed changes will apply to all listed companies from their first financial year commencing after 1 January 2011. Primary will be in a position to report on the ways it is implementing strategies to address these requirements in the 2011 Annual Report.

A copy of the Code of Conduct and a summary of the Trading in Securities Policy are available on Primary's website at www.primaryhealthcare.com.au.

Principle 4: Safeguard integrity in financial reporting

Primary has systems of independent review and authorisation to ensure the integrity of its financial reporting. The Audit Committee is comprised of an independent Chair who is not Chairman of the Board and a minimum of 3 independent Non-executive Directors.

At least one member of the Audit Committee must have past employment experience in finance and accounting and professional certification in accounting, or other equivalent experience or background. Details of the qualifications of the members of the Committee are set out on page 9 of the Annual Report. Details of the number of Committee meetings held during the year and members' attendance at those meetings are set out in the Directors' Report on page 6 of the Annual Report.

The members of the Audit Committee for the year ended 30 June 2010 were:

- Mr. B Ball (Chairman);
- Mr. Rob Ferguson;
- Mr. J Crawford; and
- Mr. S Higgs.

However, at the invitation of the Committee, all Directors may attend Audit Committee meetings.

The Audit and Compliance Committee Charter outlines the Committee's responsibilities and functions, which include overseeing the Company's:

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

The Audit Committee invites the Chief Financial Officer and the external auditors to attend Audit Committee meetings. Other individuals (such as the Managing Director) may, by invitation, also attend meetings of the Audit Committee. Additionally, the Audit Committee meets with and receives reports from the external auditors concerning any matters arising in connection with the performance of its role, including the adequacy of internal controls. The external auditors have been appointed since the Company listed in 1998. Continued appointment is subject to periodic review. The Lead External Audit Engagement Partner is required to rotate at least once every 5 years.

Declaration of the Managing Director 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.

Principle 5: Make timely and balanced disclosure

Primary has put mechanisms in place to ensure the provision of timely, balanced and accurate disclosure of material information to the market in order to comply with the continuous disclosure obligations under the Corporations Act and Australian Securities Exchange (ASX) Listing Rules. This includes the provision of information about the Company's financial situation, performance, ownership and corporate governance. Primary ensures that shareholders, regulators, ratings agencies and the general investment community have equal and timely access to material information concerning the Company, including its:

- annual and interim profit announcements;
- release of financial reports; and
- investor presentations and briefings.

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

Company announcements are lodged on both the ASX Company Announcements Platform and the Investor section of Primary's website and emailed to those shareholders who have elected to receive copies of the Company's market announcements.

Principle 6: Respect the rights of shareholders

Primary'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 informed manner and to provide potential investors and other interested stakeholders equal and timely access to information about the Company.

Primary provides a website that includes copies of all information lodged with the ASX as well as other Company information. Shareholders are encouraged to provide email addresses in order to receive email notification of all Company announcements. In addition, investor briefings and the Annual General Meeting (AGM) provide 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, ask questions and respond to Board proposals.

Corporate governance statement

For the year ended 30 June 2010

Primary arranges advance notification of shareholder briefings, via its investor database and also via its website. Teleconference arrangements are available for investors to dial-in to group briefings and participate in question and answer sessions. Primary keeps a summary record for internal use of the issues discussed at group briefings with investors, including a record of those present and the time and place of the meeting.

Principle 7: Recognise and manage risk

The Board is responsible for reviewing and approving the Company's risk management systems and internal controls by working in conjunction with management to ensure that the Company continues to develop appropriate and sound systems and strategies for risk management, including the appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

The Audit Committee and the Board consider the recommendations and advice of external auditors and other external advisers about the operational and financial risks facing the Company. The Board ensures that recommendations made by the external auditors and other external advisers are investigated and where necessary, appropriate action is taken to ensure that the Company has an appropriate internal control environment in place to manage the key risks identified.

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
- significant risks are overseen and mitigated.

The Board and Audit Committee's specific function with respect to compliance is to review and report on the appropriateness of the Company's compliance procedures, including its compliance with:

- relevant laws and regulations including trade practices, occupational health and safety and the environment;
- insider trading laws, continuous disclosure requirements and corporate governance processes under the ASX Listing Rules, Corporations Act 2001 and accounting standards; and
- relevant and appropriate ethical standards.

The identification, monitoring and reporting of risk occurs on a continuous basis at management meetings attended by Senior Management, and where necessary, is reported through to the Board by the Managing Director and Chief Financial Officer. Management separately reports to the Board as to the effectiveness of the Company's management of its material business risks.

Primary's operations are highly regulated and subject to a range of State and Commonwealth legislation and accreditation requirements. Each of the various business units encompassing Pathology, Medical Centres and Diagnostic Imaging operate under a range of policies which provide guidance in relation to identifying and responding to risk. An incident notification and response procedure is in place throughout the Company. Implementation of these policies is ultimately overseen by Senior Executives within each business unit.

Occupational Health, Safety & Environment (OHS&E)

The Board has determined that due to its small size it would not be efficient to maintain a separate Occupational Health, Safety & Environment Committee and Nomination Committee. The responsibilities generally performed by these Committees are assumed by the Board.

The Board is responsible for:

- 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.

Further information about the Company's management of risks to safety is provided in the Directors' Report on page 11.

Principle 8: Remunerate fairly and responsibly

A copy of Primary's Remuneration Committee Charter is available on Primary's website at www.primaryhealthcare.com.au.

The Remuneration Committee consists of a majority of independent Directors, an independent Chair and a minimum of 3 Non-executive Directors. The current members of the Remuneration Committee who were also members for the year are:

- Mr. R Ferguson (Chairman);
- Mr. B Ball;
- Mr. S Higgs;
- Mr. T Smith; and
- Mr. J Crawford.

The Remuneration Committee is responsible for reviewing and recommending to the Board:

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

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 independent external advisers in connection with the structure of remuneration packages, where appropriate.

Particulars concerning Directors' and Senior Executives' remuneration are set out in the Directors' Report on pages 12 to 15 of the Annual Report.

Auditor's independence declaration
For the year ended 30 June 2010

Deloitte.

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

Deloitte Touche Tohmatsu
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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 2010, 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

DELOITTE TOUCHE TOHMATSU

Helen Hamilton-James

Helen Hamilton-James
Partner
Chartered Accountants
Sydney 17 August 2010

Liability limited by a scheme approved under Professional Standards Legislation.

Deloitte.

Deloitte Touche Tohmatsu
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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 2010, and the income statement, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, 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 25 to 83.

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 consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

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Independent audit report

To the members of Primary Health Care Limited

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 15 of the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Helen Hamilton-James

Helen Hamilton-James
Partner
Chartered Accountants
Sydney 17 August 2010

Directors' declaration

For the year ended 30 June 2010

1. In the opinion of the Directors of Primary Health Care Limited (the Company) the Directors declare that:
 - (a) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
 - (b) 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;
 - (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; and
 - (d) there are reasonable grounds to believe that the Company and the controlled entities identified in note 30 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 section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.

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

On behalf of the Directors.



Edmund Bateman
Director

Sydney 17 August 2010

Income statement

For the year ended 30 June 2010

	Note	Consolidated	
		2010 \$000	2009 \$000
Revenue	3	1,296,658	1,335,868
Share of net profits of associates accounted for using the equity method	29	160	699
Employee benefits expense	4	575,942	596,449
Property expenses	5	144,297	139,265
Consumables		127,127	139,865
Other expenses		118,430	105,660
EBITDA		331,022	355,328
Depreciation	12	55,016	52,850
Amortisation	14	17,901	14,927
EBIT		258,105	287,551
Finance costs	6	77,841	128,089
Profit before tax and non-recurring items		180,264	159,462
Non-recurring items	7	-	9,821
Profit before tax		180,264	149,641
Income tax expense	9(a)	46,111	31,333
Profit for the year from continuing operations		134,153	118,308
(Loss) for the year from discontinued operations		-	(7,603)
Profit for the year		134,153	110,705
Attributable to:			
Equity holders of Primary Health Care Limited		131,997	108,502
Non-controlling interest		2,156	2,203
Profit for the year		134,153	110,705

	Note	2010 Cents per share	2009 Cents per share
Earnings per share (Consolidated)			
Basic earnings per share			
From continuing operations		27.8	30.7
From discontinued operations		-	(2.0)
Total basic earnings per share	22	27.8	28.7
Diluted earnings per share			
From continuing operations		27.7	30.6
From discontinued operations		-	(2.0)
Total diluted earnings per share	22	27.7	28.6

Notes to the financial statements are included on pages 32 to 83

Statement of comprehensive income

For the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$000	\$000
Profit for the year	134,153	110,705
Other comprehensive income		
Exchange differences on translating foreign operations	727	(610)
Net value gain on available-for-sale financial assets	96	292
Cash flow hedge matured	(1,639)	-
Net value gain on cash flow hedges	-	1,524
Income tax on other comprehensive income	462	(545)
Other comprehensive income for the year	(354)	661
Total comprehensive income for the year	133,799	111,366
Attributable to:		
Equity holders of Primary Health Care Limited	131,643	109,163
Non-controlling interest	2,156	2,203
	133,799	111,366

The above statement of comprehensive income is required by AASB 101 *Presentation of Financial Statements* (September 2007), illustrating all non-owner changes in equity during the year.

Notes to the financial statements are included on pages 32 to 83

Balance sheet

As at 30 June 2010

	Note	Consolidated	
		2010 \$000	2009 \$000
Current assets			
Cash	33(a)	25,812	223,397
Receivables	11(a)	149,727	156,798
Consumables		24,304	21,716
Other financial assets	15(a)	1,500	6,933
Income tax receivable	9(c)	5,218	2,965
Total current assets		206,561	411,809
Non-current assets			
Receivables	11(b)	2,194	2,224
Property, plant and equipment	12	367,726	333,899
Goodwill	13	2,999,778	2,892,701
Other intangible assets	14	75,633	75,306
Investments in associates	29	1,999	2,073
Other financial assets	15(b)	1,168	1,048
Deferred tax asset	9(b)	41,194	59,467
Total non-current assets		3,489,692	3,366,718
Total assets		3,696,253	3,778,527
Current liabilities			
Payables	16(a)	113,503	110,569
Deferred revenue		14,424	10,255
Tax liabilities	9(c)	-	1,624
Provisions	17(a)	42,692	61,180
Interest bearing liabilities	19(a)	4,142	1,432,261
Total current liabilities		174,761	1,615,889
Non-current liabilities			
Payables	16(b)	11,430	1,375
Provisions	17(b)	39,152	42,245
Interest bearing liabilities	19(b)	1,000,673	2,314
Total non-current liabilities		1,051,255	45,934
Total liabilities		1,226,016	1,661,823
Net assets		2,470,237	2,116,704
Equity			
Issued capital	21	2,318,578	1,995,264
Reserves	23	8,370	8,761
Retained earnings	24	138,867	109,087
Equity attributable to equity holders		2,465,815	2,113,112
Non-controlling interest	25	4,422	3,592
Total equity		2,470,237	2,116,704

