PRIMARY HEALTH CARE LIMITED

APPENDIX 4D – HALF YEAR REPORT
For the half year ended 31 December 2005

PRIMARY HEALTH CARE LIMITED
APPENDIX 4D – HALF YEAR REPORT

RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the half year ended 31 December 2005

	% Change	CONSOLIDATED 2005 $000	2004 $000
Sales revenue	40%	116,610	83,228
Net profit on the sale of investments		-	2,515
Interest revenue		142	101
Revenue from ordinary activities	36%	**116,752**	**85,844**
Earnings before interest, tax, depreciation and amortisation (EBITDA)			
Operating activities		44,913	30,528
Net profit on the sale of investments		-	2,515
EBITDA		**44,913**	**33,043**
Depreciation of plant and equipment		7,043	5,871
Earnings before interest, tax, and amortisation (EBITA)		**37,870**	**27,172**
Borrowing costs		3,429	2,462
Amortisation		2,363	-
Profit from ordinary activities before income tax expense		**32,078**	**24,710**
Income tax expense relating to ordinary activities		9,719	6,844
Profit from ordinary activities after income tax expense	25%	**22,359**	**17,866**
Net profit attributable to members	25%	**22,359**	**17,866**

	Cents	Cents
Basic earnings per share	18.69	17.07
Diluted earnings per share	17.90	16.47
Normalised earnings per share (pre amortisation)	20.08	17.07
Final dividend - Amount per security	N/A	N/A
Interim dividend - Amount per security	20.0	12.0

All dividends are fully franked at the corporate income tax rate (2005 30%, 2004 30%)
The record date for determining entitlement to the interim dividend is 24 February 2006.
The interim dividend is payable on 13 March 2006.

COMMENTARY ON RESULTS
For the half year ended 31 December 2005

Segment analysis

	Revenue		Results		EBITDA/revenue margin	
	2005 $000	2004 $000	2005 $000	2004 $000	2005 %	2004 %
Service company *	67,493	53,381	33,081	24,267	49.0	45.5
Pathology operations	38,658	33,410	6,993	6,160	18.1	18.4
Health technology	14,485	-	4,697	-	32.4	-
Intersegment revenue	(4,026)	(3,563)	-	-	-	-
	116,610	83,228	44,771	30,427	38.4	36.6
Investments	-	2,515	-	2,515		
Unallocated revenue	142	101	142	101		
	116,752	**85,844**	**44,913**	**33,043**	**38.5**	**38.5**
Depreciation			7,043	5,871		
Finance costs			3,429	2,462		
Amortisation			2,363	-		
Profit before tax			**32,078**	**24,710**		
Tax expense			9,719	6,844		
Profit after tax			**22,359**	**17,866**		

* Service company results are after allocating all head office costs of $5.8m (2004 $4.2m).

Highlights

The directors of Primary Health Care are pleased to announce the results for the half year ended 31 December 2005. Australian equivalents to International Financial Reporting Standards (AIFRS) have been adopted from 1 July 2004 and hence all comparative figures have been adjusted to reflect these. A reconciliation with previously reported results is included in the detailed Interim Financial Report. The highlights are:

Increase in earnings before tax, depreciation and amortisation (excluding investment profit) of 47% to $44.9m.
Increase in revenue (excluding investment revenue) of 40% to $116.8m.
Increase in medical centre EBITDA/Revenue margin from 45.5% to 49%.
Increase in net profit after tax of 25% to $22.4m.
Increase in normalised profit after tax (excluding amortisation) of 34% to $24.0m.
Increase in normalised earnings per share (excluding amortisation) from 17.07 cents to 20.08 cents.
Increase in fully franked interim dividend from 12.0 cents to 20.0 cents.

Primary Health Care Managing Director, Dr Edmund Bateman said "A good result with strong revenue and margin growth in the medical centre business. The results continue to reflect Primary's robust business model, strong cash returns and high rate of growth".

During the period, 3 new centres were successfully opened. In the second half of FY'06, Primary will open its third and fourth centres in Victoria as well as its first two centres in ACT to take the number of centres, at 30 June 2006, to 31 as scheduled. There are additional sites and centres in the approval process.

The Primary Health Care model has delivered accessible and affordable healthcare to many Australians. Without Primary there would demonstrably be up to 20% less Australian patients bulk billed for their healthcare. This is at an overall cost that is less per patient per year than for similar services provided by alternative forms of general practice healthcare delivery. Our service is available 365 days 7am – 10pm, with choice of family doctor.

The Primary model of healthcare delivery has other, direct and indirect, benefits for Australians. Specialist services, often unrelated to Medicare, are provided with significant benefits to patients; for example, laser eye surgery available for $988 with comparable services elsewhere up to $3,200. There is bulk billing for all

COMMENTARY ON RESULTS
For the half year ended 31 December 2005

radiology services which if not available in our group would lead an increase in radiology fees for patients. These are but a few examples of the benefits of the Primary Health Care corporate model for all Australians.

