

RAMSAY HEALTH CARE LIMITED
AND CONTROLLED ENTITIES
A.B.N. 57 001 288 768
FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006

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RAMSAY HEALTH CARE LIMITED DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2006. The Directors' report is not part of the financial report.

DIRECTORS

The names of the Directors of the Company in office during the financial year and until the date of this report, unless otherwise stated, are:

Names

P.J. Ramsay AO – Non-Executive Chairman
M.S. Siddle – Non-Executive Deputy Chairman
I.P.S. Grier - Managing Director
B.R. Soden - Finance Director
M.L. Brislee - Non-Executive Director (resigned 22 November 2005)
A.J. Clark AM – Non-Executive Director
P.J. Evans - Non-Executive Director
R.H. McGeoch AM - Non-Executive Director
K.C.D. Roxburgh - Non-Executive Director

Particulars in respect of each Director's experience and qualifications are set out in the Directors Qualifications section of the Annual Report.

Interests in the shares and options of the Company and related bodies corporate

The beneficial interest of each Director in the share capital of the Company as at the date of this report was as follows:

Director	Ramsay Health Care Limited	
	Ordinary Shares	Rights over Ordinary Shares
P.J. Ramsay	73,148,372	-
M.S. Siddle	26,667	-
A.J. Clark	85,000	-
P.J. Evans	6,312	-
I.P.S. Grier	85,740	536,663
R.H. McGeoch	133,334	-
K.C.D. Roxburgh	72,982	-
B.R. Soden	6,125	141,529

Mr Paul Ramsay has a relevant interest in 73,148,372 (2005:72,688,571) shares held by Paul Ramsay Holdings Pty Limited and is a director of that Company.

Interests in Contracts or Proposed Contracts with the Company

No director has any interest in any contract or proposed contract with the Company other than as disclosed elsewhere in this report.

RAMSAY HEALTH CARE LIMITED

DIRECTORS' REPORT (continued)

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity were the owning and operating of private hospitals. There were no significant changes in the nature of these activities during the year.

OPERATING RESULTS AND DIVIDENDS

Consolidated Results

Consolidated profit attributable to members of the parent after providing for income tax was \$87,590,000 (2005: profit of \$31,651,000). The operating profit before tax from continuing operations was \$124,058,000 (2005: \$51,584,000).

Earnings per Share

Basic and diluted earnings per share (after CARES dividend) 42.7 cents (2005: 22.8 cents)

Basic and diluted earnings per share (after CARES dividend) from continuing operations 41.6 cents (2005: 19.3 cents)

Dividends

Dividends paid or recommended for payment on ordinary shares are as follows:

Final dividend recommended @ 13.5 cents per share	\$23,362,000 (2005: \$19,602,000)
Interim dividend paid during the year @ 10.5 cents per share	\$18,115,000 (2005: \$11,902,000)

Dividends paid or recommended for payment on CARES are as follows:

Final dividend recommended	\$7,886,000 (2005: \$6,382,000)
Interim dividend paid during the year	\$7,762,000 (2005: \$0)

REVIEW OF OPERATIONS

The 2006 result includes the first full year of contribution from Affinity hospitals which Ramsay acquired in April 2005 and which effectively doubled the size of the Company's portfolio of hospitals.

The strong profit results translate into earnings per share of 41.6 cents on substantially enlarged capital, a 116% increase from the 19.3 cents recorded for FY05, and ahead of the Company's expectations for the year. Following the Affinity purchase, which was a Company transforming acquisition, Ramsay conducted a strategic review and rationalised its portfolio, resulting in the divestment of a number of hospital facilities and its aged care business for higher than expected proceeds.

The divestments released a substantial amount of capital which will be used to fund future growth prospects. Revenue from continuing operations totalled \$2.0 billion for the 2006 financial year, a 73% increase on the 2005 financial year. Net specific one-off charges totalled \$5.7 million (net of tax) in FY06 and relate to restructuring and integration of Affinity, amortisation of intangibles and profit on sale of divested operations.

The restructuring and integration costs included in the \$5.7 million net charge are in line with Ramsay's expectations for restructuring and integration costs disclosed at the time of the Affinity acquisition. After these specific items, net profit after tax was \$87.6 million, a 177% increase from \$31.7 million in the 2005 financial year.

RAMSAY HEALTH CARE LIMITED

DIRECTORS' REPORT (continued)

CORPORATE INFORMATION

This annual report covers both Ramsay Health Care Limited as an individual entity and the consolidated entity comprising Ramsay Health Care Limited and its subsidiaries. The Group's functional and presentation currency is AUD (\$).

Ramsay Health Care Limited is a company limited by shares that is incorporated and domiciled in Australia, whose shares are publicly traded on the Australian stock exchange. Its ultimate parent entity is Paul Ramsay Holdings Pty Limited. The registered office is 9th Floor, 154 Pacific Highway, St Leonards NSW 2065.

The financial report of Ramsay Health Care Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 19 September 2006.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The acquisition of Affinity in April 2005 allowed Ramsay to undertake a strategic review in order to maximize the value and strategic positioning of its portfolio. This review together with the ACCC ruling has resulted in the finalisation of the sale of 14 hospitals to Healthscope, the sale of 5 hospitals to Healthie, divestment of Ramsay's aged care business as well as three additional hospitals in South Australia. Ramsay believes it now has the premier private hospital portfolio in Australia, comprising 65 hospital facilities in Australia, and three hospitals in Indonesia.

INCENTIVE RIGHTS (CASH SETTLED)

At the date of this report there were 321,428 (2005: 321,428) Incentive Rights granted under the Executive Incentive Rights Plan. Refer to note 27 of the financial statements for further details of the rights outstanding.

PERFORMANCE RIGHTS (EQUITY)

At the date of this report there were 1,208,765 (2005: 694,928) unissued ordinary shares under the Executive Performance Rights Plan. Refer to note 27 of the financial statements for further details of the rights outstanding.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There have been no significant events after the balance date that may significantly affect the Group's operations in future years, the results of these operations in future years or the Group's state of affairs in future years.

RAMSAY HEALTH CARE LIMITED

DIRECTORS' REPORT (continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Directors and management of the consolidated entity will continue to seek growth in health care operations and to seek further cost efficiencies so as to optimise the returns to shareholders from existing hospitals. Directors and management are continuing to pursue opportunities, including expansion of existing facilities, further hospital acquisitions as well as other opportunities closely allied to the private hospital sector which are within the Company's core competencies and investment criteria.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has a Directors' and Officers' Liability policy covering each of the directors and certain executive officers for liabilities incurred in the performance of their duties and as specifically allowed under the Corporations Act 2001. The premiums in respect of the policy are payable by the Company. The terms of the policy specifically prohibit the disclosure of any other details relating to the policy and therefore the directors do not intend disclosing further particulars relating thereto.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Ramsay Health Care Limited (the Company).

Remuneration Philosophy - Audited

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company has adopted the following principles in its remuneration framework:

- Provide competitive rewards to attract higher calibre executives
- Link executive rewards to shareholder value
- Allocate a significant portion of executive remuneration "at risk", dependant upon meeting pre-determined performance benchmarks
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and the executive management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

RAMSAY HEALTH CARE LIMITED DIRECTORS' REPORT (continued)

Remuneration Structure - Audited

In accordance with the ASX Corporate Governance Council Best Practice Recommendations, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 22 November 2005 when shareholders approved an aggregate remuneration of \$900,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Remuneration Committee undertakes this review and makes recommendations to the Board after taking into consideration the advice from external consultants as well as the fees paid to non-executive directors of comparable companies.

Each director receives a fee for being a director of the Company. An additional fee is also paid for each board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees.

Non-executive directors have long been encouraged by the board to hold shares in the Company (purchased by the director on market). It is considered good governance for directors to have a stake in the Company whose board he or she sits.

Non-executive Directors are entitled to retirement benefits after serving a minimum service period of three years with the Company. The amount of the retirement benefit will not exceed the maximum limit of three years remuneration, as set out in Section 200G of the Corporations Act 2001. The entitlement to retirement benefits will accrue on a pro-rata basis, over a period of nine years, commencing after the minimum service period of three years. The minimum service period will commence from, either the date of the Company's public listing in September 1997, or the date of the Director's appointment, whichever is the later. The Directors Retirement Benefit Plan is frozen to the current serving non-executive directors and will not be extended to new non-executive directors appointed to the Board. Cumulatively an amount of \$1,100,000 (2005: \$1,100,000) has been provided as at 30 June 2006 and \$180,000 (2005: \$160,000) expensed in the current year. Retirement benefits of \$180,000 were paid out in the current year.

The remuneration of non-executive directors for the financial year ended 30 June 2006 is detailed in Table 1 of this Report.

RAMSAY HEALTH CARE LIMITED

DIRECTORS' REPORT (continued)

Executive Directors and Executive Remuneration

Objective

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

- Reward executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee has engaged the services of external consultants to provide independent advice on market levels of remuneration for comparable executive roles.

An employment contract has been entered into with the Executive Managing Director, the details of which are provided later in this report. No other executives have written employment contracts.

Remuneration consists of the following key elements:

- Fixed Remuneration
- Variable remuneration
 - Short Term Incentive (STI) and
 - Long Term Incentive (LTI)

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each executive by the Remuneration Committee. Table 2 of this Report details the fixed and variable components of the 4 named executives, for the financial year ended 30 June 2006.

Fixed Remuneration – Base Salary

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee with reference to each executive's Company wide, business unit, and individual performance, as well as relevant comparative remuneration in the market. As noted above, the Remuneration Committee in setting and reviewing the Fixed Remuneration level of each executive has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

RAMSAY HEALTH CARE LIMITED DIRECTORS' REPORT (continued)

Variable remuneration – Short term Incentive (STI)

Objective

The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve the operational targets and such that the cost to the Company is appropriate in the circumstances.

Structure

Formal STI guidelines have been set by the Remuneration Committee for each member of the senior executive management team, including the Managing Director, the Finance Director, the Chief Operating Officer and the Business Development Manager. Under these guidelines the potential STI has been set as a fixed percentage of the total remuneration package. STI for all other executives below the executive management team are made on a discretionary basis.

STI grants are linked to an executive's actual performance as measured by specific operational targets set at the beginning of the financial year. Payment of the STI grants depend upon the extent to which the specific operational targets are met. Operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance, such as actual to budget performance, contributions to net profit, team leadership, strategic development and risk management. The Company has predetermined benchmarks which must be met in order to trigger payments under the short term incentive scheme.

The aggregate of annual STI payments available for executives across the Company is subject to the approval of the Remuneration Committee. Payments made are usually delivered as a cash bonus.

Variable Pay – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward senior executives in a manner which aligns this element of remuneration with the creation of shareholder wealth.

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

Structure

LTI grants to executives are delivered in the form of both equity based performance rights and cash settled incentive rights ('rights').

The Company uses a relative Total Shareholder Return (TSR) as the performance hurdle for the long term incentive plan. The use of a relative TSR based hurdle is currently market best practice as it ensures an alignment between comparative shareholder return and reward for executives.

**RAMSAY HEALTH CARE LIMITED
DIRECTORS' REPORT (continued)**

Variable Pay – Long Term Incentive (LTI) (Continued)

Structure (Continued)

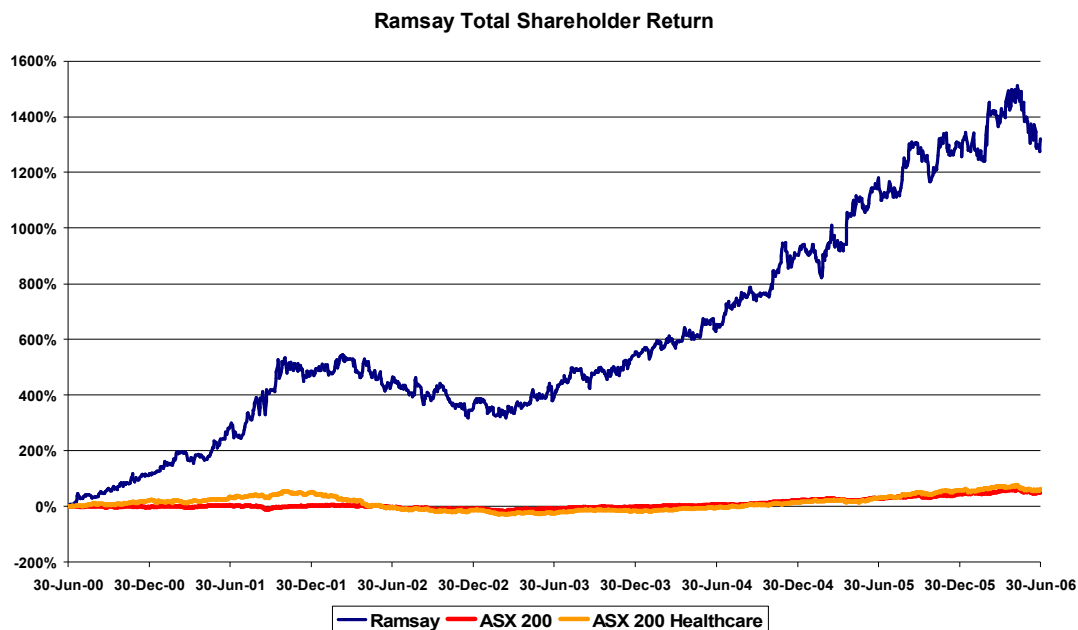
In assessing whether the performance hurdles have been met, the TSR for the Company is ranked and measured against the TSR for the last 100 companies in the ASX 200 index for the relevant performance period. If the performance hurdle is not achieved on the first test date, the unvested rights will be rolled forward for retesting on two more occasions at six monthly intervals. The amount of rights that vest in relation to the Company's TSR ranking is set out in the table below:

Ramsay Health Care Group's TSR Performance	% of share rights available to vest
▪ Less than 50 % relative to the TSR Ranking Group	- Nil
▪ 50% relative to the TSR Ranking Group	- 50%
▪ 50% to 75% relative to the TSR Ranking Group	- Between 50% and 100% increasing on a straight line basis
▪ Equal to or greater then 75%	- 100%

Table 3 of this Report provides details of the performance and incentive rights granted, the value of the rights, vesting periods and lapsed rights under the LTI Plan.