Notes to the financial statements are included on pages 32 to 83

Statement of changes in equity

For the year ended 30 June 2010

Consolidated	Issued capital	Investment revaluation reserve	Cash flow hedge reserve	Foreign currency translation reserve	Share based payments reserve	Retained earnings	Attributable to owners of the parent	Non controlling interest	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2009	1,995,264	204	1,148	(388)	7,797	109,087	2,113,112	3,592	2,116,704
Profit for the year	-	-	-	-	-	131,997	131,997	2,156	134,153
Exchange differences arising on translation of foreign operations	-	-	-	727	-	-	727	-	727
Gain/(loss) on investments	-	96	-	-	-	-	96	-	96
Cash flow hedge matured	-	-	(1,639)	-	-	-	(1,639)	-	(1,639)
Income tax relating to components of other comprehensive income	-	(29)	491	-	-	-	462	-	462
Total comprehensive income	-	67	(1,148)	727	-	131,997	131,643	2,156	133,799
Payment of dividends	-	-	-	-	-	(102,217)	(102,217)	(1,326)	(103,543)
Share based payment	-	-	-	-	1,628	-	1,628	-	1,628
Movement in share capital (Note 21)	323,314	-	-	-	(1,664)	-	321,649	-	321,649
Balance at 30 June 2010	2,318,578	271	-	339	7,760	138,867	2,465,815	4,422	2,470,237
Balance at 1 July 2008	1,705,351	-	81	222	7,271	45,326	1,758,251	3,979	1,762,230
Profit for the year	-	-	-	-	-	108,502	108,502	2,203	110,705
Exchange differences arising on translation of foreign operations	-	-	-	(610)	-	-	(610)	-	(610)
Gain/(loss) on investments	-	292	-	-	-	-	292	-	292
Gain/(loss) on cash flow hedges	-	-	1,524	-	-	-	1,524	-	1,524
Income tax relating to components of other comprehensive income	-	(88)	(457)	-	-	-	(545)	-	(545)
Total comprehensive income	-	204	1,067	(610)	-	108,502	109,163	2,203	111,366
Payment of dividends	-	-	-	-	-	(44,741)	(44,741)	(2,590)	(47,331)
Share based payment	-	-	-	-	1,460	-	1,460	-	1,460
Movement in share capital (Note 21)	289,913	-	-	-	(934)	-	288,979	-	288,979
Balance at 30 June 2009	1,995,264	204	1,148	(388)	7,797	109,087	2,113,112	3,592	2,116,704

Notes to the financial statements are included on pages 32 to 83

Statement of changes in equity

For the year ended 30 June 2010

Dividends (Consolidated)	2010 Cents per share	2009 Cents per share	2010 \$000	2009 \$000
Recognised amounts				
Final dividend – previous financial year	7.0	5.0	31,202	18,569
Interim dividend – this financial year	15.0	7.0	71,665	26,266
Dividend forgone under the Bonus Share Plan	-	-	(650)	(94)
	22.0	12.0	102,217	44,741
Unrecognised amounts				
Final dividend - this year	10.0	7.0	49,117	30,152

All dividends paid were 100% franked at the corporate income tax rate (2010: 30%; 2009: 30%). The record date for determining entitlement is 24 September 2010. The final dividend is payable on 11 October 2010. The Company offers a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP). The last date for an election notice for participation in these plans is 8 October 2010.

The Directors have determined that the DRP and BSP will operate at a 1% discount based on the volume weighted average price (VWAP) for Primary's fully paid ordinary shares on the eight day trading period commencing one clear trading day after the record date.

The unrecognised final dividend for the current financial year will utilise franking credits of \$21.1m when it is paid on 11 October 2010.

Notes to the financial statements are included on pages 32 to 83

Cash flow statement

For the year ended 30 June 2010

	Note	Consolidated	
		2010	2009
		\$000	\$000
Cash flows from operating activities			
Receipts from customers		1,329,076	1,395,634
Payments to suppliers and employees		(1,004,460)	(1,064,938)
Payments against non employee provisions	17(c)	(15,994)	(27,374)
Income tax (paid)		(28,414)	(4,221)
Interest received		2,840	2,175
Dividends received		4,121	5,764
Interest and other costs of finance paid		(62,126)	(123,484)
Net cash provided by operating activities		225,043	183,556
Net cash (used in) discontinued operating activities		-	(4,375)
Net cash provided by operating activities	33(b)	225,043	179,181
Cash flows from investing activities			
Payment for property plant and equipment		(104,303)	(66,185)
Payment for businesses purchased	33(e)	(78,482)	(66,731)
Payments for subsidiaries	33(e)	(30)	(506)
Payment for other intangibles		(12,069)	(9,998)
Payment for investments		(14,860)	(6,072)
Proceeds from the sale of property plant and equipment		10,772	8,309
Proceeds from the sale of investments		23,145	-
Net proceeds from the sale of businesses disposed	33(f)	-	748,095
Proceeds from the sale of associate	33(f)	-	1,000
Net cash (used in) provided by investing activities		(175,827)	607,912
Net cash (used in) discontinued investing activities		-	(1,972)
Net cash (used in) provided by investing activities		(175,827)	605,940
Cash flows from financing activities			
Proceeds from issues of shares		273,631	266,727
Payments for share issue costs		(5,546)	(6,777)
Proceeds from borrowings		997,154	-
Repayment of borrowings and finance lease liabilities		(1,438,809)	(782,962)
Payment for debt issue costs		(20,944)	(11,535)
Dividends paid		(52,311)	(20,336)
Net cash (used in) financing activities		(246,825)	(554,883)
Net (decrease) increase in cash held		(197,609)	230,238
Cash at the beginning of the year		223,397	(6,904)
Effect of exchange rate movements on cash held in foreign currencies		24	63
Cash at the end of the year	33(a)	25,812	223,397

Notes to the financial statements are included on pages 32 to 83

Notes to the financial statements

For the year ended 30 June 2010

1. Summary of significant accounting policies

Primary Health Care Limited ('the Company') is domiciled in Australia. The consolidated financial statements of the Company for the financial year ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as 'the consolidated entity' or 'the Group') and the consolidated entity's interest in associated and jointly controlled entities.

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial statements are 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 Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 17 August 2010.

Adoption of new and revised standards

Standards affecting the reported results or financial position of the Group

The following revised Standard has been adopted in the current year and has affected the amounts reported in these financial statements.

AASB 3 Business Combinations (Revised 2008)

AASB 3 (2008) has been adopted in the current year. Its adoption has affected the accounting for business combinations in the current year.

Refer Note 1(b) for analysis.

Standards affecting presentation and disclosure of items within the financial statements

The following new and revised Standards have been adopted in the current year and have affected disclosures within the financial statements (they do not affect the reported results of the Group).

Standard(s)	Impact on disclosures in the financial statements
AASB 101 <i>Presentation of Financial Statements</i> (Revised 2007), AASB 2007-8 <i>Amendments to Australian Accounting Standards Arising from AASB 101</i> and AASB 2007-10 <i>Further Amendments to Australian Accounting Standards Arising from AASB 101</i>	AASB 101 (September 2007) has introduced terminology changes and changes in the format and content of the financial statements.
AASB 8 <i>Operating Segments</i>	The only change to the Group's reported segments under AASB 8 in the current year, is the specific exclusion of 'Corporate' as an Operating Segment. Comparative information has been updated to conform to the requirements of AASB 8. Refer Note 2.
AASB 2009-2 <i>Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments</i>	The amendments to AASB 7 <i>Financial Instruments: Disclosures</i> expand the disclosures required in respect of fair value measurements and liquidity risk. Refer Note 32.

1. Summary of significant accounting policies (continued)

Early adoption of Standards

Certain new accounting standards and interpretations have been published that are not mandatory for the financial year ended 30 June 2010 but are available for early adoption. The reported results and position of the Group is not expected to materially change on adoption of these pronouncements as they do not result in any changes to the Group's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements. The Group does not intend to adopt any of these pronouncements before their effective dates.

Critical accounting judgments and key sources of estimation uncertainty

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.

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 98/0100, 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.

Where necessary, comparative amounts have been reclassified and repositioned for consistency with current year accounting policy and disclosures. Further details on the nature and reason for amounts that have been reclassified and repositioned for consistency with current year accounting policy and disclosures, where considered material, are referred to separately in the financial statements or notes thereto.

(a) Basis of consolidation

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. Non-controlling 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.

Notes to the financial statements

For the year ended 30 June 2010

1. Summary of significant accounting policies (continued)

Basis of preparation (continued)

(a) Basis of consolidation (continued)

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 net profits of associates". Unrealised losses are eliminated in the same way as unrealised gains.

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.

Non-controlling interests in subsidiaries

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured at either fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition by acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

(b) Business combinations

Current financial year

AASB 3 *Business Combinations* (Revised 2008) has been adopted in the current year. Its adoption has affected the accounting for business combinations in the current year.

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, calculated as the sum of the acquisition date fair values of the assets transferred by the Group, the liabilities incurred by the Group to former owners of the acquiree and the equity issued by the Group, and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability will be recognised in either profit or loss or in other comprehensive income.

1. Summary of significant accounting policies (continued)

(b) Business combinations (continued)

Current financial year (continued)

In accordance with the relevant transitional provisions, AASB 3 (2008) has been applied prospectively to business combinations for which the acquisition date is on or after 1 July 2009. The impact of the adoption of AASB 3 (2008) has been:

- To require that acquisition-related costs be accounted for separately from the business combination, leading to these costs being recognised as an expense as incurred, whereas previously they were accounted for as part of the cost of an acquisition.
- To change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of AASB 3, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to contingent consideration are recognised against goodwill only to the extent that they arise from better information about the fair value at acquisition date, and they occur within the 'measurement period' (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognised in profit or loss. There have been no subsequent adjustments to contingent consideration in the current financial year.

In relation to the Income Statement, the adoption of AASB 3 (2008) in the current year has decreased profit before tax (acquisition-related costs) and decreased goodwill recognised during the financial year by \$2.3m. Refer note 22 for impact of adopting AASB 3 (2008) on current year earnings per share.

Prior financial year

Acquisitions of subsidiaries and businesses were accounted for using the purchase method. The cost of the business combination was 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 met the conditions for recognition under the previous version of AASB 3 were recognised at their fair values at acquisition date, except for non-current assets (or disposal groups) that were classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, which were 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 was recognised as goodwill. If, after reassessment, the fair value of the identifiable net assets acquired exceeded the cost of acquisition, the deficiency was credited to profit and loss in the period of acquisition.

The interest of minority shareholders in the acquiree was 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 could only be determined provisionally by the first balance date after acquisition, then the Group used provisional acquisition accounting for the first balance date. Any adjustments to those provisional values as a result of completing the initial accounting was recognised within twelve months of the acquisition date and from the acquisition date.

Provisions for the cost of restructuring entities acquired could 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.

Notes to the financial statements

For the year ended 30 June 2010

1. Summary of significant accounting policies (continued)

(c) Foreign currency (continued)

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 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 they become 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.

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

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 Group's estimate of shares that will eventually vest. At each balance sheet date, the Group 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.