Revenue Growth

Revenue, excluding property, has grown 40% over the prior corresponding period.

Medical centre revenue grew overall by 26% ($14.1m). The 3 new centres opened in the period accounted for 3% of this medical centre growth. The Medicare rate rise on 1 January 2005 combined with growth of existing centres has a provided significant increase in GP billings.

Pathology revenue growth was 16% in total or 10% excluding the interstate pathology acquisition in April 2005.

Health Technology revenues were consistent with the period prior to acquisition of Health Communication Network Limited ("HCN") by Primary. Market share of all major software applications have been maintained or improved.

Margin Analysis

EBITDA/Revenue margins from the medical centres improved from 45.5% to 49.0%. The medical centre result is after allocation of all head office costs for the period of $5.8m (2004 $4.2m). Head office costs now include share option expense of $1.03m (2004 $0.55m).

The pathology margins decreased to 18.1% compared to 18.4% for the prior corresponding period due to the acquisition in April 2005 of pathology business. Excluding this acquisition, historical margin of existing business improved from 18.4% to 18.8%.

Health Technology margin of 32.4% compares favourably to the 19.9% reported for the period to 30 June 2005 and highlights the cost savings that have been affected at HCN since acquisition.

GP Patient Attendances

There was a 16% increase over the prior corresponding period for GP patient attendances. New centres opened in the period accounted for 3% of the patient increase with established centres continuing to meet the need of increased numbers of patients.

('000)	2005	Growth	2004	Growth	2003
GP Patient Attendances	1,661	16%	1,429	9%	1,314

Depreciation

Depreciation has increased 20% as a result of the continued investment by the company in new centres, equipment and Information Technology systems.

Capital expenditure of $23.6m for the period includes development and fit-out of centres currently being constructed.

Amortisation

The accounting for the acquisition of HCN, which was acquired on 31 January 2005 and provisionally accounted for in the year ended 30 June 2005, has been adjusted in the half year. As at 30 June 2005, the difference between HCN's net tangible assets and the cost to Primary Health Care of $112.9m was recorded as goodwill.

During the half year, independent experts were commissioned to identify and value the computer program software assets existing in HCN at acquisition date. Based on their conclusions, the consolidated entity has

COMMENTARY ON RESULTS
For the half year ended 31 December 2005

now recorded an asset relating to computer software programs of $46.5m, reducing previously recorded goodwill by the same amount. For accounting purposes, the computer programs have a useful life of 7.5 years and are amortised accordingly. For tax purposes, the cost of the computer programs of $46.5m is deductible in full over 25 years.

First time adoption of International Accounting Standards

The Australian Accounting Standards Board (AASB) has issued Australian equivalents to International Financial Reporting Standards (AIFRS). They are applicable to reporting periods beginning on or after 1 January 2005 and are now reflected in Primary's financial statements for the half-year ending 31 December 2005 and have been adopted effective 1 July 2004. The significant changes effecting the current period consolidated income statement are:

Under previous AGAAP, goodwill was amortised by the Group over its estimated useful life. Under AIFRS, goodwill must be tested for impairment and is no longer amortised. Goodwill is tested annually for impairment. For reporting periods commencing 1 July 2004 no amortisation of goodwill has been charged.

Under AASB 2: Share-based Payment the consolidated entity is required to recognise an expense for those options that were issued to employees under share-based compensation plans after 7 November 2002 and that had not vested by 1 January 2005. The Group has now recognised an expense of $1.34m for the year ended 30 June 2005 and $1.03m for the six months ended 31 December 2005.

Borrowing costs and cash generated from operations

Interest expense has increased 39%. The increase is a result of the construction, fit out and practice purchases of new and upcoming centres. The Group has sufficient cash flow and current bank financing available to meet its medical centre roll-out programme.

Net Profit on sale of Investments (2004)

The net profit on the sale of investments of $2.5m in 2004 before and after tax relates to the disposal of shares in Independent Practitioner Network Limited in the period net of costs.

Taxation

Significant items affecting an effective tax rate of 30% include the charge for the prior period being reduced by $0.75m as a result of the benefit of capital tax losses of prior years now utilised.

Note 13 to the Financial Statements details Contingent Asset in respect of tax deductions for copyright.

Final Dividend

The directors propose an increase in the interim dividend to 20.0 cents per share payable on 13 March 2006 (2004 12.0 cents). Record date is Friday 24 February 2006. The Group expects to continue to be able to pay fully franked dividends for the foreseeable future.