Company Performance

The Graph below shows the performance of the Company as measured by the Company's TSR, compared to the ASX 200 and ASX 200 Healthcare indices.

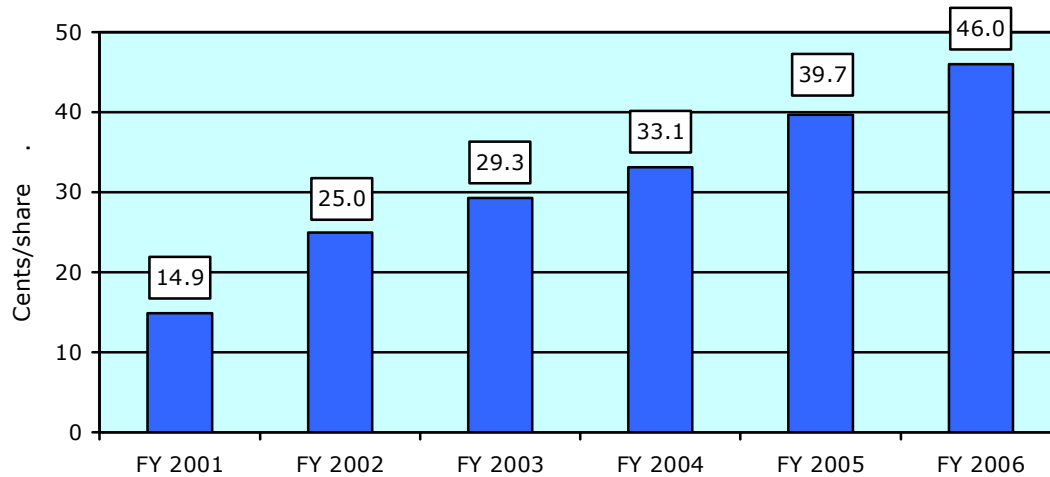


RAMSAY HEALTH CARE LIMITED DIRECTORS' REPORT (continued)

Variable Pay – Long Term Incentive (LTI) (Continued)

Company Performance (Continued)

The performance of the Company is also reflected in the graph below which shows the Company's Core EPS History for the past six years (including the current period). Results for FY 2005 and FY 2006 are prepared under AIFRS. FY2001 to FY2004 are prepared under the former accounting standards applicable in Australia.



Employment Contracts

The Managing Director, Mr Grier is employed under a three-year employment contract, which commenced on 1 July 2005 and terminates on 30 June 2008.

Under the terms of the contract:

- The agreement will terminate at the conclusion of the three-year term on 30 June 2008.
- The Company may, by giving notice at least six months prior to the termination, negotiate an extension of the contract for a further twelve months on the same terms and conditions unless otherwise agreed in writing.
- Neither Mr Grier nor the Company may terminate the contract during the term of the contract, except in the event of serious misconduct. In the case of serious misconduct the Company may terminate the contract at any time without notice.
- Mr Grier will, subject to certain Board criteria, be entitled to a retirement benefit equivalent to two years base remuneration.

RAMSAY HEALTH CARE LIMITED
DIRECTORS' REPORT (continued)

Table 1. Director Remuneration - Audited

Non –executive Directors

P.J. Ramsay AO – Non-Executive Chairman

M.L. Brislee - Non-Executive Director (retired 22 Nov 2005)

P.J. Evans - Non-Executive Director

K.C.D. Roxburgh - Non-Executive Director

M.S. Siddle – Non-Executive Deputy Chairman

A.J. Clark AM – Non-Executive Director

R.H. McGeoch AM - Non-Executive Director

Name		Short term			Post employment		Shared based payment rights			Total	Total Performance Related %	
		Salary & Fees	Non Monetary	Leave Entitlements	Cash Bonus (2)	Super-annuation	Retirement Benefits Provided (1)	Number of Inventive Rights Granted	Amortised Cost of inventive Rights			% of Remuneration
P Ramsay	2006	200,000	-	-	-	12,139	40,000	-	-	0%	252,139	0%
	2005	120,000	-	-	-	10,800	40,000	-	-	0%	170,800	0%
M Brislee	2006	55,000	-	-	-	-	40,000	-	-	0%	95,000	0%
	2005	62,500	-	-	-	-	20,000	-	-	0%	82,500	0%
A Clark	2006	84,000	-	-	-	7,560	20,000	-	-	0%	111,560	0%
	2005	62,500	-	-	-	5,625	20,000	-	-	0%	88,125	0%
P Evans	2006	99,000	-	-	-	8,910	20,000	-	-	0%	127,910	0%
	2005	72,500	-	-	-	6,525	20,000	-	-	0%	99,025	0%
R McGeoch	2006	87,500	-	-	-	7,875	20,000	-	-	0%	115,375	0%
	2005	65,000	-	-	-	5,850	20,000	-	-	0%	90,850	0%
K Roxburgh	2006	84,000	-	-	-	7,560	20,000	-	-	0%	111,560	0%
	2005	62,500	-	-	-	5,625	20,000	-	-	0%	88,125	0%
M Siddle	2006	84,000	-	-	-	7,560	20,000	-	-	0%	111,560	0%
	2005	62,500	-	-	-	5,625	20,000	-	-	0%	88,125	0%
Totals	2006	693,500	-	-	-	51,604	180,000	-	-	0%	925,104	0%
	2005	507,500	-	-	-	40,050	160,000	-	-	0%	707,550	0%

RAMSAY HEALTH CARE LIMITED
DIRECTORS' REPORT (continued)

Table 2. Executive Remuneration (specified executives) - Audited

I.P.S. Grier – Managing Director (Executive Director)
 C Rex – Chief Operating Officer
 K. Cass-Ryall - WA State Operations Manager

B.R. Soden – Finance Director (Executive Director)
 C McNally – Business Development Manager

Name		Short term			Post Employment		Shared based payment rights			Total	Total Performance Related %	
		Salary & Fees	Non Monetary	Leave Entitlements	Cash Bonus (2)	Super-annuation	Retirement Benefits Provided (1)	Number of Inventive Rights Granted	Amortised Cost of inventive Rights			% of Remuneration
P. Grier*	2006	960,000	21,626	150,001	300,000	12,139	-	322,377	2,176,957	60%	3,620,723	68%
	2005	643,727	40,290	72,837	280,000	11,585	-	107,143	567,858	35%	1,616,297	53%
B. Soden*	2006	580,000	27,012	129,286	200,000	12,139	-	34,387	803,169	46%	1,751,606	57%
	2005	400,000	22,015	49,925	400,000	11,585	-	53,571	283,926	24%	1,167,451	59%
C. Rex	2006	700,000	11,387	118,241	280,000	12,139	-	53,097	491,851	30%	1,613,618	48%
	2005	425,000	11,301	35,230	170,000	11,585	-	71,429	169,525	21%	822,641	41%
C. McNally	2006	400,000	15,657	62,185	165,000	12,139	-	25,284	243,078	27%	898,059	45%
	2005	320,000	21,101	48,374	350,000	11,585	-	35,714	84,761	10%	835,821	52%
K. Cass-Ryall	2006	350,000	11,671	25,016	45,000	12,139	-	7,585	128,783	22%	572,609	30%
	2005	279,000	18,753	3,337	30,000	11,585	-	21,429	50,858	13%	393,533	21%
Totals	2006	2,990,000	87,353	484,729	990,000	60,695	-	442,730	3,843,838	45%	8,456,615	57%
	2005	2,067,727	113,460	209,703	1,230,000	57,925	-	289,286	1,156,928	24%	4,835,743	49%

Notes:

*: Executive Directors

1. Retirement Benefits are frozen to current serving non-executive directors, and will not be extended to new non-executive directors.
2. STI Bonuses were granted in respect of performance in the 2006 Financial Year.

**RAMSAY HEALTH CARE LIMITED
DIRECTORS' REPORT (continued)**

REMUNERATION REPORT - Audited

Table 3: Performance Rights granted as part of remuneration during the year ended 30 June 2006

	Grant date	Grant Number	Value per right at grant date	Value of rights granted during the year	Value of rights exercised during year	Value of rights lapsed during year	Total value of rights granted, exercised & lapsed during year.
P.Grier	22 Nov 05	322,377	6.75	2,176,045	-	-	2,176,045
B.Soden	22 Nov 05	34,387	6.75	232,112	-	-	232,112
C.Rex	22 Nov 05	53,097	6.75	358,405	-	-	358,405
C.McNally	22 Nov 05	25,284	6.75	170,667	-	-	170,667
K. Cass-Ryall	22 Nov 05	7,585	6.75	51,199	-	-	51,199

For details on the valuation of the rights, including models and assumptions used, please refer to note 27 of the financial statements. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

The company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports under Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in the above section of the Directors' Report designated as audited.

DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings		Meetings of Committees		
	Scheduled	Special	Audit	Remuneration	Risk Management Committee
Number of Meetings held:	11	1	12	4	11
Number of Meetings attended:					
P.J. Ramsay	9	1			
M.S. Siddle	11	1		4	
M.L. Brislee (resigned 22/11/05)	4	1			5
A.J. Clark	10	1	12		
P.J. Evans	11	1	12	4	11
I.P.S. Grier	11	1			6
R.H. McGeoch	11	1		4	
K.C.D. Roxburgh	11	1	12		
B.R. Soden	11	1			

All directors were eligible to attend all meetings held, except for M. Brislee, who was eligible to attend 5 Directors' meetings, including one special Directors' meetings and 5 Risk Management Committee meetings.

**RAMSAY HEALTH CARE LIMITED
DIRECTORS' REPORT (continued)**

COMMITTEES

As at the date of this report, the Company had the following three committees:

Committee	Members
Audit Committee	Messrs Evans (c), Roxburgh, Clark
Remuneration Committee	Messrs McGeoch (c), Evans, Siddle
Risk Management Committee	Messrs Evans (c), McGeoch (alternate), Grier

(c) : Designates the chairman of the committee

Further information in relation to the above committees is disclosed in the Corporate Governance Statement included in the Annual Report.

ROUNDING

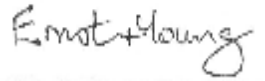
The amounts contained in this report and in the financial report have been rounded off to the nearest thousand unless otherwise specified under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

ENVIRONMENTAL REGULATION AND PERFORMANCE

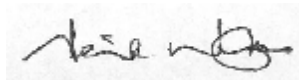
The consolidated entity holds licences from the Environment Protection Regulatory Bodies applicable to Hospitals for the maintenance of a safe environment. The Directors are not aware of any breaches of these licences.

Auditor's Independence Declaration to the Directors of Ramsay Health Care Limited

In relation to our audit of the financial report of Ramsay Health Care Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Neil Wykes
Partner

29 September 2006

NON-AUDIT SERVICES

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

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services	\$552,000
Accounting advice	\$3,000

**RAMSAY HEALTH CARE LIMITED
DIRECTORS' REPORT (continued)**

CORPORATE GOVERNANCE

In recognition of the need for the highest standards of corporate behaviour and accountability, the Directors of Ramsay Health Care have reviewed the Company's current corporate governance policies in the light of the Australian Stock Exchange Corporate Governance Council best practice recommendations. Further information in relation to corporate governance is disclosed in the corporate governance statement included in the Annual Report.

Signed in accordance with a resolution of the Directors.



P.J. RAMSAY
Director



I.P.S. GRIER
Director

Sydney, 29 September 2006

Independent audit report to members of Ramsay Health Care Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Ramsay Health Care Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 6 to 14 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting 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. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

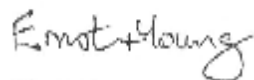
Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report.

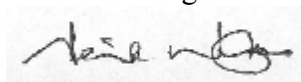
Audit opinion

In our opinion:

1. the financial report of Ramsay Health Care Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Ramsay Health Care Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
 - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained on pages 6 to 14 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



Neil Wykes
Partner
29 September 2006

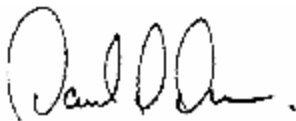
RAMSAY HEALTH CARE LIMITED DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Ramsay Health Care Limited, we state that:

In the opinion of the directors:

- (a) the financial report and the additional disclosures included in the Directors' Report designated as "audited", of the Company and of the consolidated entity, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial year ended 30 June 2006.
- (d) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 36 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



P.J. RAMSAY
Director

Sydney, 29 September 2006



I.P.S. GRIER
Director

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Consolidated		Ramsay Health Care Ltd	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Continuing operations					
Revenue and other income					
Revenue from services	4	1,983,457	1,143,779	813	580
Profit on disposal of assets		275	169	-	-
Interest income	4	10,694	971	-	-
Other income		32	5	-	136,772
Total revenue and other income		1,994,458	1,144,924	813	137,352
Expenses					
Employee benefits costs	5	(1,045,104)	(600,230)	(2,280)	(1,222)
Occupancy costs		(86,936)	(53,512)	-	-
Service costs		(76,310)	(46,093)	(2,063)	(1,273)
Medical consumables and supplies		(523,571)	(298,863)	-	-
Depreciation	5	(58,504)	(37,488)	-	-
Amortisation	17	(1,500)	-	-	-
Total expenses, excluding finance costs		(1,791,925)	(1,036,186)	(4,343)	(2,495)
Profit/(loss) from continuing operations before tax, specific items and finance costs					
		202,533	108,738	(3,530)	134,857
Finance costs	5	(69,552)	(34,225)	-	-
<i>Specific items</i>					
Borrowing costs associated with divestment hospitals	5	(2,602)	(2,602)	-	-
One-off net insurance expense to reduce "Incurred But Not Reported" liability		(4,227)	-	-	-
Restructuring and integration costs - Affinity		(6,818)	(12,680)	-	-
Restructuring and integration costs - Benchmark		-	(916)	-	-
Borrowing costs associated with re-financing and bridge financing	5	-	(6,731)	-	-
Net gains on disposal of businesses	4	6,856	-	-	-
Decrement in value of non-current assets	7(f)	(2,132)	-	-	-
Profit/(loss) before income tax from continuing operations		124,058	51,584	(3,530)	134,857
Income tax (expense)/benefit	6	(38,329)	(24,451)	1,059	(13,175)
Profit/(loss) after tax from continuing operations		85,729	27,133	(2,471)	121,682
Discontinued operations					
Profit after tax from discontinued operations	7(g)	1,907	4,845	-	-
Profit/(loss) for the year		87,636	31,978	(2,471)	121,682
Profit attributable to minority interests		(46)	(327)	-	-
Profit attributable to members of the parent		87,590	31,651	(2,471)	121,682
Earnings per share (cents per share)					
- basic and diluted for profit (after CARES dividend) for the year	8	42.7	22.8		
- basic and diluted for profit (after CARES dividend) from continuing operations	8	41.6	19.3		
Franked dividends paid per ordinary share (cents per share)	9	22.0	18.5		