1. Summary of significant accounting policies (continued)

(f) Finance costs

Finance costs comprise: interest expense on finance leases, interest expense on interest-bearing liabilities and the amortisation of costs associated with arranging interest-bearing liabilities.

Finance costs, other than the amortisation of costs associated with arranging interest-bearing liabilities, are expensed as incurred, unless they relate to qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use (for example the construction and fit-out of a new Medical Centre). In these circumstances, finance costs are capitalised to the cost of the asset using the weighted average interest rate applicable to the Group's outstanding interest-bearing liabilities during the relevant period.

Finance costs associated with arranging interest-bearing liabilities are amortised to the income statement under the effective interest method over the life of the related interest-bearing liability. 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.

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.

Notes to the financial statements

For the year ended 30 June 2010

1. Summary of significant accounting policies (continued)

(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: 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.

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.

Investments

Investments are measured at fair value, net of transaction costs.

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 any 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 investments revaluation reserve is included in profit or loss for the period. Dividends on available-for-sale financial assets are recognised in profit and loss when the Group's right to receive the dividends is established.

(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 – 40 years

1. Summary of significant accounting policies (continued)

(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 acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition. Goodwill is subsequently measured at its cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs or groups of CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGUs pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(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 14. The conditions under which development costs can be capitalised are set out on the following page. 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 2010

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 are 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 (excluding goodwill)

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 Group estimates the recoverable amount of the CGU 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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 subsequently reverses, the carrying amount of the asset (or CGU) 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 (or CGU) 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.

(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.

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) Interest-bearing liabilities

Interest-bearing liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, interest-bearing liabilities 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 interest-bearing liability using the effective interest method.

(u) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event. It is probable that the group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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.

Refer Note 17(d) for further analysis.

(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 2010

1. Summary of significant accounting policies (continued)

(w) Derivatives

The Group uses derivative financial instruments to hedge its interest rate risks, predominantly arising from financing activities. The Group 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.

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.

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 forecast 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 forecast 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 forecast 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.

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.

2. Segment information (Consolidated)

The Group has adopted AASB 8 *Operating Segments* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 8* with effect from 1 July 2009.

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

The only change to the Group's reported segments under AASB 8 is the specific exclusion of 'Corporate' as an operating segment, on the basis any revenue earned by the Corporate division is incidental to the activities of the Group as a whole. However, management believe that disclosing information about this segment to be useful to users of the Group's financial statements, on the basis information about Corporate revenue and expenses are reviewed by the chief operating decision makers on a monthly basis. Corporate revenue comprises profits on sales of available-for-sale investments, interest income, and distributions and dividends received. Corporate expenses comprise non-segmental expenses such as head office expenses, and depreciation and amortisation of Corporate assets. The Corporate contribution to the Group's result for the year, as reviewed by the chief operating decision makers, is disclosed under "Other" on the following page. Comparative information has been updated to conform to the requirements of AASB 8.

For internal management reporting purposes, the Group is organised into the four major operating segments, all within Australia, 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.

Intersegment sales

All intersegment sales are eliminated on consolidation.

Medical Centres – This division charges the Group's Imaging and Pathology divisions a fee for use of its facilities and services.

Health Technology – This division charges all other Operating Segments a fee for IT research, development and support on behalf of the individual Operating Segment as appropriate.

Notes to the financial statements

For the year ended 30 June 2010

2. Segment information (Consolidated) (continued)

2010	Medical Centres \$000	Imaging \$000	Pathology \$000	Health Technology \$000	Other \$000	Total \$000
Revenue	259,008	289,131	720,650	46,405	9,836	1,325,030
Intersegment sales	(19,299)	-	-	(8,913)	-	(28,212)
Revenue including share of associates	239,709	289,131	720,650	37,492	9,836	1,296,818
EBITDA	142,417	42,639	135,253	20,049	(9,337)	331,022
Depreciation	(14,328)	(24,355)	(15,475)	(626)	(232)	(55,016)
Amortisation	(3,703)	(3,257)	(2,860)	(6,135)	(1,946)	(17,901)
EBIT	124,386	15,027	116,918	13,288	(11,514)	258,105
Finance costs						(77,841)
Profit before tax						180,264
Segment assets excl. goodwill	220,386	163,278	157,033	25,305	79,394	645,396
Goodwill	1,053,958	334,916	1,545,813	65,091	-	2,999,778
Investments accounted for using the equity method	-	1,999	-	-	-	1,999
Other investments	1,168	-	-	-	1,500	2,668
Tax balances	-	-	-	-	46,412	46,412
Consolidated assets	1,275,512	500,193	1,702,846	90,396	127,306	3,696,253
Segment liabilities	19,863	42,944	91,319	15,976	42,349	212,451
Accrued interest	-	-	-	-	8,750	8,750
Interest bearing liabilities	-	-	-	-	1,004,815	1,004,815
Consolidated liabilities	19,863	42,944	91,319	15,976	1,055,914	1,226,016
Capital expenditure	46,744	36,031	16,855	4,673	-	104,303

Notes to the financial statements

For the year ended 30 June 2010

2. Segment information (Consolidated) (continued)

2009	Medical Centres \$000	Imaging \$000	Pathology \$000	Health Technology \$000	Other \$000	Total \$000
Revenue	252,016	314,378	737,363	49,398	7,264	1,360,419
Intersegment sales	(15,990)	-	-	(7,862)	-	(23,852)
Revenue including share of associates	236,026	314,378	737,363	41,536	7,264	1,336,567
EBITDA	140,892	54,842	145,220	16,818	(2,444)	355,328
Depreciation	(13,629)	(22,793)	(14,045)	(616)	(1,767)	(52,850)
Amortisation	(2,502)	(3,235)	(2,101)	(5,541)	(1,548)	(14,927)
EBIT before non-recurring items	124,761	28,814	129,074	10,661	(5,759)	287,551
Non-recurring items	-	-	(5,500)	-	(4,321)	(9,821)
EBIT	124,761	28,814	123,574	10,661	(10,080)	277,730
Finance costs						(128,089)
Profit before tax						149,641
Segment assets excl. goodwill	236,436	150,341	199,699	18,707	208,162	813,345
Goodwill	982,463	324,993	1,520,154	65,091	-	2,892,701
Investments accounted for using the equity method	-	2,073	-	-	-	2,073
Other investments	1,048	-	-	-	6,928	7,976
Tax balances	-	-	-	-	62,432	62,432
Consolidated assets	1,219,947	477,407	1,719,853	83,798	277,522	3,778,527
Segment liabilities	19,350	52,522	107,624	14,459	27,971	221,926
Accrued interest	-	-	-	-	3,699	3,699
Interest bearing liabilities	-	-	-	-	1,434,575	1,434,575
Tax balances	-	-	-	-	1,624	1,624
Consolidated liabilities	19,350	52,522	107,624	14,459	1,467,869	1,661,823
Capital expenditure	35,142	15,870	14,523	650	-	66,185

Notes to the financial statements

For the year ended 30 June 2010

	Consolidated	
	2010	2009
3. Revenue	\$000	\$000
Trading revenue	1,286,822	1,328,604
Other revenue		
Dividends:		
Other entities	749	55
Interest:		
Other entities	2,840	2,159
Liquidation distribution received	3,372	5,050
Profit on sale of available-for-sale financial assets	2,875	-
	1,296,658	1,335,868

4. Employee benefits expense

Salaries and wages	460,235	475,848
Superannuation contributions	38,553	39,081
Other statutory employer obligations	75,526	80,060
Share based payments	1,628	1,460
	575,942	596,449

Other statutory employer contributions principally relate to employee entitlements (being annual leave, sick leave and long service leave), and employee related taxes.

5. Property expenses

Operating leases	107,254	97,891
Other property expenses	37,043	41,374
	144,297	139,265

Notes to the financial statements

For the year ended 30 June 2010

	Consolidated	
	2010	2009
6. Finance costs	\$000	\$000
Interest – other borrowings	67,287	148,691
Amortisation of borrowing costs	10,006	14,249
Interest – finance leases	447	395
Unwinding present value of payables and provisions	101	275
Interest rate swap payments	-	790
	77,841	164,400

Attributable to:

Continuing operations	77,841	128,089
Discontinued operations	-	36,311
	77,841	164,400

7. Non recurring revenue/(expense)

Break fee provision settlement	-	27,460
Direct restructuring costs	-	(7,500)
Borrowing costs relating to Symbion acquisition	-	(29,781)
	-	(9,821)

There are no non-recurring items in the current financial year.

Non-recurring items from the prior year all relate to the Symbion acquisition.

Notes to the financial statements

For the year ended 30 June 2010

8. Share-based payments

(a) Overview

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

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 the Board, 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 17 have been issued to employees and issues 100 to 115 have been issued to independent contractors.

(b) Expenses arising from share-based payment transactions

13,187,000 options were issued during the financial year (30 June 2009: nil). These options were issued to reward the long term commitment of employees and independent contractors who were identified by the Group's Senior Executives as being important to the ongoing success of the Group in the future.

The following table lists the inputs to the Option valuation model used by the Group in determining the fair value of options issued during the financial year (30 June 2009: no issues).

	Consolidated	
	2010	2009
Dividend yield (%)	6.00	-
Expected volatility (%)	15.00	-
Risk-free interest rate (%)	4.35-5.56	-
Expected life of options (years)	2-7	-
Option exercise price, weighted-average share price at measurement date (\$)	5.75-6.03	-

Exercise prices and expiry dates of options on issue in the year are contained in the tables on the following pages. Expected volatility is based on the historical share price volatility. Given options on issue do not have any market related vesting conditions; the total fair value of options at grant date is expensed on a straight-line basis 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	
	2010	2009
	\$000	\$000
Options issued to employees	212	365
Options issued to independent contractors	1,416	1,095
	1,628	1,460