PRIMARY HEALTH CARE LIMITED
APPENDIX 4D – HALF YEAR REPORT

REFERENCE TO APPENDIX 4D REQUIREMENTS WITHIN THE INTERIM FINANCIAL REPORT
For the half year ended 31 December 2005

REQUIREMENT	PAGE	NOTE
Independent review report of the auditors	4	-
Details of dividend payments and dividend plans	17	7
Details of associates	20	9
Net tangible assets per security	20	10
Changes in the composition of the consolidated entity	20	11

ATTACHMENT A – INTERIM FINANCIAL REPORT
For the half year ended 31 December 2005

CONTENTS **PAGE**

Your directors present their report on the consolidated entity consisting of Primary Health Care Limited and the entities it controlled at the end of, or during, the half year ended 31 December 2005.

Directors

The following persons were directors of Primary Health Care Limited during the whole of the half year and up to the date of this report:

B Ball
EG Bateman
MJ Christie
JD Crawford
GJ Gardiner
SF Higgs
JA Joseph

Review of operations

A summary of consolidated revenues and results by significant segment is set out below;

	Revenue		Results		EBITDA/revenue margin	
	2005 $000	2004 $000	2005 $000	2004 $000	2005 %	2004 %
Service company	67,493	53,381	33,081	24,267	49.0	45.5
Pathology operations	38,658	33,410	6,993	6,160	18.1	18.4
Health technology	14,485	-	4,697	-	32.4	-
Intersegment revenue	(4,026)	(3,563)	-	-	-	-
	116,610	83,228	44,771	30,427	38.4	36.6
Investments	-	2,515	-	2,515		
Unallocated revenue	142	101	142	101		
	116,752	**85,844**	**44,913**	**33,043**	**38.5**	**38.5**
Depreciation			7,043	5,871		
Finance costs			3,429	2,462		
Amortisation			2,363	-		
Profit before tax			**32,078**	**24,710**		
Tax expense			9,719	6,844		
Profit after tax			**22,359**	**17,866**		

(a) Service company

Medical centre revenue grew overall by 26% ($14.1m). The 3 new centres opened in the period accounted for 3% of this medical centre growth. The Medicare rate rise on 1 January 2005 combined with growth of existing centres has provided significant increase in GP billings. EBITDA/Revenue margins from the medical centres improved from 45.5% to 49.0%. The medical centre result is after allocation of all head office costs for the period of $5.8m (2004 $4.2m) and includes share option expense of $1.03m (2004 $0.55m).

(b) Pathology operations

Pathology revenue growth was 16% in total or 10% excluding the interstate pathology acquisition in April 2005. The pathology margins decreased to 18.1% compared to 18.4% for prior corresponding period due to the acquisition in April 2005 of interstate pathology business. Excluding this acquisition historical margin of existing business improved from 18.4% to 18.8%.

(c) Health Technology

Health Technology revenues were consistent with the 2004 period prior to acquisition of Health Communication Network Limited ("HCN") by Primary and market share of all major software applications have been maintained or improved. Margin of 32.4% compares favourably to the 19.9% reported for the period to 30 June 2005 and highlights the cost savings that have been affected at HCN since acquisition.

Rounding off of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investment Commission. In accordance with that Class Order amounts in the directors' report and the financial report have been rounded off to the nearest thousand dollars.

Auditor's independence declaration

The auditors' independence declaration is set out on page 3.

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

On behalf of the directors

Edmund Bateman - Director
Sydney 6 February 2006

Auditor's independence declaration

For the half year ended 31 December 2005

Deloitte.

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

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

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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

Dear Board Members

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 review of the financial report of Primary Health Care Limited for the half year ended 31 December 2005, 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

J A Leotta
Partner
Chartered Accountants
Sydney, 6 February 2006

Independent review report

To the members of Primary Health Care Limited

Scope

The financial report and directors' responsibility
The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, selected explanatory notes and the directors' declaration for the consolidated entity for the half-year ended 31 December 2005 as set out on pages 5 to 21. The consolidated entity comprises both Primary Health Care Limited (the company) and the entities it controlled at the end of the half-year or from time to time during the half-year. The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review Approach
We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001 and Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards", so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations, its changes in equity and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Primary Health Care Limited is not in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
(b) complying with Accounting Standards AASB 134 "Interim Financial Reporting" and AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

J A Leotta
Partner
Chartered Accountants
Sydney, 6 February 2006

Directors' declaration
For the half year ended 31 December 2005

In the directors' opinion:

(a) the attached financial statements and notes 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 consolidated entity; and

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

This declaration is made in accordance with a resolution of the directors made pursuant to section 303(5) of the Corporations Act 2001.