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
BALANCE SHEET
AS AT 30 JUNE 2006

	Note	Consolidated		Ramsay Health Care Ltd	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
ASSETS					
Current Assets					
Cash and cash equivalents	10	41,795	57,584	101	99
Receivables	11	201,021	215,990	585,246	612,563
Inventories	12	37,365	38,393	-	-
Derivatives	26	2,711	-	-	-
Other current assets	13	40,928	47,909	320	-
Other financial asset	14	97,507	-	-	-
		<u>421,327</u>	<u>359,876</u>	<u>585,667</u>	<u>612,662</u>
Assets classified as held for sale	7(f), 7(a)	3,200	585,291	-	-
Total Current Assets		<u>424,527</u>	<u>945,167</u>	<u>585,667</u>	<u>612,662</u>
Non-current Assets					
Other financial assets	15	1,983	2,030	139,997	139,997
Property, plant & equipment	16	1,077,126	1,162,048	-	-
Goodwill and intangible assets	17	565,022	632,046	-	-
Deferred tax asset	6	87,224	102,361	3,254	4,329
Non-current receivables	19	35,173	37,340	-	-
Total Non-current Assets		<u>1,766,528</u>	<u>1,935,825</u>	<u>143,251</u>	<u>144,326</u>
TOTAL ASSETS		<u>2,191,055</u>	<u>2,880,992</u>	<u>728,918</u>	<u>756,988</u>
LIABILITIES					
Current Liabilities					
Trade and other payables	20	280,559	289,814	363	3,241
Interest-bearing loans and borrowings	21	16,156	12,714	-	-
Provisions	22	92,046	108,784	1,100	1,714
Income tax payable		3,017	11,179	3,017	-
		<u>391,778</u>	<u>422,491</u>	<u>4,480</u>	<u>4,955</u>
Liabilities directly associated with assets classified as held for sale	7(a)	-	110,291	-	-
Total Current Liabilities		<u>391,778</u>	<u>532,782</u>	<u>4,480</u>	<u>4,955</u>
Non-current Liabilities					
Interest-bearing loans and borrowings	23	815,008	1,401,902	-	-
Provisions	22	69,718	82,637	-	-
Deferred income tax liabilities	6	75,977	88,789	-	-
Total Non-current Liabilities		<u>960,703</u>	<u>1,573,328</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES		<u>1,352,481</u>	<u>2,106,110</u>	<u>4,480</u>	<u>4,955</u>
NET ASSETS		<u>838,574</u>	<u>774,882</u>	<u>724,438</u>	<u>752,033</u>
EQUITY					
Issued capital	24	425,289	400,545	425,289	400,545
Treasury shares	24	(7,009)	-	-	-
Convertible Adjustable Rate Equity Securities (CARES)	24	252,165	252,165	252,165	252,165
Net unrealised gains reserve		6,353	-	-	-
Other reserves		4,900	762	2,981	988
Retained earnings		156,608	120,879	44,003	98,335
Parent interests		<u>838,306</u>	<u>774,351</u>	<u>724,438</u>	<u>752,033</u>
Minority interests		268	531	-	-
TOTAL SHAREHOLDERS' EQUITY		<u>838,574</u>	<u>774,882</u>	<u>724,438</u>	<u>752,033</u>

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006

CONSOLIDATED	Attributable to equity holders of the parent							Minority Interest	Total Equity	
	Issued capital \$000	Treasury Shares \$000	CARES \$000	Equity Based Payment Reserve \$000	Retained Earnings \$000	Net Unrealised Gains Reserve \$000	Other Reserves \$000	Total \$000	\$000	\$000
At 1 July 2004	121,870	-	-	145	114,024	-	-	236,039	-	236,039
Currency translation differences	-	-	-	-	-	-	(226)	(226)	-	(226)
Equity issue costs	(2,881)	-	(7,835)	-	-	-	-	(10,716)	-	(10,716)
Total expense for the year recognised directly in equity	(2,881)	-	(7,835)	-	-	-	(226)	(10,942)	-	(10,942)
Profit for the year	-	-	-	-	31,651	-	-	31,651	327	31,978
Total income/(expense) for the year	(2,881)	-	(7,835)	-	31,651	-	(226)	20,709	327	21,036
Minority interest relating to acquisition of subsidiary	-	-	-	-	-	-	-	-	204	204
Share placement	281,556	-	260,000	-	-	-	-	541,556	-	541,556
Equity dividends - cash	-	-	-	-	(24,796)	-	-	(24,796)	-	(24,796)
Cost of share based payment	-	-	-	843	-	-	-	843	-	843
At 30 June 2005	400,545	-	252,165	988	120,879	-	(226)	774,351	531	774,882

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2006

CONSOLIDATED	Attributable to equity holders of the parent							Minority	Total	
	Issued capital \$000	Treasury Shares \$000	CARES \$000	Equity Based Payment Reserve \$000	Retained Earnings \$000	Net Unrealised Gains Reserve \$000	Other Reserves \$000	Total \$000	Interest \$000	Equity \$000
At 1 July 2005	400,545	-	252,165	988	120,879	-	(226)	774,351	531	774,882
Adjustment on transition to AASB 132 and AASB 139, net of tax	-	-	-	-	-	(4,512)	-	(4,512)	-	(4,512)
At 1 July 2005, adjusted	400,545	-	252,165	988	120,879	(4,512)	(226)	769,839	531	770,370
Currency translation differences	-	-	-	-	-	-	2,145	2,145	-	2,145
Equity issue costs	(20)	-	-	-	-	-	-	(20)	-	(20)
Net gains on cash flow hedges (net of tax)	-	-	-	-	-	10,865	-	10,865	-	10,865
Total income/(expense) for the year recognised directly in equity	(20)	-	-	-	-	10,865	2,145	12,990	-	12,990
Profit for the year	-	-	-	-	87,590	-	-	87,590	46	87,636
Total income/(expense) for the year	(20)	-	-	-	87,590	10,865	2,145	100,580	46	100,626
Shares purchased for Executive Performance Share Plan	-	(7,009)	-	-	-	-	-	(7,009)	-	(7,009)
Net change in minority interest relating to disposal/acquisition of subsidiary	-	-	-	-	-	-	-	-	(309)	(309)
Equity dividends – issued capital	-	-	-	-	(24,764)	-	-	(24,764)	-	(24,764)
Equity dividends – cash	-	-	-	-	(12,953)	-	-	(12,953)	-	(12,953)
Equity dividends – CARES	-	-	-	-	(14,144)	-	-	(14,144)	-	(14,144)
Share placement	24,764	-	-	-	-	-	-	24,764	-	24,764
Cost of share based payment	-	-	-	1,993	-	-	-	1,993	-	1,993
At 30 June 2006	425,289	(7,009)	252,165	2,981	156,608	6,353	1,919	838,306	268	838,574

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2006

RAMSAY HEALTH CARE LTD	Issued capital \$000	CARES \$000	Equity Based Payment Reserve \$000	Retained Earnings \$000	Total \$000
At 1 July 2004	121,870	-	145	1,449	123,464
Equity issue costs	(2,881)	(7,835)	-	-	(10,716)
Total expense for the year recognised directly in equity	(2,881)	(7,835)	-	-	(10,716)
Profit for the year	-	-	-	121,682	121,682
Total income/(expense) for the year	(2,881)	(7,835)	-	121,682	110,966
Share placement	281,556	260,000	-	-	541,556
Cost of share based payment	-	-	843	-	843
Equity dividends	-	-	-	(24,796)	(24,796)
At 30 June 2005	400,545	252,165	988	98,335	752,033
RAMSAY HEALTH CARE LTD	Issued capital \$000	CARES \$000	Equity Based Payment Reserve \$000	Retained Earnings \$000	Total \$000
At 1 July 2005	400,545	252,165	988	98,335	752,033
Equity issue costs	(20)	-	-	-	(20)
Total expense for the year recognised directly in equity	(20)	-	-	-	(20)
Profit/(loss) for the year	-	-	-	(2,471)	(2,471)
Total income/(expense) for the year	(20)	-	-	(2,471)	(2,491)
Equity dividends – issued capital	-	-	-	(24,764)	(24,764)
Equity dividends – cash	-	-	-	(12,953)	(12,953)
Equity dividends – CARES	-	-	-	(14,144)	(14,144)
Cost of share based payment	-	-	1,993	-	1,993
Share placement	24,764	-	-	-	24,764
At 30 June 2006	425,289	252,165	2,981	44,003	724,438

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Ramsay Health Care Ltd	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		2,360,332	1,536,154	813	580
Payments to suppliers & employees		(2,100,138)	(1,323,033)	(1,011)	(1,425)
Income tax paid		(43,968)	(28,714)	-	-
Finance costs		(88,182)	(71,470)	-	-
Net cash flows from operating activities	10	<u>128,044</u>	<u>112,937</u>	<u>(198)</u>	<u>(845)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(101,455)	(61,688)	-	-
Interest received		10,787	971	-	-
Proceeds from disposal of hospitals and businesses	7	557,117	-	-	-
Acquisition of subsidiary, net of cash received	10	(466)	(965,436)	-	-
Deferred payment on purchase of subsidiary		-	(1,133)	-	-
Proceeds from sale of property, plant and equipment		275	1,989	-	-
Net cash flows from/ (used in) investing activities		<u>466,258</u>	<u>(1,025,297)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		-	281,556	-	281,556
Issue costs paid – ordinary shares		-	(9,870)	-	(9,870)
Proceeds from issue of CARES		-	260,000	-	260,000
Issue costs paid - CARES		-	(7,835)	-	(7,835)
Dividends paid		(27,117)	(24,796)	(27,117)	(24,796)
Repayment of principal to Bondholders		(4,108)	-	-	-
Repayment of finance lease - principal		(2,434)	(6,320)	-	-
Proceeds from borrowings		-	976,159	-	-
Purchase of ordinary shares		7,009	-	-	-
Repayment of borrowings		(583,441)	(521,438)	-	-
Advances to related parties		-	-	27,317	(498,157)
Net cash flows (used in)/ from financing activities		<u>(610,091)</u>	<u>947,456</u>	<u>200</u>	<u>898</u>
Net (decrease)/increase in cash and cash equivalents		(15,789)	35,096	2	53
Decrease/(Increase) in restricted cash balances		6,996	(6,996)	-	-
Cash and cash equivalents at beginning of year		50,588	22,488	99	46
Cash and cash equivalents at end of year	10	<u>41,795</u>	<u>50,588</u>	<u>101</u>	<u>99</u>

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

1. CORPORATE INFORMATION

The financial report of Ramsay Health Care Limited ('the Company') for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on the 19 September 2006.

Ramsay Health Care Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

The nature of operations and principal activities of the Group are described in the Directors Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The financial report is presented in Australian dollars and all values are rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. This is an entity to which the Class Order applies.

(b) Statement of compliance

The financial information complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial information and notes thereto, complies with International Financial Reporting Standards ('IFRS').

The comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation ('AASB 132') and AASB 139 Financial Instruments: Recognition and Measurement ('AASB 139'). The Group has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 3.

Comparatives for the year ended 30 June 2005, have been adjusted from the balances disclosed as the AIFRS 30 June 2005 balances in the Appendix 4D released in February 2006, on the finalisation of the Affinity acquisition accounting. The goodwill and the associated acquisition balance sheet were finalised prior to 14 April 2006.

The following amendments have no material impact or are not applicable to the Group:

AASB Amendment	Affected Standard(s)
2005-2	AASB 1023: <i>General Insurance Contracts</i>
2005-12	AASB 1038: <i>Life Insurance Contracts</i> and AASB 1023: <i>General Insurance Contracts</i>
2005-13	AAS 25: <i>Financial Reporting by Superannuation Plans</i>

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Statement of compliance (Continued)

Except for the revised AASB 119 *Employee Benefits* (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2004-3	AASB 1 <i>First-time adoption of AIFRS</i> AASB 101 <i>Presentation of Financial Statements</i> AASB 124 <i>Related Party Disclosures</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-4	AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1 <i>First-time adoption of AIFRS</i> , AASB 1023 <i>General insurance Contracts</i> and AASB 1038 <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-5	AASB 1: <i>First-time adoption of AIFRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-6	AASB 3: <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-9	AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General insurance Contracts</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> and AASB 132 <i>Financial Instruments: Disclosure and Presentation</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Statement of compliance (Continued)

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
2006-1	AASB 121 <i>The Effects of Change in Foreign Currency Rates</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006

*Application date is for the annual reporting periods beginning on or after the date shown in the above table.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation

The consolidated financial information comprises the financial information of Ramsay Health Care Limited ('the Company') and its subsidiaries ('the Group') as at 30 June each year. The financial information of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

In preparing the consolidated financial information, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

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

Sydney Central Coast Linen Service Pty Ltd has been included in the consolidated financial information using the purchase method of accounting, which measures the acquiree's assets and liabilities at their fair value at acquisition date. Accordingly, the consolidated financial information includes the results of Sydney Central Coast Linen Service Pty Ltd for the period from its acquisition on 12 December 2005. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Minority interests represent the interests in Sydney Central Coast Linen Service Pty Ltd and the Indonesian entities, not held by the Group.

(d) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(i) Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill is discussed in note 18.

(ii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Monte Carlo simulation model, using the assumptions detailed in note 27. The Group measures the cost of cash-settled share-based payments at fair value at the grant date using a Monte Carlo simulation model taking into account the terms and conditions upon which the instruments were granted.