Notes to the financial statements

For the year ended 30 June 2010

8. Share-based payments (continued)

(c) Details of option issues

	Grant date	Value per option at grant date	Expiry date	Exercise price	Earliest date exercisable
Issue 7	16 Feb 2005	1.31	7 Mar 2010	\$5.35	7 Mar 2008
Issue 7a	16 Feb 2005	1.51	7 Mar 2012	\$5.35	7 Mar 2010
Issue 8	1 Apr 2005	1.11	1 Apr 2010	\$5.15	1 Apr 2008
Issue 9	1 Jun 2005	1.12	1 Jun 2010	\$5.18	1 Jun 2008
Issue 10	13 Feb 2006	1.37	13 Feb 2010	\$8.28	13 Feb 2008
Issue 10a	13 Feb 2006	1.59	13 Feb 2011	\$8.28	13 Feb 2009
Issue 12	31 Oct 2006	1.06	29 Sep 2011	\$9.02	29 Sep 2009
Issue 13	1 Jun 2007	1.24	1 Jul 2012	\$9.35	1 July 2010
Issue 15	2 Oct 2009	0.40-0.42	1 Oct 2015	\$5.75	2 Oct 2012
Issue 16	2 Oct 2009	0.41-0.44	31 Aug 2018	\$5.93	1 Oct 2011
Issue 17	23 Nov 2009	0.42-0.45	1 Oct 2015	\$5.93	2 Oct 2012
Issue 101	28 Feb 2003	0.65 – 1.04	30 Dec 2013	\$0.43	23 Feb 2006
Issue 102	25 Jul 2003	0.60 – 1.20	30 Dec 2011	\$1.15	6 Jan 2005
Issue 103	27 Feb 2004	0.58 – 0.92	24 Sep 2012	\$2.10	1 Jul 2005
Issue 104	29 Oct 2004	0.72 – 0.94	2 Dec 2011	\$3.14	1 Oct 2006
Issue 105	11 Apr 2005	1.21 – 1.39	24 Mar 2012	\$5.45	11 Apr 2008
Issue 106	1 Jun 2005	0.97 – 1.36	1 Jun 2014	\$5.18	1 Jun 2007
Issue 107	5 Oct 2005	1.56 – 1.94	1 Nov 2013	\$7.51	2 Oct 2008
Issue 108	13 Feb 2006	1.74	13 Feb 2012	\$8.30	13 Feb 2010
Issue 109	2 May 2006	1.17 – 1.97	2 Jun 2013	\$8.99	6 Jul 2007
Issue 110	31 Oct 2006	1.04 – 1.25	13 Dec 2013	\$9.02	1 Aug 2009
Issue 111	1 Jun 2007	1.10 – 1.39	19 Dec 2012	\$9.35	1 Oct 2009
Issue 112	2 Nov 2007	1.15 – 1.75	6 Dec 2014	\$9.15	1 Nov 2009
Issue 113	2 Oct 2009	0.30-0.43	27 Aug 2017	\$5.75	2 Oct 2010
Issue 114	2 Oct 2009	0.38-0.44	27 Feb 2019	\$5.93	18 Feb 2012
Issue 115	25 Jan 2010	0.42-0.52	29 May 2019	\$6.03	21 Feb 2012

Notes to the financial statements

For the year ended 30 June 2010

8. Share-based payments (continued)

(d) Movement in number of options outstanding

2010	Opening balance	Granted during year	Exercised during year	Lapsed during year	Closing balance	Vested and exercisable at end of year
Issue 7	250,000	-	-	(250,000)	-	-
Issue 7a	200,000	-	-	-	200,000	200,000
Issue 8	365,000	-	(220,000)	(145,000)	-	-
Issue 9	360,000	-	(44,000)	(316,000)	-	-
Issue 10	100,000	-	-	-	100,000	100,000
Issue 10a	100,000	-	-	(100,000)	-	-
Issue 12	110,000	-	-	-	110,000	110,000
Issue 13	30,000	-	-	-	30,000	-
Issue 15	-	1,361,000	-	-	1,361,000	-
Issue 16	-	1,056,000	-	(53,000)	1,003,000	-
Issue 17	-	730,000	-	(14,500)	715,500	-
Issue 101	925,000	-	(643,000)	(40,000)	242,000	122,000
Issue 102	81,000	-	(52,500)	(18,500)	10,000	10,000
Issue 103	570,000	-	(329,000)	(30,000)	211,000	211,000
Issue 104	945,000	-	(461,500)	(50,000)	433,500	433,500
Issue 105	100,000	-	-	(100,000)	-	-
Issue 106	400,000	-	(30,000)	(220,000)	150,000	100,000
Issue 107	985,000	-	-	(172,500)	812,500	515,000
Issue 108	30,000	-	-	-	30,000	30,000
Issue 109	810,000	-	-	(235,000)	575,000	62,500
Issue 110	927,500	-	-	(310,000)	617,500	50,000
Issue 111	385,000	-	-	(65,000)	320,000	40,000
Issue 112	1,550,000	-	-	(160,000)	1,390,000	100,000
Issue 113	-	2,735,000	-	(100,000)	2,635,000	-
Issue 114	-	5,605,000	-	(85,000)	5,520,000	-
Issue 115	-	1,700,000	-	(85,000)	1,615,000	-
	9,223,500	13,187,000	(1,780,000)	(2,549,500)	18,081,000	2,084,000

Weighted average

exercise price	\$6.23	\$5.89	\$2.24	\$6.37	\$5.78	\$5.61
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Options were exercised regularly during the year ended 30 June 2010 at the weighted average share price of \$5.67.

Notes to the financial statements

For the year ended 30 June 2010

8. Shared-based payments (continued)

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

2009	Opening balance	Granted during year	Exercised during year	Lapsed during year	Closing balance	Vested and exercisable at end of year
Issue 7	250,000	-	-	-	250,000	250,000
Issue 7a	200,000	-	-	-	200,000	-
Issue 8	465,000	-	(100,000)	-	365,000	365,000
Issue 9	458,000	-	-	(98,000)	360,000	360,000
Issue 10	100,000	-	-	-	100,000	100,000
Issue 10a	100,000	-	-	-	100,000	100,000
Issue 12	130,000	-	-	(20,000)	110,000	-
Issue 13	30,000	-	-	-	30,000	-
Issue 14	100,000	-	-	(100,000)	-	-
Issue 101	1,435,000	-	(485,000)	(25,000)	925,000	200,000
Issue 102	236,000	-	(123,500)	(31,500)	81,000	81,000
Issue 103	1,053,000	-	(358,000)	(125,000)	570,000	535,000
Issue 104	1,115,000	-	(35,000)	(135,000)	945,000	220,000
Issue 105	100,000	-	-	-	100,000	50,000
Issue 106	500,000	-	-	(100,000)	400,000	210,000
Issue 107	1,025,000	-	-	(40,000)	985,000	12,500
Issue 108	30,000	-	-	-	30,000	-
Issue 109	810,000	-	-	-	810,000	120,000
Issue 110	972,500	-	-	(45,000)	927,500	-
Issue 111	425,000	-	-	(40,000)	385,000	-
Issue 112	1,550,000	-	-	-	1,550,000	-
	11,084,500	-	(1,101,500)	(759,500)	9,223,500	2,603,500
Weighted average exercise price	\$5.69	N/A	\$1.55	\$5.04	\$6.23	\$4.33

Options were exercised regularly during the year ended 30 June 2009 at the weighted average share price of \$4.90.

Notes to the financial statements

For the year ended 30 June 2010

	Consolidated	
	2010	2009
9. Tax balances	\$000	\$000
(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	180,264	149,641
Discontinued operations	-	(9,767)
Profit before tax	180,264	139,874
Income tax calculated at 30% (2009 – 30%)	54,079	41,962
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Investment allowance	(528)	(2,094)
Research and development allowance	(887)	(450)
Share-based payments expense	488	438
Acquisition-related costs	538	-
Amortisation of hospital contracts	-	1,148
Fully franked dividend income	(203)	(17)
Operating loss on sale of business	-	(7,831)
Minority share of trust income	(585)	(584)
Other	(449)	(433)
	52,453	32,139
Over provision in prior years	(6,342)	(2,970)
Income tax expense	46,111	29,169
Comprising:		
Current tax	35,674	1,462
Deferred tax	16,779	30,677
(Over) provision in prior years	(6,342)	(2,970)
	46,111	29,169
Attributable to:		
Continuing operations	46,111	31,333
Discontinued operations	-	(2,164)
	46,111	29,169

Notes to the financial statements

For the year ended 30 June 2010

9. Tax balances (continued)

(b) Reconciliation of deferred tax balances

2010	1 July 2009 Opening balance	Acquired / (Disposed)	Charged to income	Charged to equity	30 June 2010 Closing balance
Consolidated					
Receivables	(6,604)	-	421	-	(6,183)
Consumables	(3,258)	-	(3,998)	-	(7,256)
Cash flow hedges	(491)	-	-	491	-
Available-for-sale investments	1,087	-	-	(29)	1,058
Provisions	27,374	246	(5,902)	-	21,718
Payables	1,613	-	1,516	-	3,129
Property, plant and equipment	5,141	-	(1,556)	-	3,585
Intangibles	(123)	-	(228)	-	(351)
Amortisation of share issue expenses	9,796	-	(3,462)	1,664	7,998
Amortisation of takeover costs	7,954	-	(3,570)	-	4,384
Net temporary differences	42,489	246	(16,779)	2,126	28,083
Tax losses – revenue	16,978	-	(3,867)	-	13,111
Deferred tax asset	59,467	246	(20,646)	2,126	41,194

2009	1 July 2008 Opening balance	Acquired / (Disposed)	Charged to income	Charged to equity	30 June 2009 Closing balance
Consolidated					
Receivables	(8,029)	-	1,425	-	(6,604)
Consumables	(2,583)	-	(675)	-	(3,258)
Cash flow hedges	(34)	-	-	(457)	(491)
Available-for-sale investments	1,175	-	-	(88)	1,087
Provisions	45,731	118	(18,475)	-	27,374
Payables	7,890	-	(6,277)	-	1,613
Property, plant and equipment	5,872	-	(731)	-	5,141
Intangibles	1,615	-	(1,738)	-	(123)
Amortisation of share issue expenses	11,017	-	(3,254)	2,033	9,796
Amortisation of takeover costs	10,690	-	(2,736)	-	7,954
Other	(1,784)	-	1,784	-	-
Net temporary differences	71,560	118	(30,677)	1,488	42,489
Tax losses – revenue	15,794	-	1,184	-	16,978
Deferred tax asset	87,354	118	(29,493)	1,488	59,467

Notes to the financial statements

For the year ended 30 June 2010

	Consolidated	
	2010	2009
9. Tax balances (continued)	\$000	\$000

(c) Current tax balances

Income tax receivable/(payable) is attributable to:

Entities in the tax consolidated group	4,992	2,965
Other	226	(1,624)
	5,218	1,341

(d) 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.

	Consolidated	
	2010	2009
10. Remuneration of auditor	\$	\$
Auditing the financial report	800,000	800,000
Other services:		
Tax consulting	244,023	544,250
Advisory services	213,203	281,259
Other audit services	16,158	10,588
	1,273,384	1,636,097

Notes to the financial statements

For the year ended 30 June 2010

	Consolidated	
	2010	2009
11. Receivables	\$000	\$000
Measured at Amortised Cost		
(a) Current		
Trade receivables	95,220	99,492
Allowance for doubtful debts	(6,125)	(5,823)
	89,095	93,669
Unrealised interest rate swap	-	1,639
Other receivables and prepayments	60,632	61,490
	149,727	156,798
(b) Non-current		
Other	2,194	2,224
	2,194	2,224
(c) Ageing of trade receivables		
Current	53,275	65,815
30-60 days	14,244	10,142
60-90 days	6,351	6,333
90 days +	21,350	17,202
	95,220	99,492
<p>The ageing of trade receivables is as follows: current \$53.3m (30 June 2009: \$65.8m); past due \$41.9m (30 June 2009: \$33.7m) of which \$35.8m has not been impaired (30 June 2009: \$27.9m). 'Past due' is defined under accounting standards to mean any amount outstanding for one or more days after the contractual due date.</p>		
(d) Movement in allowance for doubtful debts		
Balance at beginning of year	5,823	7,321
Provision for the year	7,399	4,956
Doubtful debts (recovered/written off) during the year	(7,097)	(6,454)
	6,125	5,823

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 ageing 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.