Edmund Bateman
Director

Sydney 6 February 2006

Consolidated income statement
For the half year ended 31 December 2005

	Note	CONSOLIDATED 2005 $000	2004 $000
Sales revenue		116,610	83,228
Interest revenue		142	101
Net profit on the sale of investments		-	2,515
Depreciation of plant and equipment		7,043	5,871
Amortisation of intangibles		2,363	-
Cost of goods sold – Health Technology		4,309	-
Employee benefits expense		34,427	25,985
Share option expense		1,027	549
Property expense		10,332	8,624
Communication expense		3,315	2,455
Loss on sale of fixed assets		13	-
Consultancy and Pathologists' fees		5,259	3,974
Medical and laboratory supplies		9,647	8,120
Movement in consumables		(291)	(288)
Other expenses		3,801	3,382
Finance costs		3,429	2,462
Profit before income tax expense		**32,078**	**24,710**
Income tax expense		9,719	6,844
Profit after income tax expense		**22,359**	**17,866**
Profit attributable to members of the parent entity		**22,359**	**17,866**

		Cents per share	Cents per share
Basic earnings per share	4	**18.69**	**17.07**
Diluted earnings per share	4	**17.90**	**16.47**

Notes to the financial statements are included on pages 10 to 21.

Consolidated balance sheet

For the half year ended 31 December 2005

		CONSOLIDATED		
	Note	31 Dec 2005 $000	30 Jun 2005 $000	31 Dec 2004 $000
Current assets				
Cash		1,288	923	5,437
Receivables		26,218	22,006	16,601
Deferred expenditure		5,167	4,829	-
Consumables		3,705	3,414	2,724
Total current assets		**36,378**	**31,172**	**24,762**
Non-current assets				
Investment in associate	9	-	-	-
Other investments		1,919	165	29,797
Property, plant and equipment		123,531	107,027	102,026
Goodwill		307,008	288,874	206,997
Identified Intangibles		42,716	42,979	-
Deferred tax asset – tax losses		1,174	296	-
Deferred tax asset – timing differences		3,914	5,239	1,786
Total non-current assets		**480,262**	**444,580**	**340,606**
Total assets		**516,640**	**475,752**	**365,368**
Current liabilities				
Payables		18,945	13,870	9,110
Unearned income		13,044	12,452	-
Income tax payable		5,294	7,162	4,554
Provisions		2,859	5,374	2,009
Bank overdraft		94	1,281	39
Finance lease liabilities		4,167	4,201	4,283
Total current liabilities		**44,403**	**44,340**	**19,995**
Non-current liabilities				
Payables		700	713	728
Provisions		1,667	1,594	1,053
Commercial bills		93,917	68,426	-
Finance lease liabilities		10,186	12,689	14,789
Total non-current liabilities		**106,470**	**83,422**	**16,570**
Total liabilities		**150,873**	**127,762**	**36,565**
Net assets		**365,767**	**347,990**	**328,803**
Equity				
Issued capital	3	281,189	273,608	265,438
Reserves	5	2,884	2,442	1,691
Retained profits	6	81,694	71,940	61,674
Total equity		**365,767**	**347,990**	**328,803**

Notes to the financial statements are included on pages 10 to 21.

Consolidated statement of recognised income and expense

For the half year ended 31 December 2005

	CONSOLIDATED	
	2005 **$000**	**2004** **$000**
Loss on cash flow hedges taken to reserves	(440)	-
Capital raising costs, net of tax, taken directly to equity	(11)	(1,401)
Net (expense) recognised directly in equity	**(451)**	**(1,401)**
Profit for the period	22,359	17,866
Total recognised income and expense for the period attributable to equity holders of the parent	**21,908**	**16,465**

Notes to the financial statements are included on pages 10 to 21.

Consolidated cash flow statement
For the half year ended 31 December 2005

	Note	CONSOLIDATED 2005 $000	2004 $000
Cash flows from operating activities			
Receipts from customers		119,740	86,957
Payments to suppliers and employees		(76,397)	(55,111)
Income tax paid		(12,083)	(4,109)
Interest received		142	101
Interest paid		(3,489)	(2,608)
Net cash provided by operating activities	8b	**27,913**	**25,230**
Cash flows from investing activities			
Payment for property plant and equipment		(23,592)	(13,887)
Payment for businesses purchased	8d	(18,841)	(11,278)
Payment for investments		(1,754)	(28,871)
Proceeds from the sale of plant and equipment		31	-
Proceeds from the sale of investments		-	13,039
Net cash used in investing activities		**(44,156)**	**(40,997)**
Cash flows from financing activities			
Proceeds from issues of shares		857	101,683
Payments for share issue costs		(11)	(2,019)
Proceeds from borrowings		25,500	-
Repayment of borrowings and finance lease liabilities		(2,537)	(74,182)
Dividends paid		(6,014)	(4,981)
Net cash provided by financing activities		**17,795**	**20,501**
Net increase in cash held		**1,552**	**4,734**
Cash at beginning of financial period		**(358)**	**664**
Cash at end of financial period	8a	**1,194**	**5,398**

Notes to the financial statements are included on pages 10 to 21.