(iii) Medical malpractice provision

The Group determines an amount to be provided for the self-insured retention, potential uninsured claims and 'Incurred but not Reported' ('IBNR') in relation to medical malpractice with reference to actuarial calculations. This actuarial calculation is performed at each reporting period.

(e) Foreign currency translation

Both the functional and presentation currency of Ramsay Health Care Limited and its Australian subsidiaries is Australian dollars (A\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Foreign currency translation (Continued)

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences, arising in relation to foreign operations, in the consolidated financial report are taken directly to equity until the disposal of these operations, at which time they are recognised in the income statement.

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

The functional currency of the overseas subsidiary (PT Affinity Health Indonesia) is Indonesian Rupiah. As at the reporting date the assets and liabilities of this overseas subsidiary are translated into the presentation currency of Ramsay Health Care Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(f) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred.

Depreciation is calculated, consistent with the prior year, on a straight-line basis over the estimated useful life of the assets as follows:

- Buildings and integral plant – 40 years
- Leasehold improvements – over lease term
- Plant and equipment, other than plant integral to buildings – various periods not exceeding 10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount of property, plant and equipment 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 an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Impairment losses are recognised in the income statement.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment (Continued)

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement in the year the asset is derecognised.

(g) Finance costs

Finance costs include interest, amortisation of discounts or premiums related to borrowings and other costs incurred in connection with the arrangement of borrowings. Financing costs are expensed as incurred unless they relate to a qualifying asset. A qualifying asset is an asset which generally takes more than 12 months to get ready for its intended use or sale. In these circumstances, the financing costs are capitalised to the cost of the asset. Where funds are borrowed by the Group for the acquisition or construction of a qualifying asset, the amount of financing costs capitalised are those incurred in relation to that borrowing.

(h) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated that it represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(i) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (Continued)

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(j) Investments and other financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each reporting period.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Accounting policies applicable for the year ended 30 June 2005

Listed shares held for trading were carried at net market value. Changes in net market value were recognised as a revenue or expense in determining the net profit for the period.

All other non-current investments were carried at the lower of cost and recoverable amount.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Investments and other financial assets (Continued)

Recoverable amount

Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were discounted to their present value using a market determined risk adjusted discount rate.

(k) Inventories

Inventories are recorded using the FIFO method and are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories include medical and food supplies to be consumed in providing future patient services.

(l) Trade and other receivables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Trade receivables, which generally have 15-30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off to the income statement when identified.

Accounting policies applicable for the year ended 30 June 2005

Trade receivables, which generally have 15-30 day terms, were recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off when identified.

(m) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts and restricted cash.

(n) Interest-bearing loans and borrowings

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest-bearing loans and borrowings applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in income statement when the liabilities are derecognised.

Accounting policies applicable for the year ended 30 June 2005

All loans were measured at the principal amount. Interest was recognised as an expense as it accrued.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Provisions

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

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(p) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for the cash equivalent of shares ('cash-settled transactions'), shares or rights over shares ('equity-settled transactions').

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

- (i) the Executive Incentive Rights Plan (Cash-settled transactions), which provides benefits to executive directors, and
- (ii) the Executive Performance Rights Plan (Equity-settled transactions), which provides benefits to senior executives and executive directors.

The cost of these cash and equity settled transactions with employees is measured by reference to the fair value at the 30 June 2006 and the date at which they were granted, respectively. The fair value is determined by an external valuer using the Monte Carlo model.

In valuing cash and equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Ramsay Health Care Limited ('market conditions').

Equity-settled transactions

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

Cash-settled transactions

The cost of the cash-settled transactions is measured initially at fair value at grant date using the Monte Carlo model, taking into account the terms and conditions upon which the instruments were granted. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Treasury Shares

Shares in the Group held by the Executive Performance Share Plan are classified and disclosed as Treasury shares and deducted from equity.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(r) Revenue

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

Rental income and income from ancillary services

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Revenue from patients

Revenue from services is recognised on the date on which the services were provided to the patient.

Interest

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Accounting policies applicable for the year ended 30 June 2005

Revenue is recognised when the Group's right to receive payment is established.

Dividends

Revenue is recognised when the Groups' right to receive the payment is established.

Rental income

Rental income is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(s) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax

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

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

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

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

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

(u) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Other taxes (Continued)

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(v) Derecognition of financial instruments

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable to the derecognition of financial assets and financial liabilities for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Accounting policies applicable for the year ended 30 June 2005

(i) Financial assets

A financial asset was derecognised when the contractual right to receive or exchange cash no longer existed.

(ii) Financial liabilities

A financial liability was derecognised when the contractual obligation to deliver or exchange cash no longer existed.

(w) Derivative financial instruments and hedging

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 for 1 July 2005. Outlined below are the relevant accounting policies for derivative financial instruments and hedging applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policy applicable for the year ended 30 June 2006

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when the fair value is positive and as a liability when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to the income statement in the period in which those gains or losses arose. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- hedges of a net investment in a foreign operation.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Derivative financial instruments and hedging (Continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) Cash Flow Hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

Accounting policies applicable for the year ended 30 June 2005

Interest rate swaps

The Group enters into interest rate swap agreements that are used to convert the variable interest rate of its short-term borrowings to medium-term fixed interest rates. The swaps are entered into with the objective of reducing the risk of rising interest rates.

It was the Group's policy not to recognise interest rate swaps in the financial statements. Net receipts and payments were recognised as an adjustment to interest expense.

(x) Impairment of financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable for the the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Impairment of financial assets (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

Accounting policies applicable for the year ended 30 June 2005

Refer to note 1(i) for the impairment accounting policy.

(y) Interest in jointly controlled operations

The Group has interests in joint ventures that are jointly controlled operations. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in jointly controlled operations by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operations.

(z) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Intangible assets (Continued)

A summary of the policy applied to the Group's intangible asset is as follows:

Operating Rights
<i>Useful lives</i>
Finite (2005: Finite)
<i>Amortisation method used</i>
Amortised over the period of the lease (2005: Amortised over the period of the lease).
<i>Internally generated or acquired</i>
Acquired
<i>Impairment testing</i>
When an indication of impairment exists. The amortisation method is reviewed at each financial year-end (2005: When an indication of impairment exists. The amortisation method is reviewed at each financial year-end).

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(aa) Trade and other payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ended 30 June 2006

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

Accounting policies applicable for the year ended 30 June 2005

Trade payables and other payables are carried at costs which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

(ab) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ac) Insurance

Insurance policies are entered into to cover the various insurable risks. These policies have varying levels of deductibles.

Medical Malpractice Insurance

A provision is made to cover excesses arising under the Medical Malpractice Insurance Policy. This provision is actuarially assessed at each reporting period.

Insurance Funding

Insurance premiums are prepaid at the beginning of each insurance period through an external insurance financier. The insurance premiums are expensed over the period.

(ad) Accommodation bond liabilities

Liabilities for accommodation bonds are carried at cost.

(ae) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(af) Earnings per share (EPS)

Basic EPS for profit is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity and CARES dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS for profit is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity and CARES dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

3. IMPACT OF ADOPTION OF AIFRS

The impact of adopting AIFRS on total equity, profit after tax and on the cash flow statements as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) Reconciliation of total equity as present under AGAAP to that under AIFRS

	CONSOLIDATED	
	30 June 2005	1 July 2004
	\$000	\$000
Total equity under AGAAP	800,117	270,589
Adjustments to equity:		
Tax effect of revalued assets now recognised as a deferred tax liability (A)	(16,152)	(16,152)
Writeback of revaluation reserve (B)	(19,145)	(19,145)
Writeback of goodwill amortisation (C)	13,003	-
Non-recognition of restructuring provision (D)	(7,374)	-
Writeback of depreciation on assets held for re-sale (E)	1,931	-
Other	572	747
Total equity under AIFRS	772,952	236,039
Adjustment on the acquisition of Affinity (F)	1,930	-
Total equity at 30 June 2005	774,882	236,039

- (A) The difference between book and tax bases for land and buildings revaluations of \$54 million has been tax effected under AASB 116 "Property, Plant and Equipment" at the tax rate of 30%.
- (B) Licenses in relation to the hospitals were revalued as part of the total hospital value under AGAAP. Under AASB 138 "Intangible Assets", bed licenses are only able to be revalued where an active market exists. As no active market has been shown to exist, licenses have been written down to cost.
- (C) Goodwill is not amortised under AASB 3 "Business Combinations", but was amortised under AGAAP.
- (D) Restructuring provisions were recognised under AGAAP as an adjustment to goodwill but do not qualify for recognition as a fair value adjustment to goodwill at acquisition under AASB 3 "Business Combinations". These provisions do qualify for recognition as a liability under AASB 137 "Provisions, Contingent Liabilities and Contingent Assets" at the reporting date.
- (E) Depreciation is charged under AGAAP for assets held for sale if they are currently in use by the entity. Under AASB 5 "Non-current Assets Held for Sale and Discontinued Operations" depreciation is not charged on assets held for sale and they are carried at the lower of carrying amount less costs to sell.
- (F) An equity provision raised in April 2005 was written back to equity on the finalisation of the Affinity acquisition accounting as it was no longer required. This adjustment would also be required under AGAAP.

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

	Year ended 30 June 2005 \$000
Profit after tax as previously reported	30,398
Writeback of goodwill amortisation (A)	13,003
Non-recognition of restructuring provision (B)	(7,374)
Write back of depreciation on assets held for re-sale (C)	1,931
Recognition of expense in relation to the equity settled performance rights plan (D)	(1,252)
Tax impact of AIFRS	(5,590)
Other	862
Profit after tax under AIFRS	31,978

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

3. IMPACT OF ADOPTION OF AIFRS (CONTINUED)

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS (Continued)

- (A) Goodwill is not amortised under AASB 3 “Business Combinations”, but was amortised under AGAAP.
- (B) Restructuring provisions were recognised under AGAAP as an adjustment to goodwill but do not qualify for recognition as a fair value adjustment to goodwill at acquisition under AASB 3 “Business Combinations”. These provisions do qualify for recognition as a liability under AASB 137 “Provisions, Contingent Liabilities and Contingent Assets” at the reporting date.
- (C) Depreciation is charged under AGAAP for assets held for sale if they are currently in use by the entity. Under AASB 5 “Non-current Assets Held for Sale and Discontinued Operations” depreciation is not charged on assets held for sale.
- (D) An employee expense was not recognised under AGAAP for equity based employee share plans. Under AASB 2 “Share –based payments”, the Group is required to recognise an expense for those options that were issued to employees under the equity settled performance rights plan.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Ramsay Health Care Limited	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
4. REVENUE				
<i>Revenue from Continuing Operations</i>				
Revenue from patients	1,933,781	1,121,067	-	-
Management fees				
Controlled entities (fully owned)	-	-	813	580
Rental income				
Other persons/corporations	9,489	8,670	-	-
Guarantee fee				
Controlled entities (fully owned)	-	-	-	-
Bad debts recovered	6	24	-	-
Income from ancillary services	40,181	14,018	-	-
Other income	32	-	-	-
Dividends and distributions				
Other persons/corporations	-	5	-	-
Controlled entities (fully owned)	-	-	-	136,772
Interest				
Controlled entities (fully owned)	-	-	-	-
Other persons/corporations	10,694	971	-	-
Profit on sale of property, plant and equipment	275	169	-	-
Total revenues from continuing operations before specific items	<u>1,994,458</u>	<u>1,144,924</u>	<u>813</u>	<u>137,352</u>
Net gains on disposal of businesses	<u>6,856</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues from continuing operations (including specific items)	<u><u>2,001,314</u></u>	<u><u>1,144,924</u></u>	<u><u>813</u></u>	<u><u>137,352</u></u>
<i>Revenue from Discontinued Operations</i>				
Revenue from patients	<u>392,148</u>	<u>298,825</u>	<u>-</u>	<u>-</u>
Total revenue from discontinuing operations	<u>7 <u>392,148</u></u>	<u><u>298,825</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
5. EXPENSES				
<i>Expenses from Continuing Operations</i>				
(a) Depreciation included in income statement				
- Plant and equipment	37,147	30,402	-	-
- Buildings	21,357	7,086	-	-
Total depreciation	<u>58,504</u>	<u>37,488</u>	<u>-</u>	<u>-</u>
(b) Lease payments included in income statement				
Included in occupancy costs expenses:	24,906	19,284	-	-

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Ramsay Health Care Limited	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
5. EXPENSES (CONTINUED)				
(c) Employee benefits expense				
Wages and salaries	899,171	513,208	287	379
Leave provision	89,115	43,600	-	-
Workers' compensation costs	9,966	8,274	-	-
Superannuation expense	32,755	28,589	-	-
Termination benefits	3,565	-	-	-
Other employment costs	7,050	6,082	-	-
Share-based payments expense (including expense arising from transactions accounted for as equity-settled share-based payment transactions)	3,482	477	1,993	843
	<u>1,045,104</u>	<u>600,230</u>	<u>2,280</u>	<u>1,222</u>
(d) Finance costs				
- Interest expense				
Other persons/corporations	90,535	45,946	-	-
- Finance charges - lease liability	59	158	-	-
- Finance charges - hire purchase	349	545	-	-
	<u>90,943</u>	<u>46,649</u>	-	-
Finance costs disclosed as specific items:				
- Finance costs related to divestment hospitals	2,602	2,602	-	-
- Finance costs related to divestment bridge funding	-	3,873	-	-
- Unamortised finance costs written off	-	2,858	-	-
	<u>2,602</u>	<u>9,333</u>	-	-
- Finance costs associated with 2005 refinancing	-	17,814	-	-
Total Finance costs	<u>93,545</u>	<u>73,796</u>	-	-
Less: Finance costs capitalised	-	(17,814)	-	-
Finance costs – discontinued operations	(21,391)	(12,424)	-	-
Total finance costs expensed (including specific items)	<u>72,154</u>	<u>43,558</u>	-	-

Expenses from Discontinued Operations

(e) Expenses				
Employee benefits costs	219,779	162,910	-	-
Occupancy costs	24,914	19,384	-	-
Service costs	11,967	9,432	-	-
Medical consumables and supplies	106,248	83,416	-	-
Depreciation	4,330	4,190	-	-
Total expenses from discontinuing operations	<u>7 367,238</u>	<u>279,332</u>	-	-