In the event of default on the Group's Syndicated Debt Facility (Note 32(d)), the Group has pledged \$95.2m of receivables as security over this liability (30 June 2009: \$99.5m). The amount pledged has decreased from 2009 as it is a floating charge over the Group's receivables.

Further discussion of the credit risk associated with trade receivables is included in note 32.

Notes to the financial statements

For the year ended 30 June 2010

12. Property, plant and equipment (Consolidated)

2010	Freehold land and buildings \$000	Construction in progress \$000	Leasehold improvements \$000	Plant and equipment \$000	Total \$000
Net book value					
Opening balance	6,070	28,192	132,516	167,121	333,899
Additions	3,149	23,069	25,549	44,086	95,853
Capitalised borrowing costs	-	-	1,654	-	1,654
Transfers (note 14)	2,892	(30,297)	15,813	9,513	(2,079)
Impairment provision utilised	-	-	686	2,844	3,530
Disposals	(4,562)	-	(827)	(4,750)	(10,139)
Depreciation expense	(244)	-	(12,067)	(42,705)	(55,016)
Foreign exchange differences	-	-	-	24	24
Closing balance	7,305	20,964	163,324	176,133	367,726
Cost	7,992	20,964	219,229	378,591	626,776
Accumulated depreciation	(687)	-	(55,905)	(202,297)	(258,889)
Impairment provision	-	-	-	(161)	(161)
Closing balance	7,305	20,964	163,324	176,133	367,726

Borrowing costs relating to qualifying assets were capitalised using an interest rate of 7.0% (30 June 2009: no qualifying assets).

2009	Freehold land and buildings \$000	Construction in progress \$000	Leasehold improvements \$000	Plant and equipment \$000	Total \$000
Net book value					
Opening balance	6,152	23,824	124,647	174,622	329,245
Additions	-	28,643	8,297	29,369	66,309
Transfers (note 14)	18	(17,977)	10,541	6,879	(539)
Impairment provision utilised	-	-	1,664	1,145	2,809
Disposals	-	(6,298)	(1,975)	(2,719)	(10,992)
Depreciation expense	(100)	-	(10,653)	(42,097)	(52,850)
Foreign exchange differences	-	-	(5)	(78)	(83)
Closing balance	6,070	28,192	132,516	167,121	333,899
Cost	6,570	28,192	177,975	387,381	600,118
Accumulated depreciation	(500)	-	(44,773)	(217,255)	(262,528)
Impairment provision	-	-	(686)	(3,005)	(3,691)
Closing balance	6,070	28,192	132,516	167,121	333,899

Notes to the financial statements

For the year ended 30 June 2010

	2010	2009
	\$000	\$000

(a) Carrying value

Opening balance	2,892,701	2,833,535
Acquisition of subsidiaries	30	506
Acquisition of businesses	107,047	58,660
Closing balance	2,999,778	2,892,701

(b) Impairment tests

Goodwill is allocated to the Group's cash-generating units (CGUs) by individual Operating Segment as follows:

Medical Centres	1,053,958	982,463
Pathology	1,545,813	1,520,154
Imaging	334,916	324,993
Health Technology	65,091	65,091
	2,999,778	2,892,701

The carrying amount of goodwill of each CGU 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 2011 financial year budget. The key assumptions used in determining value in use for 30 June 2010 are:

Assumption	How determined
Forecast revenues and expenses	Forecast revenues and expenses has been calculated assuming long term growth rates as follows: <ul style="list-style-type: none"> •Medical Centres – 4.0% (30 June 2009: 3.0%). •Pathology – 4.0% (30 June 2009: 3.0%). •Imaging – 4.0% (30 June 2009: 3.0%). •Health Technology – 5.0% (30 June 2009: 5.0%).
Long term growth rate	The above long-term growth rate for each of the CGUs does not exceed the long-term average growth rate for the business in which the CGU operates.
Cost of Equity Capital	The discount rate applied to the cash flows of each of the Group's operations is based on the risk free rate for ten year Commonwealth Government bonds as at 30 June 2010, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific Group operating company. In making this adjustment, inputs required are the equity markets risk premium (that is the required increased return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the specific Group operating company relative to the market as a whole, giving rise to the Group's Cost of Equity Capital.
Weighted Average Cost of Capital (WACC)	The Group's WACC is calculated with reference to its Cost of Equity Capital, uplifted by the forecast average cost of outstanding debt on the Group's interest bearing liabilities over the measurement period, split by CGU as follows: <ul style="list-style-type: none"> •Medical Centres – 13.6% (30 June 2009: 16.0%). •Pathology – 13.2% (30 June 2009: 15.6%). •Imaging – 13.2% (30 June 2009: 15.6%). •Health Technology – 16.5% (30 June 2009: 19.9%).

Notes to the financial statements

For the year ended 30 June 2010

13. Goodwill (Consolidated) (continued)

Other key assumptions used

Based on a five year cash flow projection model, terminal growth rates for each of the CGUs are consistent with long-term growth rates assumed.

Sensitivity analysis

The Group has conducted sensitivity analysis on the assumptions above to assess the effect on recoverable amount of changes in the key assumptions.

The Group is satisfied that all the assumptions on which the recoverable amounts are based are fair and reasonable, and that currently overall there are no reasonably known changes to these assumptions that would cause the aggregate carrying amount to exceed the aggregate recoverable amount of any of the Groups CGUs as at 30 June 2010.

Notes to the financial statements

For the year ended 30 June 2010

14. 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

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

	Copyright in computer software programs \$000	Capitalised development cost \$000	Operating rights and licences \$000	Computer software \$000	Total \$000
2010					
Net book value					
Opening balance	26,185	6,350	33,098	9,673	75,306
Disposals and write offs	-	-	(12)	(46)	(58)
Additions	-	6,401	3,622	6,184	16,207
Transfer from construction in progress (note 12)	-	-	-	2,079	2,079
Amortisation expense	(4,896)	(1,275)	(6,734)	(4,996)	(17,901)
Closing balance	21,289	11,476	29,974	12,894	75,633
Cost	46,500	13,770	47,828	42,668	150,766
Accumulated amortisation	(25,211)	(2,294)	(17,854)	(29,774)	(75,133)
Closing Balance	21,289	11,476	29,974	12,894	75,633

	Copyright in computer software programs \$000	Capitalised development cost \$000	Operating rights and licences \$000	Computer software \$000	Total \$000
2009					
Net book value					
Opening balance	31,082	3,803	37,739	7,262	79,886
Disposals and write offs	-	-	-	(190)	(190)
Additions	-	3,192	1,590	5,216	9,998
Transfer from construction in progress (note 12)	-	-	-	539	539
Amortisation expense	(4,897)	(645)	(6,231)	(3,154)	(14,927)
Closing balance	26,185	6,350	33,098	9,673	75,306
Cost	46,500	7,369	44,218	32,453	130,540
Accumulated amortisation	(20,315)	(1,019)	(11,120)	(22,780)	(55,234)
Closing Balance	26,185	6,350	33,098	9,673	75,306

Notes to the financial statements

For the year ended 30 June 2010

	Consolidated	
	2010	2009
15. Other financial assets – measured at fair value	\$000	\$000
(a) Current		
<i>Available-for-sale</i>		
Quoted shares	1,500	6,933
(b) Non-current		
<i>Investments</i>		
Interest in partnerships	748	748
Shares in MoneySwitch Limited	420	300
	1,168	1,048
16. Payables		
(a) Current		
Trade payables and accruals	88,234	106,517
Payables and accruals relating to acquisitions	16,519	353
Accrued interest	8,750	3,699
	113,503	110,569
(b) Non-current		
Trade payables and accruals	46	67
Payables and accruals relating to acquisitions	11,384	1,308
	11,430	1,375
17. Provisions		
(a) Current		
Provision for employee benefits (note 18(a))	36,155	38,244
Self-insurance provision	4,228	9,733
Restructuring and onerous contract provision	2,309	13,203
	42,692	61,180
(b) Non-current		
Provision for employee benefits (note 18(a))	34,530	36,274
Self-insurance provision	4,622	2,852
Onerous contract provision	-	3,119
	39,152	42,245

Notes to the financial statements

For the year ended 30 June 2010

	Consolidated	
17. Provisions (continued)	2010	2009
	\$000	\$000
(c) Movements in provisions		
Self-insurance provision		
Opening balance	12,585	19,376
Provisions raised/(written back) during the year	1,522	(1,943)
Payments	(5,257)	(4,848)
Closing balance	8,850	12,585
 Restructuring and onerous contract provision		
Opening balance	16,322	31,073
Increase through acquisitions	794	-
Unwinding present value interest cost	70	275
Provisions (written back)/raised during the year	(4,140)	7,500
Payments	(10,737)	(22,526)
Closing balance	2,309	16,322

(d) Nature and purpose of provisions

(i) Employee benefit provisions

Employee benefit provisions include annual leave and long service leave liabilities. The annual leave provision is measured on an undiscounted basis. The long service leave provision is recognised using the projected unit credit method. Expected future payments are discounted using market yields at the reporting date on Commonwealth Government Bonds with terms to maturity that match, as closely as possible, the estimated future cash flows.

(ii) 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 annual independent actuarial assessment of claims liabilities and "incurred but not reported" (IBNR) factors.

(iii) Restructuring and onerous contract provision

The provision relates to expenditure connected to restructuring the entity's operations.

Notes to the financial statements

For the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$000	\$000

(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 17(a))	36,155	38,244
Provision for employee benefits – non-current (note 17(b))	34,530	36,274
	70,685	74,518

(b) Employee numbers

Number of employees at end of financial year	10,481	10,383
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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.

19. Interest bearing liabilities

(a) Current

Gross bank loan	1,962	1,438,000
Unamortised borrowing costs	-	(7,170)
Bank Loan at amortised cost	1,962	1,430,830
Finance lease liabilities (note 20(a))	2,180	1,431
	4,142	1,432,261

(b) Non-current

Gross bank loan	1,012,742	-
Unamortised borrowing costs	(17,550)	-
Bank Loan at amortised cost	995,192	-
Finance lease liabilities (note 20(a))	5,481	2,314
	1,000,673	2,314

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 31).

Notes to the financial statements

For the year ended 30 June 2010

	Consolidated	
	2010	2009
20. Commitments for expenditure	\$000	\$000

(a) Finance lease commitments

Commitments in relation to finance leases are payable as follows:

Within one year	3,298	1,907
Later than 1 year but not later than 5 years	5,592	2,162
Minimum future lease payments	8,890	4,069
Less future finance charges	(1,229)	(324)
Present value of minimum lease payments	7,661	3,745
Included in the financial statements as:		
Current (note 19(a))	2,180	1,431
Non-current (note 19(b))	5,481	2,314
	7,661	3,745

(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	88,803	78,487
Later than 1 year but not later than 5 years	173,871	147,800
Later than 5 years	37,198	22,637
	299,872	248,924

(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	11,995	8,096
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(d) Operating and finance lease terms

Operating leases relate to medical centres and pathology sites with lease terms of between one and 20 years. Most of these leases have options to extend. The Group does not have an option to purchase the property 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 up to 5 years. The Group has options to purchase the equipment for a nominal amount at the conclusion of the lease.