1. Basis of Preparation of half year financial report

This general purpose consolidated financial report the half year ended 31 December 2005 has been prepared in accordance with Accounting Standard *AASB 134: Interim Financial Reporting*, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group interpretations corresponding to the interpretations approved by the International Accounting Standards Board ("IASB") and the *Corporations Act 2001.* The financial report for the half year ended 31 December 2005 does not include all of the notes normally included in an annual financial report. Accordingly, it is recommended that this report be read in conjunction with the annual report for the financial year ended 30 June 2005 and any public announcements made by Primary Health Care Limited and its controlled entities ("the consolidated entity") during the half year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001.*

Until 30 June 2005, financial statements of the consolidated entity had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("AGAAP"). All accounting policies adopted are consistent with those of the previous financial year and corresponding half year except for those policies detailed below which have changed as a result of the adoption of Australian equivalents to International Financial Reporting Standards ("AIFRS"). For the consolidated entity the date of transition to AIFRS was 1 July 2004, which is the start of the comparative period.

This half year report is the first report to be prepared by the consolidated entity in accordance with AIFRS. *AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards* ("AASB 1") has been applied in preparing these financial statements. When preparing this half year report, management has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with AIFRS and the comparative figures have been restated to reflect these adjustments.

The consolidated entity has taken the exemption under AASB 1 to only apply *AASB 2: Share-based Payment* to options issued after 7 November 2002 and vesting after 1 January 2005. Accordingly, no expense is recognised in respect of instruments granted before 7 November 2002 and/or vesting before 1 January 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the consolidated entity's equity and profit after tax are set out in note 1(i).

(a) Borrowings

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

(b) Derivatives

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 method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Derivatives which are not part of a hedging relationship are valued at fair value through the income statement. Derivatives which are part of a hedging relationship are accounted for as set out in note 1(c).

1. Basis of Preparation of half year financial report (continued)

(c) Hedging transactions

When derivatives are held for risk management purposes, and when transactions meet the criteria specified in AASB 139, the consolidated entity applies fair value hedge accounting or cash flow hedge accounting as appropriate to the risks being hedged.

When a financial instrument is designated as a hedge, the consolidated entity formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The consolidated entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting is discontinued when:

- it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires or is sold, terminated or exercised; or
- the hedged item matures or is sold or repaid

(i) Fair value hedge accounting

Changes in the fair value of derivatives that qualify and are designated as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the income statement.

(ii) Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially directly in shareholders' equity and recycled to the income statement in the periods when the hedged item will affect profit or loss. The gain or loss on any ineffective portion of the hedging instrument is recognised in the income statement immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item affects the income statement. When a transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the income statement.

(d) Share-based compensation

The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount expensed over the vesting period is determined by reference to the fair value of the instruments granted. The fair value of options at grant date is calculated using a binomial model. The fair value of each instrument is expensed evenly over the period between the grant and vesting dates. At each balance sheet date, the entity revises its estimates of the number of instruments that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

1. Basis of Preparation of half year financial report (continued)

(e) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity's share of the net identifiable assets acquired. Goodwill acquired in a business combination is tested for impairment.

(ii) Identified Intangible assets

Identified Intangible assets are measured at cost. Those with a finite useful life are amortised over their estimated useful lives. Intangible assets are tested for impairment annually or more often if there is an indication of impairment.

(f) Impairment of assets

Assets, including goodwill and intangibles, that have an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell the value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(g) Business Combinations

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

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

(h) Taxation

The income tax expense for the period is the tax payable on the current period's taxable income, calculated using tax rates and tax laws that have been enacted or substantially enacted by reporting date. It is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

1. Basis of Preparation of half year financial report (continued)

(h) Taxation (continued)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the difference will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The company and all of its Australian wholly owned controlled entities have implemented the tax consolidation legislation.

(i) Impact of the adoption of AIFRS

In preparing the opening AIFRS compliant balance sheet, a number of adjustments have been made to the figures previously reported in the 30 June 2005 financial report. The impacts of the adoption of AIFRS on total equity brought forward and profit after tax reported under previous AGAAP are illustrated below. All amounts have been tax affected in accordance with AASB 112: Income Taxes.

(i) Reconciliation of profit from ordinary activities after tax under previous AGAAP to that under AIFRS.