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Ramsay Health Care Limited	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
6. INCOME TAX				
The major components of income tax expense/(benefit) are:				
Income Statement				
Continuing operations:				
<i>Current income tax</i>				
Current income tax charge/(benefit)	40,558	13,720	(1,059)	13,127
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(2,415)	10,731	-	48
Adjustments relating to tax returns	186	-	-	-
Income tax expense/(benefit) reported in the income statement	<u>38,329</u>	<u>24,451</u>	<u>(1,059)</u>	<u>13,175</u>
Continuing and discontinued operations:				
A reconciliation between tax expense and the product of the accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit/(loss) before tax from continuing operations	124,058	51,584	(3,530)	134,857
Accounting profit before tax from discontinued operations	3,519	7,069	-	-
Accounting profit/(loss) before income tax	<u>127,577</u>	<u>58,653</u>	<u>(3,530)</u>	<u>134,857</u>
At the Group's statutory income tax rate of 30% (2005: 30%)	38,273	17,596	(1,059)	40,457
Expenditure not allowable for income tax purposes	1,764	9,079	-	13,750
Rebateable dividends	-	-	-	(41,032)
Other	(584)	-	-	-
	<u>39,453</u>	<u>26,675</u>	<u>(1,059)</u>	<u>13,175</u>
Income tax expense/(benefit) reported in the consolidated income statement attributable to continuing operations	38,329	24,451	(1,059)	13,175
Income tax attributable to discontinued operations	1,124	2,224	-	-
	<u>39,453</u>	<u>26,675</u>	<u>(1,059)</u>	<u>13,175</u>
Deferred income tax related to items charged or credited directly to equity				
Share placement costs	(1,075)	3,999	(1,075)	3,999
Net unrealised gains	(1,699)	-	-	-
Treasury shares	(2,100)	-	-	-
	<u>(4,874)</u>	<u>3,999</u>	<u>(1,075)</u>	<u>3,999</u>

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Balance sheet		Income statement	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000

6. INCOME TAX (CONTINUED)

Deferred income tax

Deferred income tax at 30 June relates to the following:

CONSOLIDATED

Deferred tax liabilities

Inventory	(6,914)	(10,220)	3,306	(7,513)
Recognition of revenue	(10,812)	-	(10,812)	-
Depreciable assets	(37,356)	(64,852)	26,060	(29,409)
Other	(4,337)	(1,602)	(635)	7,531
Borrowing costs	(3,104)	(460)	(2,644)	1,021
Other provisions & lease liabilities	(11,655)	(11,655)	-	-
Provision financial instruments	(1,799)	-	-	-
Total deferred tax liabilities	(75,977)	(88,789)	15,275	(28,370)

CONSOLIDATED

Deferred tax assets

Employee provisions	32,396	37,288	(3,242)	(5,150)
Other provisions & lease liabilities	39,705	39,315	391	7,718
Depreciable assets	6,377	13,763	(7,386)	10,241
Other	5,822	7,996	(2,623)	4,830
Share placement costs	2,924	3,999	-	-
Total deferred tax income assets	87,224	102,361	(12,860)	17,639

Net movement in deferred income tax reported in the income statement

(2,415) 10,731

CONSOLIDATED

Movement of Deferred tax liabilities

Opening balance	(88,789)	(31,674)
Charges recognised in income statement	15,275	(28,370)
Amounts recognised against equity	(3,899)	-
Balances acquired during the financial year	-	(37,409)
Assets re-classified as held for resale	-	8,664
Balances transferred to discontinuing operations	1,436	-
Closing balance	(75,977)	(88,789)

CONSOLIDATED

Movement of deferred tax assets

Opening balance	102,361	25,061
Charges recognised in income statement	(12,860)	17,639
Accounts recognised against equity*	(1,075)	3,999
Amounts recognised against goodwill	448	-
Balances acquired during the financial year – employee provisions	-	35,185
Balances acquired during the financial year – other provisions	-	32,803
Assets re-classified as held for resale	-	(12,326)
Balances transferred to discontinued operations	(1,650)	-
Closing balance	87,224	102,361

*: Costs associated with the issue of equity instruments

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Balance sheet		Income statement	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
6. INCOME TAX (CONTINUED)				
<i>RAMSAY HEALTH CARE LTD</i>				
Deferred tax assets				
Employee provisions	330	330	-	48
Share placement costs	2,924	3,999	-	-
Total deferred tax income assets	3,254	4,329	-	48

RAMSAY HEALTH CARE LTD

Movement of deferred tax assets

Opening balance	4,329	282
Charges recognised in income statement	-	48
Amounts recognised against equity*	(1,075)	3,999
Closing balance	3,254	4,329

*: Costs associated with the issue of equity instruments

At 30 June 2006, there is \$31,439,851 (2005:\$200,851) of unrecognised deferred income tax assets in relation to capital losses carried forward as it is not probable that they will be used in the foreseeable future.

Ramsay Health Care Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group effective July 2003. Ramsay Health Care Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date there was no default.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with their accounting profit for the period, while deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 *Income Taxes*. Allocations under the tax funding agreement are made every six months.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax consolidated group head company. There is no difference between the current tax amount that is allocated under the tax funding agreement and the amount that is allocated under an acceptable method. Therefore there is no contribution/distribution of the subsidiaries' equity accounts. The Group has applied the modified stand-alone approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

As a result of tax consolidation intercompany assets of Ramsay Health Care Limited have increased by \$3,001,000 (2005: decrease of \$4,228,000).

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

7. DISCONTINUED OPERATIONS

(a) On 5 September 2005, Ramsay Health Care Limited announced it had entered into an agreement with Healthscope Limited under which Healthscope would acquire 14 Affinity hospitals for proceeds of approximately \$475 million, conditional on the approval of the Australian Competition and Consumer Commission (ACCC). The sale of these hospitals was completed in November 2005.

The major classes of assets and liabilities for the 14 hospitals sold to Healthscope are as follows:

	2005
	\$000
Assets	
Receivables	61,896
Property, plant & equipment	292,396
Other assets	22,166
Goodwill	208,833
	<u>585,291</u>
Liabilities	
Provisions	(50,691)
Other	(59,600)
	<u>(110,291)</u>
Net assets attributable to discontinued operations	<u>475,000</u>
Consideration received	
Cash	475,000
Total disposal consideration	<u>475,000</u>
Less net assets disposed of	<u>(475,000)</u>
Gain on disposal before income tax	-
Income tax expense	-
Gain on disposal after income tax	<u>-</u>

The proceeds on the sale equalled the book value of the related net assets and accordingly no impairment losses were recognised on the reclassification of these operations as held for sale.

The net cash inflows on disposal of the 14 hospitals sold to Healthscope is as follows:

Cash and cash equivalents	475,000
Less: Cash in Escrow at 30 June 2006	<u>(97,507)</u>
Reflected in cashflow statement	<u>377,493</u>

Economic completion of all hospitals has occurred. Legal completion of Melbourne Private (Melbourne Hospital Pty Limited) and Prince of Wales Private (POW Hospital Pty Ltd) has yet to complete.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

7. DISCONTINUED OPERATIONS (CONTINUED)

- (b) On 12 December 2005, Ramsay Health Care Limited announced it had entered into an agreement with BCN Group Pty Limited to sell the remaining 5 hospitals the ACCC required it to sell for total proceeds in excess of \$88 million. The sale of these hospitals was completed in June 2006.

The proceeds on the sale exceeded the book value of the related net assets and accordingly no impairment losses were recognised on the reclassification of these operations as held for sale.

In relation to the sale of one of the hospitals, Ramsay Health Care Limited has entered into a guarantee in favour of Australian Unity. Refer to note 29 for further information in respect of the guarantee.

- (c) On 27 March 2006, Ramsay Health Care Limited announced it had entered into an agreement with Little Company of Mary Health Care (LCM) to sell 3 of its hospitals in South Australia for \$35 million. The sale of these hospitals was completed in May 2006.
- (d) On 13 April 2006, Ramsay Health Care Limited announced it had entered into an agreement with Domain Aged Care Group, to sell its residential aged care business.
- (e) On 13 February 2006, Ramsay Health Care Limited sold Silver Circle to with Little Company of Mary Health Care for gross sale proceeds of approximately \$8 million.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

7. DISCONTINUED OPERATIONS (CONTINUED)

The major classes of assets and liabilities sold in relation to the discontinued operations 5(b) to 5(e) above are as follows:

	2006			
	5 hospitals sold to BCN (b) \$000	3 hospitals sold to LCM (c) \$000	Aged Care (d) \$000	Silver Circle (e) \$000
Assets				
Trade Receivables	12,121	9,685	-	4,400
Inventories	1,722	1,804	-	-
Other assets	321	5,753	525	190
Property, plant & equipment	43,222	17,805	61,877	756
Goodwill	39,299	17,169	8,001	1,985
	96,685	52,216	70,403	7,331
Liabilities				
Trade and other payables	(7,656)	(8,980)	(1,068)	(1,291)
Provisions	(8,537)	(6,111)	(2,422)	(1,742)
Other	(94)	(3,107)	(12,800)	(59)
	(16,287)	(18,198)	(16,290)	(3,092)
Net assets attributable to discontinued operations	80,398	34,018	54,113	4,239
Consideration Received				
Cash	82,927	34,500	53,944	8,253
Total disposal consideration	82,927	34,500	53,944	8,253
Less: net assets disposed of	(80,398)	(34,018)	(54,113)	(4,239)
Gain/(loss) on disposal before income tax	2,529	482	(169)	4,014
Income tax expense	-	-	-	-
Gain/(loss) on disposal after income tax	2,529	482	(169)	4,014
Net cash inflows on disposal of the facilities are:				
Cash and cash equivalents	82,927	34,500	53,944	8,253
Reflected in cashflow statement	82,927	34,500	53,944	8,253

(f) Property that is available for sale at 30 June 2006 has been written down to fair value as follows:

Property	5,332
Decrement in the value of non-current assets held for re-sale	(2,132)
Assets classified as held for sale	<u>3,200</u>

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

7. DISCONTINUED OPERATIONS (CONTINUED)

(g) The results of the discontinued operations for the year until disposal are presented below:

	CONSOLIDATED - 2006					
	14 hospitals sold to Healthscope	5 hospitals sold to BCN	3 hospitals sold to LCM	Aged Care	Silver Circle	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Revenue	180,198	95,274	79,578	18,046	19,052	392,148
Expenses	(159,560)	(91,750)	(80,549)	(16,637)	(18,742)	(367,238)
Gross profit/(loss)	20,638	3,524	(971)	1,409	310	24,910
Finance costs	(11,400)	(4,349)	(2,070)	(3,225)	(347)	(21,391)
Profit/(loss) before tax from discontinued operations	9,238	(825)	(3,041)	(1,816)	(37)	3,519
Income tax expense	(2,953)	264	972	581	12	(1,124)
Profit/(loss) for the year from discontinued operations	6,285	(561)	(2,069)	(1,235)	(25)	2,395
Profit attributable to minority interest	(488)	-	-	-	-	(488)
Profit/(loss) for the year from discontinued operations attributable to members of the parent	5,797	(561)	(2,069)	(1,235)	(25)	1,907

	CONSOLIDATED - 2005					
	14 hospitals sold to Healthscope	5 hospitals sold to BCN	3 hospitals sold to LCM	Aged Care	Silver Circle	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Revenue	116,075	68,269	84,914	5,518	24,049	298,825
Expenses	(101,633)	(65,682)	(83,417)	(5,015)	(23,585)	(279,332)
Gross profit	14,442	2,587	1,497	503	464	19,493
Finance costs	(5,740)	(2,611)	(2,501)	(974)	(598)	(12,424)
Profit/(loss) before tax from discontinued operations	8,702	(24)	(1,004)	(471)	(134)	7,069
Income tax expense	(2,738)	8	316	148	42	(2,224)
Profit/(loss) for the year from discontinued operations attributable to members of the parent	5,964	(16)	(688)	(323)	(92)	4,845

	2006	2005
	\$000	\$000
Earnings per share (cents per share):		
Basic from discontinued operation	1.1	3.5
Diluted from discontinued operation	1.1	3.5

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

8. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent (after deducting the CARES dividend) by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting the CARES dividend) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	2006	2005
	\$000	\$000
Net profit for the year attributable to the members of the parent	87,590	31,651
Less: dividend paid on Convertible Adjustable Rate Equity Securities (CARES)	<u>(14,144)</u>	<u>-</u>
Profit used in calculating basic and diluted (after CARES dividend) earnings per share	73,446	31,651
Less: Profit from discontinued operations	<u>(1,907)</u>	<u>(4,845)</u>
Profit used in calculating basic and diluted (after CARES dividend) earnings per share from continuing operations	<u>71,539</u>	<u>26,806</u>

	2006	2005
	Number of	Number of
	Shares	Shares
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	<u>171,875,372</u>	<u>138,826,061</u>

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

To calculate earnings per share amounts for the discontinued operations, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the profit figure used as the numerator:

	2006	2005
	\$000	\$000
Net profit for the year attributable to the members of the parent from discontinued operations		
- for basic and diluted earnings per share (note 7)	<u>1,907</u>	<u>4,845</u>

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Ramsay Health Care Limited	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
9. DIVIDENDS PAID OR PROPOSED				
(a) Dividend on ordinary shares paid during the year:				
<i>(i) Interim dividend paid</i>				
Franked dividends – ordinary (10.5 cents per share) (2005: 8.5 cents per share)	18,115	11,902	18,115	11,902
<i>(ii) Previous year final dividend paid</i>				
Franked dividends – ordinary (11.5 cents per share) (2005: 10 cents per share)	19,602	12,894	19,602	12,894
	<u>37,717</u>	<u>24,796</u>	<u>37,717</u>	<u>24,796</u>
(b) Dividend proposed and not recognised as a liability:				
<i>Current year final dividend proposed</i>				
Franked dividends – ordinary (13.5 cents per share) (2005: 11.5 cents per share)	23,362	19,602	23,362	19,602
(c) Dividends on CARES paid during the year:				
	14,144	-	14,144	-
(d) Dividends on CARES proposed and not recognised as a liability:				
	7,886	6,382	7,886	6,382
(e) Franking credit balance				
The amount of franking credits available for the subsequent financial year are:				
- franking account balance as at the end of the financial year at 30% (2005: 30%)			37,028	30,901
- franking credits that will arise from the payment of income tax payable as at the end of the financial year *			7,863	1,370
			<u>44,891</u>	<u>32,271</u>
The amount of franking credits available for future reporting periods:				
- impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period.			(13,762)	-
			<u>31,129</u>	<u>32,271</u>

* As Ramsay Health Care Ltd and its 100% owned subsidiaries have formed a tax consolidated group, effective 1 July 2003, this represents the current tax payable for the group.