(e) Investments

At balance date no capital commitments exist in respect of interests in partnerships, investments or joint ventures contracted that are not provided for the financial report.

Notes to the financial statements

For the year ended 30 June 2010

21. Issued capital (Company & Consolidated)	2010	2009	2010	2009
	No. of shares 000's	No. of shares 000's	\$000	\$000
Opening balance	430,748	371,095	2,015,129	1,725,216
Exercise of share options	1,780	1,101	3,877	1,727
Transfer from share-based payments reserve	-	-	1,664	934
Shares issued via Dividend Reinvestment Plan	11,565	5,531	51,881	26,996
Shares issued via Bonus Share Plan	152	21	-	-
Share placement	39,605	53,000	230,000	265,000
Other share issues	7,516	-	39,753	-
Capital raising/share issue costs, net of tax	-	-	(3,861)	(4,744)
Closing balance – Company	491,366	430,748	2,338,443	2,015,129
Reverse acquisition adjustment (1994)			(19,865)	(19,865)
Closing balance – Consolidated			2,318,578	1,995,264

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

22. Earnings per share

Earnings	Consolidated	
	2010 \$000	2009 \$000

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	131,997	108,502
Loss for the year from discontinued operations	-	7,603
Earnings from continuing operations	131,997	116,105

Weighted average number of shares	2010 000's	2009 000's
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The weighted average number of shares used in the calculation of basic earnings per share (continuing and discontinued)	475,116	378,707
Potential ordinary shares ¹	714	490
The weighted average number of shares used in the calculation of diluted earnings per share (continuing and discontinued)	475,830	379,197

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

In relation to earnings per share, the adoption of AASB 3 (2008) in the current year has not materially impacted basic or diluted earnings per share.

Notes to the financial statements

For the year ended 30 June 2010

	Note	Consolidated	
		2010 \$000	2009 \$000
23. Reserves			
Foreign currency translation reserve	23(a)	339	(388)
Available-for-sale investments revaluation reserve	23(b)	271	204
Cash flow hedges reserve		-	1,148
Share-based payments reserve	23(c)	7,760	7,797
		8,370	8,761

(a) Foreign currency translation reserve

Exchange differences relating to the translation from the functional currencies of the Group's foreign controlled entities into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

(b) Available-for-sale investments revaluation reserve

The available-for-sale investments revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold that portion of the reserve which relates to that financial asset, and is effectively realised, is recognised in profit or loss. Where a revalued financial asset is impaired that portion of the reserve which relates to that financial asset is recognised in profit or loss.

(c) Share-based payments reserve

The share-based payments reserve arises on the grant of share options to senior employees under the employee share option plan and independent contractors. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 8 to the financial statements.

	Consolidated	
	2010 \$000	2009 \$000
24. Retained earnings		
Opening balance	109,087	45,326
Profit attributable to equity holders	131,997	108,502
Dividends paid	(102,217)	(44,741)
Closing balance	138,867	109,087

	Consolidated	
	2010 \$000	2009 \$000
25. Non-controlling interests		
Opening balance	3,592	3,979
Share of profit for the year	2,156	2,203
Dividends paid	(1,326)	(2,590)
Closing balance	4,422	3,592

Notes to the financial statements

For the year ended 30 June 2010

	Consolidated	
	2010	2009
26. Franking account	\$000	\$000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009 – 30%)	5,306	25,119

The above amounts represent the balance of the franking account as at the end of the financial year.

27. Related party disclosures

(a) Key management personnel

Disclosures relating to key management personnel are set out in note 28.

(b) Equity interests in related entities

Details of interests in associates are shown in note 29. Details of interests in controlled entities are shown note 30.

(c) Transactions with associates

Transactions with associates are disclosed in note 29.

(d) Transactions within the wholly-owned group

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.

Notes to the financial statements

For the year ended 30 June 2010

28. Key management personnel disclosures

Key management personnel compensation details are set out in the Remuneration Report section of the Directors' Report.

Equity holdings and transactions

(a) Shareholdings

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

2010	Opening balance	Received during the year on the exercise of options	Other changes during the year	Closing balance
R Ferguson	-	-	190,800	190,800
B Ball	87,000	-	-	87,000
EG Bateman	46,923,194	-	(13,647,209)	33,275,985
MJ Christie	3,592,488	-	-	3,592,488
JD Crawford	70,421	-	6,351	76,772
S Higgs	812,464	-	(206,186)	606,278
T Smith	-	-	-	-
H Bateman	198,133	-	(47,000)	151,133
J Bateman	314,186	-	(181,750)	132,436
A Duff	104,620	200,000	(300,000)	4,620
J Frost	10,261	-	496	10,757
S James	70,540	-	71,322	141,862
M Bardsley	7,886	-	3,000	10,886
C Adams	-	-	-	-

2009	Opening balance	Received during the year on the exercise of options	Other changes during the year	Closing balance
B Ball	62,000	-	25,000	87,000
EG Bateman	50,740,762	-	(3,817,568)	46,923,194
MJ Christie	3,592,488	-	-	3,592,488
JD Crawford	61,722	-	8,699	70,421
GJ Gardiner ¹	-	-	-	-
S Higgs	811,777	-	687	812,464
T Smith	-	-	-	-
H Bateman	301,133	-	(103,000)	198,133
J Bateman	1,003,186	-	(689,000)	314,186
A Duff	88,000	100,000	(83,380)	104,620
J Frost	10,000	-	261	10,261
S James	1,000	-	69,540	70,540
M Bardsley	7,886	-	-	7,886

¹Mr Gardiner resigned 12 May 2009.

Notes to the financial statements

For the year ended 30 June 2010

28. Key management personnel disclosures (continued)

(b) Key management personnel compensation

The key management personnel compensation included in Employee Benefits expense (refer Income Statement) is as follows:

	Consolidated	
	2010	2009
	\$000	\$000
Short term employee benefits	3,718	2,515
Post-employment benefits	216	172
Share-based payments	64	118
	3,998	2,805

Details of the above amounts by individual key management personnel can be found in the Remuneration Report.

(c) Loans to key management personnel

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

(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.

Notes to the financial statements

For the year ended 30 June 2010

29. Investments in associates (Consolidated)

Name of associated Entity	Country of Incorporation	Principal Activity	Ownership Interest	
			2010 %	2009 %
Campsie Nuclear Medicine Pty Ltd	Australia	Imaging services	50	50
Bondi Nuclear Medicine Pty Ltd	Australia	Imaging services	-	50
North Coast Nuclear Medicine (Qld) Pty Ltd	Australia	Imaging services	40	40
Southport Diagnostic Imaging Pty Ltd	Australia	Imaging Services	-	50

Reconciliation of movements in investments in associates during the financial year is as follows:

	2010 \$000	2009 \$000
Opening balance	2,073	2,850
Share of profit of associates	160	699
	2,233	3,549
Dividends	(179)	(714)
Disposals	-	(337)
Write-down during the year	(55)	(425)
	1,999	2,073

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

	2010 \$000	2009 \$000

Income statement

Revenues of associates	4,601	5,611
Profit of associates	663	1,601
Share of profit as disclosed for associates	160	699

Balance sheet

Assets	6,475	4,427
Liabilities	(1,767)	(348)
Net assets	4,708	4,079
Investments in associates accounted for using the equity method	1,999	2,073

Related party transactions between associates and the wholly-owned group in the 12 months ended 30 June 2010 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 12 months to 30 June 2010, these charges totalled \$98,905 (30 June 2009: \$107,414) of which \$22,706 (30 June 2009: \$8,733) was outstanding at year end.

North Coast Nuclear Medicine (Qld) Pty Ltd

An entity within the consolidated entity charged rent and outgoings and imaging services expenses for North Coast Nuclear Medicine (Qld) Pty Ltd. In the 12 months to 30 June 2010, these charges totalled \$94,850 (30 June 2009: \$94,850). The total amount outstanding from North Coast Nuclear Medicine (Qld) Pty Ltd at year end was \$7,904 (30 June 2009: \$31,550).

Notes to the financial statements

For the year ended 30 June 2010

30. Controlled entities	Country of Incorporation	Equity Holding %	
		2010	2009
Primary Health Care Limited	Australia		
Idameneo (No. 123) Pty Ltd	Australia	100	100
Austrials Pty Ltd (c)	Australia	100	100
Artlu Unit Trust	Australia	100	100
Digital Diagnostic Imaging Pty Ltd	Australia	72	72
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
Former SDS Pty Limited	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
Phoenix Medical Publishing Pty Ltd	Australia	100	100
Health Communication Network (UK) Holdings Limited	United Kingdom	100	100
Transport Security Insurance (Pte) Limited	Singapore	100	100
Idameneo (No. 789) Ltd (2009: Symbion Health Limited)	Australia	100	100
Saftsai Pty Ltd	Australia	100	100
Aksertel Pty Ltd	Australia	100	100
Onosas Pty Ltd	Australia	100	100
MGSF Pty Ltd	Australia	100	100
PSCP Holdings Pty Ltd	Australia	100	100
Wellness Holdings Pty Ltd	Australia	100	100
PHC Healthcare Holdings Pty Ltd (2009: Symbion Healthcare Holdings Pty Ltd)	Australia	100	100
PHC Medical Centre Holdings Pty Ltd (2009: Symbion Medical Centre Holdings Pty Ltd)	Australia	100	100
Sidameneo (No. 456) Pty Ltd (2009: Symbion Medical Centre Operations Pty Ltd)	Australia	100	100
Larches Pty Ltd	Australia	100	100
Kelldale Pty Ltd	Australia	100	100
Pacific Medical Centres Pty Ltd	Australia	100	100
PHC Pathology Holdings Pty Ltd (2009: Symbion Pathology Holdings Pty Ltd)	Australia	100	100
Symbion Pathology (India) Private Limited	India	100	100
AME Medical Services Pty Ltd	Australia	100	100
Gippsland Pathology Service Pty Ltd	Australia	100	100
Jandale Pty Ltd	Australia	100	100
Integrated Health Care Pty Ltd	Australia	100	100
Queensland Specialist Services Pty Ltd	Australia	100	100
PHC Pathology Holdings Asia Pty Ltd (2009: Symbion Pathology Holdings Asia Pty Ltd)	Australia	100	100
Specialist Diagnostic Services Pty Limited	Australia	100	100
Queensland Medical Services Pty Ltd	Australia	100	100
PHC Diagnostic Imaging Holdings Pty Ltd (2009: Symbion Diagnostic Imaging Holdings Pty Ltd)	Australia	100	100
Norcoray Pty Ltd	Australia	50	50
Norcoray Unit Trust (b)	Australia	50	50
Orana Services Pty Ltd	Australia	50	50
Orana Services Trust (b)	Australia	50	50
Brystow Pty Ltd	Australia	100	100
Healthcare Imaging Services (WA) Pty Ltd	Australia	100	100
Healthcare Imaging Services (SA) Pty Ltd	Australia	100	100
Healthcare Imaging Services (Victoria) Pty Ltd	Australia	100	100
Healthcare Imaging Services Pty Ltd	Australia	100	100
Campbelltown MRI Pty Ltd (c)	Australia	100	-
Queensland Diagnostic Imaging Pty Ltd	Australia	100	100
Western Suburbs Ultra-sound & radiology Services Trust	Australia	100	100
Cabramatta Imaging Pty Ltd (e)	Australia	-	50
Cabramatta Imaging Unit Trust (e)	Australia	-	50
Symbion (New Zealand) Limited	New Zealand	100	100