	CONSOLIDATED	
	Year ended 30 Jun 2005 $000	**Half Year ended 31 Dec 2004 $000**
Profit after tax under previous AGAAP	**27,936**	**12,736**
Reverse amortisation of goodwill [1]	14,219	5,775
Record share option expense [2]	(1,339)	(549)
Record restructuring expense [3]	(2,897)	-
Transfer tax credit for capital raising costs to share capital/deferred tax asset [5]	(196)	(96)
Record tax credit for restructuring expense [3]	718	-
Profit after tax under AIFRS before adjustment for provisional acquisition accounting	**38,441**	**17,866**
Record amortisation of intangibles (refer note 11)	(1,421)	-
Record tax credit for amortisation of intangibles (refer note 11)	426	-
Profit after tax under AIFRS after adjustment for provisional acquisition accounting	**37,446**	**17,866**

1. Basis of Preparation of half year financial report (continued)

(i) Impact of adoption of AIFRS (continued)

(ii) Reconciliation to total equity under previous AGAAP to that under AIFRS.

	CONSOLIDATED		
	30 Jun 2005 $000	**31 Dec 2004 $000**	**1 Jul 2004 $000**
Brought forward equity under previous AGAAP	**320,013**	**305,973**	**198,554**
Adjustments to share capital/reserves and;			
Goodwill – cost [4]	(19,865)	(19,865)	(19,865)
Retained profits re share options [2]	2,501	1,710	1,162
Deferred tax asset [5]	985	985	367
Payables [6]	(22)	-	-
Adjustments to retained profits and;			
Goodwill – accumulated amortisation [1]	51,900	43,457	37,681
Goodwill – cost [3]	(4,401)	(1,504)	(1,504)
Share capital re share options [2]	(2,501)	(1,710)	(1,162)
Deferred tax asset [5]	(343)	(243)	(147)
Deferred tax asset [3]	718	-	-
Brought forward equity under AIFRS before adjustment for provisional acquisition accounting	**348,985**	**328,803**	**215,086**
Adjustments to retained profits and;			
Intangibles – accumulated amortisation (refer note 11)	(1,421)	-	-
Deferred tax asset (refer note 11)	352	-	-
Tax payable (refer note 11)	74	-	-
Brought forward equity under AIFRS after adjustment for provisional acquisition accounting	**347,990**	**328,803**	**215,086**

(iii) Notes

[1] Under previous AGAAP, goodwill was amortised over its estimated useful life. Under AIFRS, goodwill must be tested for impairment and is no longer amortised. The process for impairment testing under AIFRS is more prescriptive than under previous AGAAP. The directors are of the opinion that the recoverable amount of goodwill significantly exceeds the carrying value.

[2] Under AASB 2: Share-based Payment the consolidated entity is required to recognise an expense for those options that were issued to employees under share-based compensation plans after 7 November 2002 and that had not vested by 1 January 2005.

[3] Under AASB 3: Business Combinations provisions for restructuring costs can only be recognised as part of the acquisition accounting if the acquiree had, at the acquisition date, recognised an existing liability for restructuring. This is different to previous AGAAP under which a provision is recognised provided the acquirer had developed the main features of the restructuring plan at the date of the acquisition and developed a detailed plan within three months after the date of acquisition.

1. Basis of Preparation of half year financial report (continued)

(i) Impact of adoption of AIFRS (continued)

(iii) Notes (continued)

[4] AASB 3: Business Combinations identifies circumstances in which the identification of the acquirer may differ from the identification of the acquirer under previous AGAAP. These circumstances existed when Primary Health Care Limited was formed in 1994 and issued equity instruments to affect a business combination with the already established Artlu Unit Trust. AASB 3 refers to this type of business combination as a reverse acquisition. Restating this acquisition resulted in an equal reduction to both share capital and goodwill.

[5] Under AASB 112: Income Taxes, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity. This differs from previous AGAAP where current taxes attributable to amounts recognised directly in equity were recognised in the income statement and deferred taxes attributable to amounts recognised directly in equity were not recognised at all.

[6] The consolidated entity uses interest rate swap contracts to manage its interest rate exposure. Under AASB 139: Financial Instruments – Recognition and Measurement, the fair value of these cash flow hedges are initially recognised in equity and recycled to the income statement in the periods when the hedged item will affect profit or loss. This differs from previous AGAAP where only the net amount receivable or payable under the interest rate swap agreement was progressively bought to account, rather than the fair value.

	CONSOLIDATED REVENUE		**CONSOLIDATED RESULTS**	
	2005 $000	**2004 $000**	**2005 $000**	**2004 $000**
2. Segment information				
Service company	67,493	53,381	33,081	24,267
Pathology operations	38,658	33,410	6,993	6,160
Health technology	14,485	-	4,697	-
Intersegment revenue	(4,026)	(3,563)	-	-
Investments	-	2,515	-	2,515
Unallocated revenue	142	101	142	101
	116,752	**85,844**	**44,913**	**33,043**
Depreciation			7,043	5,871
Finance costs			3,429	2,462
Amortisation			2,363	-
Profit before tax			**32,078**	**24,710**
Tax expense			9,719	6,844
Profit after tax			**22,359**	**17,866**

3. Issued Capital

Details of movements in fully paid ordinary shares are shown in the table below. Fully paid ordinary shares carry one vote per share and the right to dividends.