The tax rate at which paid dividends have been franked is 30% (2005: 30%). \$32,112,386 of the proposed dividends will be franked at the rate of 30% (2005: 30%).

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Ramsay Health Care Limited	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
10. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	41,795	57,584	101	99
Reconciliation to Cash Flow Statement				
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June				
Cash at bank and in hand	41,795	57,584	101	99
Restricted cash balances	-	(6,996)	-	-
	<u>41,795</u>	<u>50,588</u>	<u>101</u>	<u>99</u>
Reconciliation of net profit/(loss) after tax to net cash flows from operations				
Profit/(loss) after tax	87,636	31,978	(2,471)	121,682
Adjustments for:				
Amortisation and depreciation	64,334	41,814	-	-
Decrement in value of non-current assets	2,132	-	-	-
Interest received	(10,694)	(971)	-	-
Net gains on disposal of business	(6,856)	-	-	-
Net profit on sale of non current assets	(275)	(169)	-	-
Changes in assets and liabilities				
Deferred tax asset	18,929	(64,902)	1,075	(9,619)
Receivables	14,968	(225,413)	-	(2,600)
Other assets	4,270	(11,662)	(320)	-
Creditors and accruals	(6,640)	220,443	(1,499)	(97,027)
Deferred tax liability	(18,667)	32,541	-	(1,310)
Provisions	(17,286)	118,714	-	-
Inventory	1,028	(35,823)	-	-
Tax provisions	(4,835)	6,387	3,017	(11,971)
Net cash from operating activities	<u>128,044</u>	<u>112,937</u>	<u>(198)</u>	<u>(845)</u>

Disclosure of financing facilities

Refer to note 33.

Disclosure of non-cash financing and investing activities

Under the terms of the dividend reinvestment plan ('the plan') \$24,764,000 of dividends were paid via the issue of 2,670,685 shares during 2006. This plan was subsequently suspended by the Directors.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

10. CASH AND CASH EQUIVALENTS (CONTINUED)

During 2005, Ramsay Health Care Ltd made a number of acquisitions, the components and details of the acquisitions are as follows:

	Benchmark Healthcare Group (a)	Gracedale Private (b)	Facilities from Ellis Aged Care (c)	Murray Valley Private (d)	Rockingham Family Hospital (e)	Affinity Holdings SARL (f)	Home Care Services (g)
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
CONSIDERATION							
Cash Paid	122,334	9,802	38,457	1,926	1,089	805,018	1,485
Retained in trust account	-	-	-	-	400	-	-
Transaction costs	-	-	-	-	-	70,614	-
Total cash paid	<u>122,334</u>	<u>9,802</u>	<u>38,457</u>	<u>1,926</u>	<u>1,489</u>	<u>875,632</u>	<u>1,485</u>
Net assets acquired:							
CURRENT ASSETS							
Prepayments	-	6	36	20	36	-	3
Cash Assets	2,237	-	-	-	-	69,974	-
Receivables	17,154	-	-	-	-	193,097	-
Inventories	4,240	-	-	20	270	29,438	-
Other	8,348	-	-	-	-	8,813	-
NON CURRENT ASSETS							
Property, Plant & Equipment	58,634	11,878	47,000	2,409	1,728	814,791	9
Deferred tax assets	10,946	-	-	-	-	67,239	-
Other financial assets	-	-	-	-	-	2,307	-
Intangibles	-	-	-	-	-	28,600	-
Other	-	-	-	-	-	38,372	-
CURRENT LIABILITIES							
Payables	(28,485)	-	-	-	-	(174,389)	-
Interest bearing liabilities	(2,431)	-	-	-	-	(44,679)	-
Provisions	(17,419)	(1,150)	(463)	(197)	(336)	(90,296)	(361)
Creditors	-	-	-	-	(5)	-	-
Current tax liabilities	-	-	-	-	-	(1,291)	-
NON CURRENT LIABILITIES							
Payables	(4,969)	-	-	-	-	(602,548)	-
Interest bearing liabilities	(6,975)	-	-	-	-	(139,488)	-
Provisions	(1,443)	(168)	(4,159)	(453)	(204)	(37,409)	(89)
Accommodation bonds	-	(3,680)	(7,310)	-	-	-	-
OUTSIDE EQUITY	-	-	-	-	-	-	-
INTEREST	-	-	-	-	-	(366)	-
FAIR VALUE OF NET TANGIBLE ASSETS or LIABILITIES ACQUIRED	<u>39,837</u>	<u>6,886</u>	<u>35,104</u>	<u>1,799</u>	<u>1,489</u>	<u>162,165</u>	<u>(438)</u>

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

10. CASH AND CASH EQUIVALENTS (CONTINUED)

	Benchmark Healthcare Group (a)	Gracedale Private (b)	Facilities from Ellis Aged Care (c)	Murray Valley Private (d)	Rockingham Family Hospital (e)	Affinity Holdings SARL (f)	Home Care Services (g)
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GOODWILL ARISING ON ACQUISITION							
Consideration paid	122,334	9,802	38,457	1,926	1,489	875,632	1,485
Adjusted for Fair Value of Net Tangible Assets/Liabilities	(39,837)	(6,886)	(35,104)	(1,799)	(1,489)	(162,165)	438
Goodwill arising on acquisition	82,497	2,916	3,353	127	-	713,467	1,923
NET CASH EFFECT							
Cash consideration paid	122,334	9,802	38,457	1,926	1,489	875,632	1,485
Cash included in net assets acquired	(2,237)	-	-	-	-	(69,974)	-
Cash paid for purchase of controlled entities	120,097	9,802	38,457	1,926	1,489	805,658	1,485
Deposit paid in June 2005	(13,478)	-	-	-	-	-	-
Reflected in cashflow statement	106,619	9,802	38,457	1,926	1,489	805,658	1,485

(a) Acquisition of Benchmark Healthcare Group – July 2004

In July 2004 Ramsay Health Care Ltd acquired all the shares in Benchmark Healthcare Group. The acquisition was funded by debt and cash reserves.

Benchmark operated and managed 10 hospitals in Victoria and South Australia, comprising 980 hospital beds and 68 aged care beds. The Group had annual revenue of approximately \$200 million.

Of the 9 hospitals operated by Benchmark, four were owned outright and five are leased. One hospital was managed under a management contract whereby the owner retained full operator risk.

(b) Acquisition of Gracedale Private Nursing Home – March 2005

In March 2005, Ramsay Health Care acquired Gracedale Private Nursing Home for an outlay of \$9.8 million. Gracedale has 75 beds. Gracedale has annual revenue of approximately \$5 million. Ramsay Health Care funded the acquisitions using existing cash reserves and credit facilities.

(c) Acquisition of Four Aged Care Facilities from Ellis Aged Care – April 2005

In April 2005, Ramsay Health Care acquired four aged care facilities in Victoria from Ellis Aged Care for an outlay of \$38.5 million.

The facilities purchased included Bairnsdale Aged Care Facility, Lakeview Aged Care Facility (Lakes Entrance), Paynesville Aged Care Facility and Sale Aged Care Facility, which together has a total of 331 high care and low care places. The Ellis facilities had annual revenue of approximately \$15 million.

Ramsay Health Care funded the acquisitions using existing cash reserves and credit facilities.

These facilities were divested by 30 June 2006.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

10. CASH AND CASH EQUIVALENTS (CONTINUED)

(d) Acquisition of Murray Valley Private Hospital – February 2005

In February 2005, Ramsay Health Care acquired Murray Valley Private Hospital for an outlay of \$1.9 million.

Murray Valley Private Hospital was a 30 bed medical-surgical hospital geographically located on the Wodonga side of the border in Victoria. The hospital is in close proximity to existing Ramsay Health Care facility allowing for enhancement of service provision. Murray Valley Private Hospital had annual revenue of approximately \$5 million.

(e) Acquisition of Rockingham Family Hospital – March 2005

In March 2005, Ramsay Health Care acquired Rockingham Family Hospital for an outlay of \$1.5 million.

Rockingham Family Hospital was a 45 bed acute medical-surgical and maternity hospital. It is in close proximity to an existing Ramsay Health Care facility allowing for enhancement of service provision. Rockingham Family Hospital had annual revenue of approximately \$5 million.

(f) Acquisition of Affinity Holdings SARL – April 2005

In April 2005 Ramsay Health Care Ltd acquired Affinity Holdings SARL for an Enterprise Value of approximately \$1.4 billion.

The acquisition was funded through an institutional placement, a 1-for-9 Accelerated Renounceable Entitlement Offer of shares to Ramsay shareholders, a preference share offer of Convertible Adjustable Rate Equity Securities and bank debt.

Affinity operated 48 hospitals across metropolitan and regional Australia and 3 hospitals in Indonesia. Affinity had annual revenue of approximately \$1.3 billion.

(g) Acquisition of Home Care Services (HCS) – April 2005

In April 2005, Ramsay Health Care acquired Home Care Services (HCS), a residential homecare business operating in Adelaide, through its subsidiary Glad Pty Limited for an outlay of \$1.5 million.

HCS operates one of the largest commercial home care businesses in South Australia. Established over 12 years ago, it has grown to have offices in Adelaide, Victor Harbour, Port Augusta and Tiwi Islands. HCS has annual revenue of approximately \$8 million.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Ramsay Health Care Limited	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Trade debtors	204,965	220,217	-	-
Provision for doubtful debts	(3,944)	(4,227)	-	-
	<u>201,021</u>	<u>215,990</u>	<u>-</u>	<u>-</u>
Amounts receivable from related parties	-	-	585,246	612,563
	<u>201,021</u>	<u>215,990</u>	<u>585,246</u>	<u>612,563</u>

- (i) Credit sales are non-interest bearing and are mainly on 15 to 30 day terms, dependent on the conditions of specific contracts. An allowance for doubtful debts is made when there is objective evidence that a trade receivable amount is impaired. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtor.
- (ii) Refer to note 34 for terms and conditions relating to related party receivables.
- (iii) The Group's maximum exposure to credit risk at balance date is the carrying value of those assets as indicated in the balance sheet. This does not take into account the value of any security held in the event of other entities/parties failing to perform their obligations under the financial instruments in question.
- The Group's credit risk is low in relation to trade debtors because the majority of transactions are with the Government and Health Funds. Other debtors primarily relates to rental and ancillary services.

	Consolidated		Ramsay Health Care Limited	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Amount of medical and food supplies to be consumed in providing future patient services - at cost	<u>37,365</u>	<u>38,393</u>	<u>-</u>	<u>-</u>

13. OTHER CURRENT ASSETS

Prepayments	20,668	22,113	320	-
Other current assets	20,260	25,796	-	-
	<u>40,928</u>	<u>47,909</u>	<u>320</u>	<u>-</u>

14. OTHER FINANCIAL ASSETS

Once approval is obtained from the relevant State Government agencies in Victoria and NSW for the transfer of the Licenses, the monies will be released from the Escrow Account and used to repay Finance Debt. This repayment of Finance Debt is a lapse of time and process issue, contingent only on the transfer of the Licenses.

	<u>97,507</u>	<u>-</u>	<u>-</u>	<u>-</u>
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RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Ramsay Health Care Limited	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
15. OTHER FINANCIAL ASSETS				
(a) Investments comprise:				
Ordinary Shares:				
- Listed on a prescribed stock exchange	7	25	-	-
- Other	1,834	1,863	-	-
	<u>1,841</u>	<u>1,888</u>	<u>-</u>	<u>-</u>
Units in unit trust:				
- Listed on a prescribed stock exchange	77	77	-	-
- Unsecured notes – unlisted	65	65	-	-
	<u>142</u>	<u>142</u>	<u>-</u>	<u>-</u>
	<u>1,983</u>	<u>2,030</u>	<u>-</u>	<u>-</u>
Investment in controlled entities:				
- Unlisted shares and units	15 (b) -	-	139,997	139,997
	<u>1,983</u>	<u>2,030</u>	<u>139,997</u>	<u>139,997</u>

Listed shares and units are carried at fair value. Dividend income is recognised when the Group's right to receive the income is established.

Unlisted shares and notes are carried at the lower of cost or recoverable amount. Distributions are recognised when the Group's right to receive the income is established.