Notes to the financial statements

For the year ended 30 June 2010

30. Controlled entities (continued)	Country of Incorporation	Equity Holding %	
		2010	2009
The Ward Corporation Pty Ltd	Australia	100	100
Symbion International BV	Netherlands	100	100
Mayne Nickless Incorporated	United States	100	100
Symbion Holdings (New Zealand) Ltd (f)	New Zealand	100	100
Symbion Holdings (UK) Ltd	United Kingdom	100	100
Security Express Ltd	United Kingdom	100	100
ACN 008 103 599 Pty Ltd	Australia	100	100
ACN 063 535 884 Pty Ltd	Australia	100	100
ACN 063 535 955 Pty Ltd	Australia	100	100
PHC Employee Share Acquisition Plan Pty Ltd (2009: Symbion Employee Share Acquisition Plan Pty Ltd)	Australia	100	100
Symbion Employee Share Acquisition Plan Trust	Australia	100	100
Senior Executive Short Term Incentive Plan Trust	Australia	100	100
Symbion Executive Short Term Incentive Plan Trust	Australia	100	100
PHC Finance (Australia) Pty Ltd (2009: Symbion Finance (Australia) Pty Ltd)	Australia	100	100
Sumbrella Pty Ltd	Australia	100	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) Incorporated during the financial year.
- (d) 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 31); or
 - they are small proprietary companies; or
 - their trust deeds do not specify these requirements.
- (e) Deregistered during the financial year.
- (f) Liquidated or in liquidation as at 30 June 2010.

Notes to the financial statements

For the year ended 30 June 2010

31. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the 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 2010, are the same as the prior financial year as follows:

Primary Health Care Limited (holding entity)
Idameneo (No.789) Limited
Health Communication Network Limited
Healthcare Imaging Services (Victoria) Pty Limited
Healthcare Imaging Services Pty Limited
Idameneo (No.123) Pty Limited
Queensland Diagnostic Imaging Pty Limited
Queensland Medical Services Pty Limited
Specialist Diagnostic Services Pty Limited
PHC Diagnostic Imaging Holdings Pty Limited
PHC Healthcare Holdings Pty Limited
PHC Medical Centre Holdings Pty Limited
Sidameneo (No.456) Pty Limited
PHC Pathology Holdings Pty Limited

Consolidated income statements and consolidated balance sheets, comprising holding entities and subsidiaries which are parties to the above Deed, after eliminating all transactions between parties to the Deed, at 30 June 2010 are set out below.

	30 June 2010	30 June 2009
Income statements	\$000	\$000
Profit for the year before income tax	177,692	146,488
Income tax expense	45,023	32,671
Profit for the year after tax	132,669	113,817
Accumulated profits at the beginning of the year	138,479	69,403
Dividends recognised during the year	(102,867)	(44,741)
Accumulated profits at the end of the year	168,281	138,479

Notes to the financial statements

For the year ended 30 June 2010

31. Deed of Cross Guarantee (continued)

	30 June 2010	30 June 2009
Balance sheet	\$000	\$000
Current assets		
Cash	24,864	222,341
Receivables	145,803	139,875
Income tax receivable	5,218	2,965
Other financial assets	1,500	6,933
Consumables	24,304	21,716
Total current assets	201,689	393,830
Non-current assets		
Receivables	2,153	2,184
Property, plant and equipment	366,886	333,030
Goodwill	2,999,573	2,892,496
Other intangible assets	74,725	75,274
Investments in associates accounted for using the equity method	1,999	2,073
Other financial assets	1,168	7,981
Deferred tax asset	40,986	59,065
Total non-current assets	3,487,490	3,372,103
Total assets	3,689,179	3,765,933
Current liabilities		
Payables	113,503	119,987
Deferred revenue	14,424	10,255
Provisions	42,692	60,036
Interest bearing liabilities	4,142	1,430,794
Total current liabilities	174,761	1,621,072
Non-current liabilities		
Payables	11,430	1,375
Provisions	39,152	42,126
Interest bearing liabilities	1,000,673	2,314
Total non-current liabilities	1,051,255	45,815
Total liabilities	1,226,016	1,666,887
Net assets	2,463,163	2,099,046
Equity		
Issued Capital	2,316,159	1,992,826
Reserves	8,370	7,867
Retained earnings	138,634	98,353
Total equity	2,463,163	2,099,046

Notes to the financial statements

For the year ended 30 June 2010

32. Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

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

This note presents information about the Group's exposure to each of the above risks, its 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 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 Group's activities.

(b) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial asset held by the Group fails to meet its contractual obligations under the terms of the financial asset (to deliver cash to the Group).

The Group's exposure to credit risk arises from its trade receivables due from external customers. The carrying amount of the Group's trade receivables, representing the Group's maximum exposure to credit risk as at the reporting date by segment is as follows:

Segment	Consolidated	
	2010 \$000	2009 \$000
Pathology	51,768	53,457
Imaging	23,053	25,362
Medical Centres	12,706	14,433
Health Technology	7,648	5,471
Corporate	45	769
	95,220	99,492

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 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 11.

Notes to the financial statements

For the year ended 30 June 2010

32. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay financial liabilities as and when they fall due. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows.

The following table details 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.

2010	Carrying Amount \$000	Total \$000	Contractual cash flows		
			Less than 1 Year \$000	1 to 5 Years \$000	> 5 Years \$000
Consolidated					
Syndicated debt facility	980,450	(1,171,393)	(76,377)	(1,095,016)	-
Loan facility	16,704	(22,041)	(3,348)	(13,392)	(5,301)
Accrued interest	8,750	(8,750)	(8,750)	-	-
Finance lease liabilities	7,661	(8,890)	(3,298)	(5,592)	-
Trade payables and accruals	88,280	(88,280)	(88,234)	(46)	-
Payables relating to acquisitions	27,903	(27,903)	(16,519)	(11,384)	-
	1,129,748	(1,327,257)	(196,526)	(1,125,430)	(5,301)

The repayment of contractual cash flows due in the period less than 1 year from 30 June 2010 will be met through the ordinary working capital cycle of the Group, including the collection of trade receivables (30 June 2010: \$89.1m).

2009	Carrying Amount \$000	Total \$000	Contractual cash flows		
			Less than 1 Year \$000	1 to 5 Years \$000	> 5 Years \$000
Consolidated					
Bank loans	1,430,830	(1,474,870)	(1,474,870)	-	-
Accrued interest	3,699	(3,699)	(3,699)	-	-
Finance lease liabilities	3,745	(4,069)	(1,907)	(2,162)	-
Trade payables and accruals	106,584	(106,584)	(106,517)	(67)	-
Payables relating to acquisitions	1,661	(1,661)	(353)	(1,308)	-
	1,546,519	(1,590,883)	(1,587,346)	(3,537)	-

Notes to the financial statements

For the year ended 30 June 2010

32. Financial risk management (continued)

(d) Interest rate risk

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

The following table details the the Group's exposure to interest rate risk as at 30 June 2010.

2010	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	> 5 Years \$000		
Consolidated							
Financial assets							
Cash	4.45	25,812	-	-	-	-	25,812
Receivables	-	-	-	-	-	157,139	157,139
Investments	-	-	-	-	-	2,668	2,668
Financial liabilities							
Payables	-	-	-	-	-	(124,933)	(124,933)
Finance leases	11.81	-	(2,180)	(5,481)	-	-	(7,661)
Syndicated debt facility	7.79	(980,450)	-	-	-	-	(980,450)
Loan facility	8.76	-	(1,962)	(9,809)	(4,933)	-	(16,704)
		(954,638)	(4,142)	(15,290)	(4,933)	34,874	(944,129)

The following table details the the Group's exposure to interest rate risk as at 30 June 2009.

2009	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	> 5 Years \$000		
Consolidated							
Financial assets							
Cash	3.39	19,083	204,314	-	-	-	223,397
Receivables	-	-	-	-	-	161,987	161,987
Investments	-	-	-	-	-	7,981	7,981
Financial liabilities							
Payables	-	-	-	-	-	(113,568)	(113,568)
Finance leases	7.49	-	(1,431)	(2,314)	-	-	(3,745)
Bank loans	4.85	(488,000)	(950,000)	-	-	-	(1,438,000)
		(468,917)	(747,117)	(2,314)	-	56,400	(1,161,948)

32. Financial risk management (continued)

(d) Interest rate risk (continued)

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the Group's exposure to variable interest rates during the financial year, projecting a reasonably possible change taking place at the beginning of the financial year, held constant throughout the financial year and applied to variable interest payments made throughout the financial year. A 50 basis point increase represents management's assessment of a reasonably possible change in interest rates. For the year ended 30 June 2010, 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
<hr/>		
Consolidated		
30 June 2010 – variable rate instruments	(2,666)	2,666
30 June 2009 – variable rate instruments	(3,995)	3,995

(e) Fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their net fair values. The following financial assets are remeasured at fair value at reporting date on the following basis:

Available-for-sale financial assets

Certain investments held by the Group are classified as being available-for-sale and are stated at fair value less any impairment. The fair value of the Group's available-for-sale investments is calculated using closing bid prices of securities held, that are listed on the Australian Securities Exchange.

(f) Other

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. A sensitivity analysis has not been performed on the currency risk as this is not considered material.

Price risk

The Company and the Group are exposed to equity securities price risk. This arises from investments held by the Company. A sensitivity analysis has not been performed on the price risk as this is not considered material.