Unissued ordinary shares of the Company under option at 31 December 2005 were 10,839,000 (31 December 2004 8,041,500). No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

	CONSOLIDATED		CONSOLIDATED	
	2005 No. of shares 000's	**2004 No. of shares 000's**	**2005 $000**	**2004 $000**
Balance at beginning of period	118,959	103,235	273,608	161,966
Exercise of share options	206	120	857	603
Shares issued via Dividend Reinvestment Plan	644	488	6,590	3,190
Shares issued via Bonus Share Plan	280	331	-	-
Other share issues	-	13,300	-	101,080
Capital raising/share issue costs net of tax	-	-	(11)	(1,401)
Issue of share options	-	-	145	-
Balance at end of period	**120,089**	**117,474**	**281,189**	**265,438**

4. Earnings per share

Basic earnings per share The weighted average number of ordinary shares on issue and earnings used in the calculation. Basic earnings equal Net profit.	**119,605**	**104,686**	**22,359**	**17,866**
Adjustment for potential ordinary shares*	**5,295**	**3,776**	-	-
Diluted earnings per share The weighted average number of ordinary shares and potential ordinary shares on issue and earnings used in the calculation	**124,900**	**108,462**	**22,359**	**17,866**

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

	CONSOLIDATED 2005 $000	CONSOLIDATED 2004 $000
5. Reserves		
Hedging reserve	(462)	-
Equity settled benefits reserve	3,346	1,691
Balance at end of period	**2,884**	**1,691**
6. Retained profits		
Balance at beginning of period	71,940	51,979
Net profit	22,359	17,866
Dividends paid	(12,605)	(8,171)
Balance at end of period	**81,694**	**61,674**

	CONSOLIDATED		CONSOLIDATED	
	2005 Cents per share	2004 Cents per share	2005 $000	2004 $000
7. Dividends				
Interim*	20.0	12.0	-	-
Final – previous financial year	13.0	10.0	15,468	10,330
Dividend reinvested under the BSP			(2,863)	(2,159)
Dividends declared or paid	**33.0**	**22.0**	**12,605**	**8,171**
All dividends are fully franked at 30%				

* The financial statements do not include a provision for the interim dividend because it was declared after balance date. This is in accordance with AASB 137 "Provisions, Contingent Liabilities and Contingent Assets".

The record date for determining entitlement to the interim dividend is 24 February 2006 (2004: 25 February 2005).

The interim dividend is payable on 13 March 2006 (2004: 14 March 2005).

The company offers a Dividend Reinvestment (DRP) and a Bonus Share (BSP) plan. The last date for the receipt of an election notice for participation in these plans is 24 February 2006.

	CONSOLIDATED	
	2005 $000	2004 $000
8. Notes to the statement of cash flows		
(a) Reconciliation of cash		
For the purposes of the statement of cash flows, cash includes cash on hand and in banks, net of outstanding bank overdrafts. Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash	1,288	5,437
Bank overdraft	(94)	(39)
Total cash	**1,194**	**5,398**
(b) Reconciliation of profit from ordinary activities after related income tax to net cash flows from operating activities		
Profit from ordinary activities after income tax	22,359	17,866
Depreciation of plant and equipment	7,043	5,871
Amortisation of intangibles	2,363	-
Net loss on sale of plant and equipment	13	-
Share option expense	1,027	549
Net (profit) on the sale of shares in IPN	-	(2,515)
Increase (decrease) in;		
Trade payables and accruals	1,730	1,283
Unearned income	592	-
Tax liabilities	(2,364)	2,735
Receivables	(4,221)	(271)
Deferred expenditure	(291)	-
Consumables	(338)	(288)
Net cash provided by operating activities	**27,913**	**25,230**

(c) Non Cash Investing and Financing

During the half year 643,739 (2004: 488,453) and 279,682 (2004: 330,598) shares were issued pursuant to the Dividend Reinvestment and Bonus Share Plans respectively.

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

	CONSOLIDATED	
	2005 $000	2004 $000
(d) Businesses acquired		
During the half year, various medical practices were acquired. Details of the acquisitions are as follows;		
Consideration		
Cash paid	18,841	11,278
Fair value of net assets acquired	-	-
Goodwill on acquisition	**18,841**	**11,278**

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

	CONSOLIDATED	
	2005 $000	2004 $000
(e) Financing facilities		
Secured lease facility		
Amount used	14,353	19,072
Amount unused	15,647	10,928
Secured multi-option facility including bank guarantees		
Amount used	96,545	1,005
Amount unused	48,455	143,995
	175,000	**175,000**

The Company has provided the bank with security over the consolidated entity's assets and undertakings. All amounts drawn by the consolidated entity under the lease facility must be repaid by monthly instalments over the term of the lease being five to seven years.