Entities subject to class order

Pursuant to Class Order 98/1418, relief has been granted to the entities in the table below (identified by ^) from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, these entities entered into a Deed of Cross Guarantee on 22 June 2006. The effect of the deed is that Ramsay Health Care Limited has guaranteed to pay any deficiency in the event of winding up of either controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Ramsay Health Care Limited is wound up or if it does not meet its obligation under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

The consolidated income statement and consolidated balance sheet of the closed group are set out in note 36.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Country of Incorporation	Beneficial Percentage Held		Ramsay Health Care Limited	
		2006 %	2005 %	2006 \$000	2005 \$000
15. OTHER FINANCIAL ASSETS (CONTINUED)					
15 (b) Investments in controlled entities					
Investments in controlled entities comprise:					
RHC Nominees Pty Limited ^	Australia	100%	100%	*	*
RHC Developments Pty Limited and its Controlled entities:^	Australia	100%	100%	139,997	139,997
Health Care Development Unit Trust	-	100%	100%		
Ramsay Health Care Investments Pty Limited and its controlled entities:^	Australia	100%	100%	*	*
Ramsay Hospital Holdings Pty Limited^	Australia	100%	100%	*	*
Ramsay Hospital Holdings (Queensland) Pty Limited ^	Australia	100%	100%	*	*
Ramsay Aged Care Holdings Pty Limited and its controlled entities ^	Australia	100%	100%		
Ramsay Aged Care Pty Limited	Australia	-	100%		
Ramsay Aged Care Properties Pty Ltd ^	Australia	100%	100%		
Glad Pty Limited	Australia	-	100%		
RHC Ancillary Services Pty Limited and its controlled entity	Australia	100%	-		
NewCo Enterprises Pty Limited	Australia	89%	-		
Ramsay Finance Pty Limited ^	Australia	100%	-		
Benchmark Healthcare Holdings Limited and its Controlled entities: ^					
Benchmark Healthcare Pty Limited ^	Australia	100%	100%		
Donvale Private Hospital Pty Limited ^	Australia	100%	100%		
Donvale Private Hospital Unit Trust	-	100%	100%		
The Benchmark Hospital Group Pty Limited ^	Australia	100%	100%		
Beleura Holdings Unit Trust	-	100%	100%		
Dandenong Valley Private Hospital Pty Limited ^	Australia	100%	100%		
Dandenong Valley Private Hospital Unit Trust	-	100%	100%		
Benchmark – Surrey Pty Limited ^	Australia	100%	100%		
Surrey Hospital Unit Trust	-	100%	100%		
Benchmark – Peninsula Pty Limited ^	Australia	100%	100%		
Peninsula Hospital Unit Trust	-	100%	100%		
Benchmark – Donvale Pty Limited ^	Australia	100%	100%		
Chelsea Hospital Unity Trust	-	100%	100%		
Benchmark – Windermere Pty Limited ^	Australia	100%	100%		
Windermere Hospital Unit Trust	-	100%	100%		
Benchmark – Beleura Pty Limited ^	Australia	100%	100%		
Beleura Hospital Unit Trust	-	100%	100%		
Benchmark The Valley Pty Limited	Australia	-	100%		
The Valley Private Hospital Unit Trust	-	-	100%		
Beleura Properties Pty Limited ^	Australia	100%	100%		
Beleura Properties Unit Trust	-	100%	100%		
Balance carried forward				<u>139,997</u>	<u>139,997</u>

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Country of Incorporation	Beneficial Percentage Held		Ramsay Health Care Limited	
		2006 %	2005 %	2006 \$000	2005 \$000
15. OTHER FINANCIAL ASSETS (CONTINUED)					
15 (b) Investments in controlled entities (continued)					
Balance brought forward				139,997	139,997
AHH Holdings Health Care Pty Limited and its Controlled entities: ^	Australia	100%	100%		
AH Holdings Health Care Pty Limited and its Controlled entities: ^	Australia	100%	100%		
Affinity Health Care Holdings Pty Limited ^	Australia	100%	100%		
PT Affinity Health Indonesia	Indonesia	92%	92%		
Affinity Health Holdings Australia Pty Limited ^	Australia	100%	100%		
Affinity Health Finance Australia Pty Limited ^	Australia	100%	100%		
Affinity Health Limited and its Controlled entities: ^	Australia	100%	100%		
Affinity Health (FP) Pty Limited ^	Australia	100%	100%		
Affinity Health Foundation Pty Limited ^	Australia	100%	100%		
Affinity Health Holdings Indonesia Pty Ltd ^	Australia	100%	100%		
AHC Foundation Pty Limited ^	Australia	100%	100%		
AHC Radiology Pty Limited	Australia	-	100%		
AHC Tilbox Pty Limited ^	Australia	100%	100%		
AME Hospitals Pty Limited ^	Australia	100%	100%		
AME Properties Pty Limited ^	Australia	100%	100%		
AME Property Trust	-	100%	100%		
AME Superannuation Pty Limited ^	Australia	100%	100%		
AME Trading Trust	-	100%	100%		
AME Trust	-	100%	100%		
AMNL Pty Limited ^	Australia	100%	100%		
Armidale Hospital Pty Limited ^	Australia	100%	100%		
Attadale Hospital Property Pty Ltd ^	Australia	100%	100%		
Australian Hospital Care (Allamanda) Pty Limited ^	Australia	100%	100%		
Australian Hospital Care (Como) Pty Limited	Australia	-	100%		
Australian Hospital Care (Dorset) Pty Limited	Australia	-	100%		
Australian Hospital Care (Knox) Pty Limited	Australia	-	100%		
Australian Hospital Care (Lady Davidson) Pty Limited	Australia	-	100%		
Australian Hospital Care (Larrobe) Pty Limited ^	Australia	100%	100%		
Australian Hospital Care (Masada) Pty Limited ^	Australia	100%	100%		
Australian Hospital Care (MPH) Pty Limited ^	Australia	100%	100%		
Australian Hospital Care (MSH) Pty Limited ^	Australia	100%	100%		
Australian Hospital Care (Northpark) Pty Limited	Australia	-	100%		
Balance carried forward				<u>139,997</u>	<u>139,997</u>

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
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FOR THE YEAR ENDED 30 JUNE 2006**

	Country of Incorporation	Beneficial Percentage Held		Ramsay Health Care Limited	
		2006 %	2005 %	2006 \$000	2005 \$000
15. OTHER FINANCIAL ASSETS (CONTINUED)					
15 (b) Investments in controlled entities (continued)					
Balance brought forward				139,997	139,997
Affinity Health Limited and its Controlled entities: (Continued)	Australia	100%	100%		
Australian Hospital Care (Pindara) Pty Limited ^	Australia	100%	100%		
Australian Hospital Care (Ringwood) Pty Limited	Australia	-	100%		
Australian Hospital Care (Spare) Pty Limited	Australia	-	100%		
Australian Hospital Care (The Avenue) Pty Limited ^	Australia	100%	100%		
Australian Hospital Care 1998 Pty Limited ^	Australia	100%	100%		
Australian Hospital Care Investments Pty Limited ^	Australia	100%	100%		
Australian Hospital Care Limited ^	Australia	100%	100%		
Australian Hospital Unit Trust	-	100%	100%		
Australian Medical Enterprises Limited ^	Australia	100%	100%		
Australian Hospital Care Retirement Plan Pty Limited ^	Australia	100%	100%		
C&P Hospitals Holdings Pty Limited ^	Australia	100%	100%		
C.R.P.H Pty Limited ^	Australia	100%	100%		
Caboolture Hospital Pty Limited ^	Australia	100%	100%		
Dabuvu Pty Limited ^	Australia	100%	100%		
eHealth Technologies Limited	Australia	100%	100%		
Glengarry Hospital Property Pty Limited ^	Australia	100%	100%		
Glengarry Hospital Unit Trust No1	-	100%	100%		
Glengarry Hospital Unit Trust No2	-	100%	100%		
Hadassah Pty Limited ^	Australia	100%	100%		
Health Technologies Pty Limited ^	Australia	100%	100%		
HOAIF Pty Limited ^	Australia	100%	100%		
Hospital Affiliates of Australia Pty Limited ^	Australia	100%	100%		
Hospital Corporation Australia Pty Limited ^	Australia	100%	100%		
Hallcraft Pty Limited ^	Australia	100%	100%		
Hallcraft Unit Trust	-	100%	100%		
HCA Management Pty Limited ^	Australia	100%	100%		
HCoA Hospital Holdings (Australia) Pty Limited ^	Australia	100%	100%		
HCoA Operations (Australia) Pty Limited ^	Australia	100%	100%		
Hospital Developments Pty Limited ^	Australia	100%	100%		
Hospitals of Australia Limited ^	Australia	100%	100%		
Jamison Private Hospital Property Pty Limited ^	Australia	100%	100%		
Joondalup Hospital Pty Limited	Australia	100%	100%		
Joondalup Health Campus Finance Pty Limited	Australia	100%	100%		
Knox Private Hospital Unit Trust	-	-	100%		
Logan Hospital Pty Limited ^	Australia	100%	100%		
Malahini Pty Limited ^	Australia	100%	100%		
Balance carried forward				<u>139,997</u>	<u>139,997</u>

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Country of Incorporation	Beneficial Percentage Held		Ramsay Health Care Limited	
		2006 %	2005 %	2006 \$000	2005 \$000
15. OTHER FINANCIAL ASSETS (CONTINUED))					
15 (b) Investments in controlled entities (continued)					
Balance brought forward				139,997	139,997
Affinity Health Limited and its Controlled entities: (Continued)	Australia	100%	100%		
Masada Private Hospital Unit Trust	-	100%	100%		
Mayne Properties Pty Limited ^	Australia	100%	100%		
Melbourne Hospital Pty Limited	Australia	100%	100%		
Noosa Privatised Hospital Pty Limited ^	Australia	100%	100%		
Pindara Private Hospital Unit Trust	-	100%	100%		
P.M.P.H Pty Limited ^	Australia	100%	100%		
P.O.W Hospital Pty Limited	Australia	100%	100%		
Port Macquarie Hospital Pty Limited ^	Australia	100%	100%		
Pruinosa Pty Limited ^	Australia	100%	100%		
Rannes Pty Limited ^	Australia	100%	100%		
Rehabilitation Holdings Pty Limited ^	Australia	100%	100%		
Relkban Pty Limited ^	Australia	100%	100%		
Relkmet Pty Limited ^	Australia	100%	100%		
Ringwood Private Hospital Unit Trust	-	-	100%		
Spare Unit Trust	-	-	100%		
The AHC Radiology Unit Trust	-	-			
The Victorian Rehabilitation Centre Pty Limited	Australia	-	100%		
Tilemo Pty Limited ^	Australia	100%	100%		
Victoria House Holdings Pty Limited ^	Australia	100%	100%		
Votrait No. 664 Pty Limited ^	Australia	100%	100%		
Votrait No. 665 Pty Limited ^	Australia	100%	100%		
Ramsay Centauri Pty Limited and its controlled entities: ^	Australia	100%	100%		
Alpha Healthcare Pty Limited and its controlled entities: ^	Australia	100%	100%		
Alpha Pacific Hospitals Pty Limited ^	Australia	100%	100%		
Alpha Westmead Private Hospital Pty Limited	Australia	100%	100%		
APL Hospital Holdings Pty Ltd ^	Australia	100%	100%		
Bowral Management Company Pty Limited	Australia	100%	100%		
Health Care Corporation Pty Limited ^	Australia	100%	100%		
Herglen Pty Limited ^	Australia	100%	100%		
Balance carried forward				<u>139,997</u>	<u>139,997</u>

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Country of Incorporation	Beneficial Percentage Held		Ramsay Health Care Limited	
		2006 %	2005 %	2006 \$000	2005 \$000
15. OTHER FINANCIAL ASSETS (CONTINUED)					
15 (b) Investments in controlled entities (continued)					
Balance brought forward				139,997	139,997
Alpha Healthcare Pty Limited and its controlled entities (Continued): ^					
Illawarra Private Hospital Holdings Pty Limited ^	Australia	100%	100%		
Mt Wilga Pty Limited ^	Australia	100%	100%		
Northern Private Hospital Pty Limited ^	Australia	100%	100%		
Sibdeal Pty Limited ^	Australia	100%	100%		
Simpac Services Pty Limited ^	Australia	100%	100%		
Westmead Medical Supplies Pty Ltd (formerly Westmead Private Hospital Pty Limited) ^	Australia	100%	100%		
Workright Pty Limited ^	Australia	100%	100%		
Ramsay Health Care Australia Pty Limited and its controlled entities: ^	Australia	100%	100%		
Ramsay Professional Services Pty Limited ^	Australia	100%	100%		
Phiroan Pty Limited ^	Australia	100%	100%		
New Farm Hospitals Pty Limited ^	Australia	100%	100%		
Ramsay Health Care (Victoria) Pty Limited ^	Australia	100%	100%		
Adelaide Clinic Holdings Pty Limited ^	Australia	100%	100%		
Ramsay Health Care (South Australia) Pty Limited ^	Australia	100%	100%		
North Shore Private Hospital Pty Limited ^	Australia	100%	100%		
E Hospital Pty Limited ^	Australia	100%	100%		
Ramsay Health Care Services (QLD) Pty Limited ^	Australia	100%	100%		
Ramsay Health Care Services (VIC) Pty Limited ^	Australia	100%	100%		
Ramsay Health Care Services (WA) Pty Limited ^	Australia	100%	100%		
Ramsay Health Care (Asia Pacific) Pty Limited and its Controlled entities: ^	Australia	100%	100%		
Ramsay Health and Management Services Sdn Bhd # (in liquidation)	Malaysia	-	100%		
				<u>139,997</u>	<u>139,997</u>

Audited by other member firms of Ernst & Young

* Denotes \$2.00

^ Entities included in the deed of cross guarantee as required for the class order.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated			Ramsay Health Care Ltd		
	Land & buildings \$000	Plant & Equipment \$000	Total \$000	Land & buildings \$000	Plant & Equipment \$000	Total \$000
16. PROPERTY, PLANT AND EQUIPMENT						
At 1 July 2005, net of accumulated depreciation and impairment	1,016,800	145,248	1,162,048	-	-	-
Additions	28,753	72,986	101,739	-	-	-
Disposals – discontinued operations	(74,829)	(48,831)	(123,660)	-	-	-
Assets re-classified as held for sale	(3,200)	-	(3,200)	-	-	-
Acquisition of a subsidiary	-	2,255	2,255	-	-	-
Impairment	(2,132)	-	(2,132)	-	-	-
Effect of foreign exchange translation	2,196	714	2,910	-	-	-
Depreciation for the year	(21,514)	(41,320)	(62,834)	-	-	-
At 30 June 2006, net of accumulated depreciation and impairment	<u>946,074</u>	<u>131,052</u>	<u>1,077,126</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 1 July 2005						
Cost	1,212,538	468,253	1,680,791	-	-	-
Accumulated depreciation and impairment	(195,738)	(323,005)	(518,743)	-	-	-
Net carrying amount	<u>1,016,800</u>	<u>145,248</u>	<u>1,162,048</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June 2006						
Cost	1,056,176	455,576	1,511,752	-	-	-
Accumulated depreciation and impairment	(110,102)	(324,524)	(434,626)	-	-	-
Net carrying amount	<u>946,074</u>	<u>131,052</u>	<u>1,077,126</u>	<u>-</u>	<u>-</u>	<u>-</u>

*The \$2,132,000 impairment loss represents the write-down of assets remaining when the business that held the asset was divested. This has been recognised in the income statement. The recoverable amount was determined in reference to amounts third parties were willing to pay.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED			Ramsay Health Care Ltd		
	Land & buildings \$000	Plant & Equipment \$000	Total \$000	Land & buildings \$000	Plant & Equipment \$000	Total \$000
16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)						
At 1 July 2004, net of accumulated depreciation and impairment	431,336	68,603	499,939	-	-	-
Additions	17,195	51,731	68,926	-	-	-
Disposals	(7,365)	(2,947)	(10,312)	-	-	-
Assets re-classified as held for sale	(258,452)	(33,943)	(292,395)	-	-	-
Acquisition of a subsidiaries	842,097	95,607	937,704	-	-	-
Depreciation for the year	<u>(8,011)</u>	<u>(33,803)</u>	<u>(41,814)</u>	-	-	-
At 30 June 2005, net of accumulated depreciation and impairment	<u>1,016,800</u>	<u>145,248</u>	<u>1,162,048</u>	-	-	-
At 1 July 2004						
Cost	466,310	179,365	645,675	-	-	-
Accumulated depreciation and impairment	<u>(34,974)</u>	<u>(110,762)</u>	<u>(145,736)</u>	-	-	-
Net carrying amount	<u>431,336</u>	<u>68,603</u>	<u>499,939</u>	-	-	-
At 30 June 2005						
Cost	1,212,538	468,253	1,680,791	-	-	-
Accumulated depreciation and impairment	<u>(195,738)</u>	<u>(323,005)</u>	<u>(518,743)</u>	-	-	-
Net carrying amount	<u>1,016,800</u>	<u>145,248</u>	<u>1,162,048</u>	-	-	-

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2006 is \$4,952,681.