(g) Capital management

The Group manages its capital to maximise 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 19, cash and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 21, 23 and 24. 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 2010

	Consolidated	
	2010	2009
33. Notes to the cash flow statement	\$000	\$000

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks. 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	25,812	223,397
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(b) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities

Profit attributable to equity holders	131,997	108,502
Depreciation of plant and equipment	55,016	52,850
Amortisation of intangibles	17,901	14,927
Net loss (profit) on sale of property plant and equipment	295	16
Loss on sale of intangibles	51	127
Loss on sale of discontinued operations	-	2,555
Investments in associates	-	15
Profit on sale of investments	(2,875)	(663)
Investments written off	-	455
Non-controlling interest	2,156	2,203
Increase (decrease) in:		
Trade payables and accruals	7,532	4,322
Provisions	(23,407)	(59,832)
Deferred revenue	4,169	(1,696)
Tax balances	16,777	17,924
Share option reserve	1,628	1,460
Decrease (increase) in:		
Consumables	(2,588)	(496)
Receivables and prepayments	5,827	(7,518)
Deferred borrowing costs	10,564	44,030
Net cash provided by operating activities	225,043	179,181

(c) Non cash investing and financing

During the financial year 11,564,922 (2009: 5,531,230) and 151,803 (2009: 20,470) 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 2010

33. Notes to the cash flow statement (continued)

	2010	Consolidated
(d) Financing facilities	\$000	2009 \$000
Current		
Syndicated debt facilities		
Amount used	-	1,438,000
Amount unused	-	-
Secured Bilateral multi-option facility		
Amount used	-	-
Amount unused	25,000	-
Secured Loan facility		
Amount used	1,962	-
Amount unused	-	100,000
	26,962	1,538,000
Non Current		
Secured Syndicated debt facility		
Amount used	998,000	-
Amount unused	2,000	-
Secured Bilateral multi-option facility		
Amount used	-	-
Amount unused	50,000	-
Secured Loan facility		
Amount used	14,742	-
Amount unused	3,296	-
	1,068,038	-
	1,095,000	1,538,000

On 23 December 2009 Primary completed the refinancing of its debt facilities for a further three years to 23 December 2012. The margin payable on the facility is in the range of 2.50-3.00% above BBSY depending on gearing ratios within the period. Refinancing costs of \$20.8m incurred relating to the new facilities are being amortised on a straight-line basis over the life of the facilities, maturing 23 December 2012.

(e) Businesses and subsidiaries 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 (2008)), as it is impractical to allocate the costs associated with the Group's multi-disciplinary medical centres to the individual medical practices acquired.

(ii) Businesses and subsidiaries acquired

The Group acquired 100% of the share capital of Campbelltown MRI Pty Limited in May 2010.

In addition, the Group acquired two Pathology businesses and two Imaging practices during the second half of the financial year.

Notes to the financial statements

For the year ended 30 June 2010

33. Notes to the cash flow statement (continued)

(e) Businesses and subsidiaries acquired (continued)

(iii) Summary

	Consolidated	
	2010	2009
	\$000	\$000
The net outflow of cash to acquire businesses is reconciled as follows:		
Fair value of identifiable net assets (liabilities) acquired		
Health-related practices	-	-
Pathology businesses	(1,116)	-
Imaging practices	(750)	-
Campbelltown MRI Pty Limited	-	-
Phoenix Medical Publishing Pty Limited	-	-
	(1,866)	-
Goodwill		
Health-related practices	59,232	58,660
Pathology businesses	37,863	-
Imaging practices	9,953	-
Campbelltown MRI Pty Limited	30	-
Phoenix Medical Publishing Pty Limited	-	506
	107,077	59,166
Consideration		
Health-related practices	59,232	58,660
Pathology businesses	38,978	-
Imaging practices	10,703	-
Campbelltown MRI Pty Limited	30	-
Phoenix Medical Publishing Pty Limited	-	506
	108,943	59,166
Payables and accruals relating to acquisitions		
Opening balance	(1,661)	(7,932)
(Increase)/decrease during the year	(867)	17,664
Closing balance	(27,903)	(1,661)
	(30,431)	8,071
Cash paid for acquisitions	78,512	67,237
Less cash acquired	-	-
Net payments for the purchase of businesses	78,512	67,237

Notes to the financial statements

For the year ended 30 June 2010

33. Notes to the cash flow statement (continued)

(f) Businesses and associates disposed – prior financial year

During the prior financial year, the Group disposed of the former Symbion Consumer and Pharmacy (C&P) divisions, and its interest in Eastern Radiology Services Pty Limited. Details of the disposals were as follows:

	Consolidated	
	2010	2009
	\$000	\$000
Consideration		
Cash and cash equivalents received – C&P	-	748,095
Cash received – Eastern Radiology Services	-	1,000
Book value of assets sold		
Net assets classified as held for sale – C&P	-	750,650
(Loss) on sale of C&P	-	(2,555)
Investment in Eastern Radiology Services	-	337
Gain on disposal of Eastern Radiology Services	-	663
	-	749,095
Net cash inflow on disposal	-	749,095

34. Subsequent events

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.

35. Contingent assets

(a) Class action against TGA

Prior to April 2003, a former subsidiary of what was then called Symbion Health Limited (now called Idameneo (No. 789) Ltd) ("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 ("TGA") required a recall of all products manufactured by Pan since 1 May 2002 ("the Pan recall"). 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 in FY2007, FY2009 and FY2010 interim dividends to Symbion totalling approximately \$13.6m. A further dividend is expected to be received by Symbion in FY2011.

In 2004 Jim Selim, the Chief Executive Officer of and major shareholder in Pan, sued the TGA in the Federal Court of Australia in relation to the TGA's conduct concerning the Pan recall. After the Court had part-heard the matter for 19 days in July 2008, the TGA settled in August 2008 on the basis of payment to Jim Selim of \$50.0m (plus \$5.0m for his costs).

Notes to the financial statements

For the year ended 30 June 2010

35. Contingent assets (continued)

(a) Class action against TGA (continued)

In December 2008 litigation-funder IMF (Australia) Ltd ("IMF") initiated a class action in the Federal Court of Australia against the TGA (and 5 TGA officers) in relation to the TGA's and its officers' conduct concerning the Pan recall. The claimants in the class comprise well over 100 "sponsors" (entities that sell products registered with the TGA) and other customers of Pan, and retailers of products of Pan.

Pursuant to arrangements entered into in connection with the demerger from Symbion of each of Mayne Pharma Ltd in 2005, Symbion Consumer in August 2008, and Symbion Pharmacy in October 2008, any amount recovered by former subsidiaries of Symbion in connection with the Pan recall, as well as the costs incurred in pursuing such recovery, will be to the account of Symbion.

Symbion, through its relevant former subsidiaries, is part of the IMF-funded class action. IMF, as funder, takes responsibility for all legal fees (including any adverse order for costs). If as a result of the class action, there is a recovery of money from the TGA, then IMF is reimbursed its legal expenditure and IMF also receives an agreed percentage of the gross sum recovered from the TGA in respect of the former subsidiaries of Symbion.

(b) Other

There were no other contingent assets as at 30 June 2010.

	Consolidated	
	2010	2009
36. Contingent liabilities	\$000	\$000
Treasury bank guarantees		
Statutory requirement	29,438	29,438
Other	3,084	3,272
	32,522	32,710

Notes to the financial statements

For the year ended 30 June 2010

37. Parent entity disclosures

The summary Balance Sheet of Primary Health Care Limited at the end of the financial year is as follows:

	2010	2009
Balance Sheet	\$000	\$000
Assets		
Current	6,524	11,537
Non-current	3,325,267	3,493,370
Total assets	3,331,791	3,504,907
Liabilities		
Current	10,712	1,436,924
Non-current	995,192	-
Total liabilities	1,005,904	1,436,924
Net assets	2,325,887	2,067,983
Equity		
Issued Capital	2,338,443	2,015,129
Retained earnings	(20,587)	43,705
Available-for-sale investments revaluation reserve	271	204
Cash flow hedges reserve	-	1,148
Share-based payments reserve	7,760	7,797
Total equity	2,325,887	2,067,983

Primary Health Care Limited has a net current asset deficiency of \$4.2m, principally due to the fact the Group's cash balance is maintained in a separate controlled entity. Primary Health Care Limited, as the parent entity of the Group, is able to access this cash as and when its current liabilities are due and payable.

The Statement of Comprehensive Income of Primary Health Care Limited for the financial year is as follows

	2010	2009
Statement of comprehensive income	\$000	\$000
Profit for the year	38,576	30,666
Other comprehensive income	(1,081)	1,271
Total comprehensive income	37,495	31,937

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 Securities 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 4, 60 Carrington St
SYDNEY NSW 2000
GPO Box 7045
SYDNEY NSW 1115

4. Number of holders of equity instruments as at 31 July 2010

Ordinary Share Capital

491,428,342 fully paid ordinary shares are held by 13,224 individual shareholders.
All issued ordinary shares carry one vote per share
17,919,000 share options have been granted to 989 persons.
Share options do not carry any voting rights.

5. Distribution of shareholders as at 31 July 2010

Number of shares held			Individual shareholders
1	-	1,000	3,778
1,001	-	5,000	6,773
5,001	-	10,000	1,645
10,001	-	50,000	849
50,001	-	100,000	70
100,001	-	and over	109
			13,224

704 shareholders hold less than a marketable parcel of shares.

Shareholder and corporate information

6. Top 20 shareholders as at 31 July 2010

Name	Number of fully paid ordinary shares	% of Total
HSBC Custody Nominees (Australia) Limited	93,511,707	19.03
National Nominees Limited	80,048,891	16.29
UBS Nominees Pty Ltd (PB SEG Account)	34,979,062	7.12
J P Morgan Nominees Australia Limited	33,051,351	6.73
Citicorp Nominees Pty Ltd	27,283,263	5.55
RBC Dexia Investor Services Australia Nominees Pty Limited	24,359,036	4.96
J P Morgan Nominees Australia Limited	23,374,194	4.76
Idameneo (No. 122) Pty Ltd	22,017,595	4.48
Cogent Nominees Pty Limited	12,697,540	2.58
RBC Dexia Investor Services Australia Nominees Pty Limited	6,734,110	1.37
Dr. Edmund Bateman & Mrs. Belinda Bateman	6,039,882	1.23
Australian Reward Investment Alliance	5,247,733	1.07
UBS Wealth Management Australia Nominees Pty Ltd	4,526,063	0.92
Citicorp Nominees Pty Ltd (CFS WSLE Australian Share Fund Account)	3,932,040	0.80
Citicorp Nominees Pty Ltd (CFSIL CWLTH AUST SHS 1 Account)	3,730,000	0.76
RBC Dexia Investor Services Australia Nominees Pty Limited PIIC Account	3,440,827	0.70
ANZ Nominees Ltd (Cash Income Account)	3,293,765	0.67
Tasman Asset management Ltd (Tyndall Australian Share Whole Account)	3,181,795	0.65
Citicorp Nominees Pty Ltd (CFSIL CWLTH AUST SHS 4 Account)	3,098,032	0.63
Argo Investments Limited	2,823,947	0.57
	397,361,833	80.86

7. Substantial shareholders

Ordinary Shareholders	Number of fully paid ordinary shares	% of Total
EG Bateman and related entities*	55,122,026	11.22
Maple-Brown Abbott Limited	45,866,267	9.34
Harris Associates L.P.	41,186,520	8.38
Perpetual Limited and its subsidiaries	39,028,875	8.10
Caledonia Investments Pty Ltd	38,278,642	7.80
Schroder Investment Management Australia Ltd	37,711,114	7.67
Commonwealth Bank of Australia and its subsidiaries	35,924,302	7.31
National Australia Bank and its associated entities	33,563,085	6.83

Information in the table above is as per the most recent substantial shareholder notices received by the Company up to 31 July 2010.

*EG Bateman and related entities held 33,275,985 fully paid ordinary shares and 21,846,041 call options over issued ordinary shares as at 31 July 2010.