The multi-option facility has been extended to 31 October 2007 subject to satisfactory annual reviews and compliance with all conditions. The next annual review date is 31 October 2006.

9. Investment in associate

The company has an investment in Digital Diagnostic Imaging Pty Ltd. This investment is accounted for in the consolidated financial statements using the equity method of accounting. This carrying value of the investment has been realised to nil following the recognition of the companies share of losses in associate. Information relating to the associate is set out below:

	CONSOLIDATED	
	2005	2004
Ownership interest	20%	20%
Contribution to net profit (loss)	-	-
Carrying value	-	-

10. NTA backing

	2005	2004
Net tangible asset backing per share	$0.13	$1.04

11. Changes in the composition of the controlled entity

No entities were acquired or disposed of during the half year.

The accounting for the acquisition of HCN Limited which was acquired on 31 January 2005 and provisionally accounted for in the year ended 30 June 2005, has been adjusted in the half year. As at 30 June 2005, the difference between HCN Limited's net tangible assets and the cost to Primary Health Care Limited of $112.9m was recorded as goodwill.

During the half year, the value of deferred tax assets existing at acquisition date (including tax losses) were revised resulting in a $0.9m increase to goodwill. Additional costs relating to the acquisition were also incurred resulting in a $0.6m increase to goodwill.

During the half year, independent experts were commissioned to identify and value any identifiable intangible assets existing in HCN Limited at acquisition date. Based on their conclusions, the consolidated entity has recorded an identifiable intangible asset relating to computer programs of $46.5m, reducing previously recorded goodwill by the same amount. For accounting purposes, the intangible asset has a useful life of 7.5 years. For tax purposes, the intangible asset is deductible over 25 years. The impact of this on the financial statements is as follows;

	$000
Amortisation charge for the year ended 30 June 2005	1,421
Amortisation charge for the half year ended 31 December 2005	2,363
Income tax credit for the year ended 30 June 2005	426
Income tax credit for the half year ended 31 December 2005	709
Deferred tax asset as at 30 June 2005	352
Deferred tax asset as at 31 December 2005	849
Tax receivable as at 30 June 2005	74
Tax receivable as at 31 December 2005	286

In accordance with AASB 3: Business Combinations, the current and comparative periods have been restated for these adjustments.

12. Subsequent Events

There is no matter of circumstance that has arisen since the end of the financial period that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of the operations, or the state of affairs of the consolidated entity in future financial periods.

13. Contingent Assets and Contingent Liabilities

Tax Depreciation Deductions – Copyright

The consolidated entity has claimed appropriate deductions for expenditure on the purchase of intellectual property with its medical practice acquisitions in the years 30 June 1999 to 30 June 2004 inclusive. To access these deductions, the consolidated entity has lodged objections with the Australian Taxation office ("ATO") against the Income Tax Assessments of the company and its controlled entities for the years ending 30 June 1999 to 30 June 2004 inclusive. The consolidated entity has not yet quantified and lodged an objection for the year ended 30 June 2005.

The consolidated entity has now received Notice of Decision on Objection ("Objection Decision") from the ATO that it has not allowed the Objections for the year ended 30 June 1999 to 30 June 2002 inclusive. The directors obtained independent professional advice that the consolidated entity is entitled to the claimed amounts and have legally appealed the Objection Decision.

Total deductions claimed for the years to 30 June 2004 amount to $34.3m. This equates to a cash refund of $10.4m, excluding any interest payable to the consolidated entity. As a result of these claims, as at 30 June 2004, the consolidated entity also has further gross deductions of $54.5m available for the years 2005 to 2028. Estimated additional deductions of approximately $13.2m for similar acquisitions in 2005 will also be available for deduction over the years 2005 to 2028. Of these $67.7m future deductions available approximately two thirds, $43m, will be available in the financial years 2005 to 2010 inclusive as follows assuming a corporate tax rate of 30%:

Financial year ended 30 June 2006 (includes deductions from 1999-2005 inclusive)	$18.1m
Financial year ended 30 June 2007	$ 2.3m
Financial year ended 30 June 2008	$ 1.6m
Financial year ended 30 June 2009	$ 1.2m
Financial year ended 30 June 2010	$ 0.9m

No allowance has been made for any future additional acquisitions for years ended 30 June 2006 to 2010 inclusive.

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

Other

There were no other contingent assets and no contingent liabilities as at 31 December 2005.