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

**17. GOODWILL AND
 INTANGIBLE ASSETS**

	Notes	Consolidated			Ramsay Health Care Ltd
		Goodwill	Right to operate hospitals	Total	Total
		\$000	\$000	\$000	\$000
At 1 July 2005					
Net and gross carrying amount		<u>603,446</u>	<u>28,600</u>	<u>632,046</u>	<u>-</u>
Year ended 30 June 2006					
At 1 July 2005, net of amortisation		603,446	28,600	632,046	-
Acquisition of a subsidiary		930	-	930	-
Disposals discontinued operations	7	(66,454)	-	(66,454)	-
Amortisation		-	(1,500)	(1,500)	-
At 30 June 2006, net of amortisation		<u>537,922</u>	<u>27,100</u>	<u>565,022</u>	<u>-</u>
At 30 June 2006					
Cost (gross carrying amount)		537,922	28,600	566,522	-
Accumulated amortisation		-	(1,500)	(1,500)	-
Net carrying amount		<u>537,922</u>	<u>27,100</u>	<u>565,022</u>	<u>-</u>

Goodwill has been acquired through business combinations. Goodwill is determined to have an indefinite life and is therefore not amortised but is subject to annual impairment testing. Refer to note 18.

The intangible asset, 'right to operate hospitals', has been acquired through business combinations. These intangible assets have been assessed as having a finite life and are amortised using the straight line method over periods between 11 and 31 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying value.

At 1 July 2004

Net and gross carrying amount		<u>7,996</u>	<u>-</u>	<u>7,996</u>	<u>-</u>
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Year ended 30 June 2005

At 1 July 2004, net of amortisation		7,996	-	7,996	-
Acquisition of a subsidiary		804,283	28,600	832,883	-
Assets re-classified as held for sale	7	(208,833)	-	(208,833)	-

At 30 June 2005, net of amortisation		<u>603,446</u>	<u>28,600</u>	<u>632,046</u>	<u>-</u>
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At 30 June 2005

Net and gross carrying amount		<u>603,446</u>	<u>28,600</u>	<u>632,046</u>	<u>-</u>
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The key factor contributing to the goodwill relates to the synergies existing within the acquired business and also expected to be achieved as a result of combining these facilities with the rest of the Group.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

18. IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations is tested at a Group basis as this is considered the lowest cash generating unit. There is only one reportable segment being the total Group.

The recoverable amount of goodwill has been determined on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period.

The discount rate applied to the cash flow projections is 8.92% and cash flows beyond the five year period are extrapolated using a 3% growth rate.

The carrying amount of goodwill allocated to the Group is \$537,922,000 (2005: \$603,446,000).

Key assumptions used in value in use calculations for the goodwill for 30 June 2006 and 30 June 2005

- Budgeted margins – the basis used to determine the value assigned to the budgeted margins is the average margin achieved in the year immediately before the budgeted year, increased for expected efficiency improvements. Thus values assigned to margins reflects past experience and expected efficiency improvements.
- Tax rates have been estimated at 30%, consistent with the current tax legislation.

Management consider that any reasonable possible changes in the key assumptions would not result in the carrying value of of goodwill exceeding the recoverable amount.

	Consolidated		Ramsay Health Care Limited	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000

19. NON-CURRENT RECEIVABLES

Receivable from the Government in respect of the availability charge for the operation of a private hospital. (i)	35,173	37,340	-	-
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20. TRADE AND OTHER PAYABLES

Trade payable (i)	96,419	100,446	363	3,241
Sundry creditors and accrued expenses	110,246	118,396	-	-
Employee entitlements	73,894	70,972	-	-
	<u>280,559</u>	<u>289,814</u>	<u>363</u>	<u>3,241</u>

- (i) Trade payables are non-interest bearing and are normally settled on 30-60 day terms.
(ii) Details regarding the effective interest rate risk of current payables is disclosed in note 26.

21. INTEREST BEARING LOANS AND BORROWINGS (CURRENT)

Secured:

- Loan - bondholders (i)	2,082	1,922	-	-
- Lease liabilities (ii)	1,399	1,338	-	-
- Loan – insurance funding (iii)	12,125	9,454	-	-
- Other	550	-	-	-
	<u>16,156</u>	<u>12,714</u>	<u>-</u>	<u>-</u>

- (i) Loan – bondholders. This loan is carried at the principal amount less any repayments. It is secured by a fixed and floating charge over the assets of the entity issuing the bonds.
(ii) Lease liabilities are effectively secured by the leased asset.
(iii) Loan – insurance funding. This loan is carried at the principal amount less any repayments. It is secured by the unexpired premium of the insurance policy.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
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FOR THE YEAR ENDED 30 JUNE 2006

	Consolidated		Ramsay Health Care Limited	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
22. PROVISIONS				
Current				
Restructuring and acquisition provision	9,311	16,796	-	614
Accommodation bonds	-	11,542	-	-
Other	-	-	1,100	1,100
Insurance provision	82,735	80,446	-	-
	<u>92,046</u>	<u>108,784</u>	<u>1,100</u>	<u>1,714</u>
Non-current				
Long service leave provision	62,174	63,990	-	-
Restructuring and acquisition provision	-	3,346	-	-
Other	7,544	15,301	-	-
	<u>69,718</u>	<u>82,637</u>	<u>-</u>	<u>-</u>
Total	<u>161,764</u>	<u>191,421</u>	<u>-</u>	<u>-</u>

	Consolidated			Ramsay Health Care Ltd	
	Restructuring and acquisition provision \$000	Insurance \$000	Other \$000	Total \$000	Total \$000
At 1 July 2005	20,142	80,446	15,301	115,889	1,714
Acquisition of subsidiary	-	-	71	71	-
Disposal of subsidiary	-	(6,202)	-	(6,202)	-
Arising during the year	3,565	10,223	-	13,788	180
Utilised during the year	(14,663)	(1,732)	(9,439)	(25,834)	(794)
Discount rate adjustment	267	-	1,611	1,878	-
At 30 June 2006	<u>9,311</u>	<u>82,735</u>	<u>7,544</u>	<u>99,590</u>	<u>1,100</u>
Current 2006	9,311	82,735	-	92,046	1,100
Non-current 2006	-	-	7,544	7,544	-
	<u>9,311</u>	<u>82,735</u>	<u>7,544</u>	<u>99,590</u>	<u>1,100</u>
Current 2005	16,796	80,446	-	97,242	1,714
Non-current 2005	3,346	-	15,301	18,647	-
	<u>20,142</u>	<u>80,446</u>	<u>15,301</u>	<u>115,889</u>	<u>1,714</u>

Restructuring provision

The restructuring provision primarily relates to

- the restructuring of the Group subsequent to the purchase of Affinity. The restructuring plan was drawn up and announced to the employees during 2005; and
- further costs expected to be incurred with the disposal of the facilities detailed in note 5, during 2006.

The majority of the costs are expected to be incurred within the next 12 months.

Insurance provision

Insurance policies are entered into to cover the various insurable risks. These policies have varying levels of deductibles. The medical malpractice provision is made to cover excesses arising under the Medical Malpractice Insurance Policy. This provision is actuarially assessed at each reporting period.

The greatest uncertainty in estimating the provision is the costs that will ultimately be incurred.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
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	Consolidated		Ramsay Health Care Limited	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
23. INTEREST BEARING LOANS AND BORROWINGS (NON-CURRENT)				
Secured liabilities:				
- Bank loans	(i) 773,898	1,358,909	-	-
- Lease liabilities	(ii) 4,832	4,632	-	-
- Loan - bondholders	(iii) 36,278	38,361	-	-
	<u>815,008</u>	<u>1,401,902</u>	<u>-</u>	<u>-</u>

- (i) Further information on bank loans is set out in note 33.
(ii) Lease liabilities are effectively secured by the leased asset.
(iii) Loan – bondholders. This loan is carried at the principal amount less any repayments. It is secured by a fixed and floating charge over the assets of the entity issuing the bonds.

24. ISSUED CAPITAL

	Consolidated		Ramsay Health Care Limited	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
24.1 Ordinary Shares				
<i>(a) Issued and paid up capital</i>				
- 173,049,153 ordinary shares fully paid (30 June 2005: 170,378,468 ordinary shares fully paid)	<u>425,289</u>	<u>400,545</u>	<u>425,289</u>	<u>400,545</u>

(b) Terms and conditions of issued capital

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(c) Movement in issued capital

	Number of shares	\$000
Movements in share issue		
Balance at 30 June 2005	170,378,468	400,545
Issued during the year		
- Share Placement (DRP)	2,670,685	24,764
Less: Issue costs	-	(20)
Balance at 30 June 2006	<u>173,049,153</u>	<u>425,289</u>

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Ramsay Health Care Limited	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
24. ISSUED CAPITAL (CONTINUED)				
24.2 Convertible Adjustable Rate Equity Securities (CARES)				
<i>(a) Issued and paid up capital</i>				
2,600,000 CARES shares fully paid (30 June 2005: 2,600,000 CARES shares fully paid)	<u>252,165</u>	<u>252,165</u>	<u>252,165</u>	<u>252,165</u>

(b) Terms and conditions of CARES

Issuer	Ramsay Health Care Limited
Security	Convertible Adjustable Rate Equity Securities (CARES) which are a non-cumulative, redeemable and convertible preference shares in Ramsay.
Face Value	\$100 Per CARES.
Dividends	The holder of each CARES is entitled to a preferred, non-cumulative, floating rate dividend equal to: Dividend Entitlement = $\frac{\text{Dividend Rate} \times \text{Face Value} \times N}{365}$
	where: N is the number of days in the Dividend Period The payment of Dividends is at the Directors' discretion and is subject to there being funds legally available for the payment of Dividends and the restrictions which apply in certain circumstances under the financing arrangements. If declared, the first Dividend will be payable on each CARES in arrears on 20 October 2005 and thereafter on each 20 April and 20 October until CARES are converted or exchanged.
Dividend Rate	The Dividend Rate for each Dividend Period is calculated as: Dividend Rate = (market Rate + Margin) x (1-T) where: The Market Rate is the 180 day Bank Bill Swap Rate applying on the first day of the Dividend Period expressed as a percentage per annum. The Margin for the period to 20 October 2010 is 2.85% per annum. It was determined by the Bookbuild held on 26 April 2005. T is the prevailing Australian corporate tax rate applicable on the Allotment Date. If Ramsay does not convert or exchange by 20 October 2010 the Margin will be increased by a one time step up of 2.00% (200 basis points) per annum.
Step-up Franking	One-time 2.00% (200 basis points) step-up in the Margin at 20 October 2010 Ramsay expects the Dividends paid on CARES to be fully franked. If a Dividend is not fully franked, the Dividend will be grossed up to compensate for the unfranked component. If, on a Dividend Payment Date, the Australian corporate tax differs from the Australian corporate tax rate on the Allotment Date, the Dividend will be adjusted downwards or upwards accordingly.
Conversion or exchange by Ramsay	CARES have no maturity. Ramsay may convert or exchange some or all CARES at its election for shares or \$100 in cash for each CARES on 20 October 2010 and each Dividend Payment Date thereafter. Ramsay also has the right to: <ul style="list-style-type: none"> • convert or exchange CARES after the occurrence of a Regulatory Event; and • convert CARES on the occurrence of a Change in Control Event. Ramsay cannot elect to convert or exchange only some CARES if such conversion or exchange would result in there being less than \$50 million in aggregate Face Value of CARES on issue.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

24. ISSUED CAPITAL (CONTINUED)

**24.2 Convertible Adjustable Rate Equity
Securities (CARES) (Continued)**

(b) Terms and conditions of CARES (Continued)

Conversion Ratio	The rate at which CARES will convert into Shares will be calculated by reference to the market price of Shares during 20 business days immediately preceding, but not including, the conversion date, less a conversion discount of 2.5%. An adjustment is made to the market price calculation in the case of a Change in Control Event. The Conversion Ratio for each CARES will not be greater than 400 shares.
Ranking	CARES rank equally amongst themselves in all respects and are subordinated to all creditors but rank in priority to Shares.
Participation	Unless CARES are converted into Shares, CARES confer no rights to subscribe for new shares in any fundraisings by Ramsay or to participate in any bonus or rights issues by Ramsay.
Voting Rights	CARES do not carry a right to vote at general meeting of Ramsay except in limited circumstances.

Consolidated		Ramsay Health Care Limited	
2006	2005	2006	2005
\$000	\$000	\$000	\$000

24.3 Treasury Shares

- 7,020,667 ordinary shares
(30 June 2005: nil ordinary)

	7,009	-	7,009	-
	<u>Number of shares</u>		<u>\$000</u>	

Movements in shares

Balance at 30 June 2005	-	-
Purchased during the year	7,020,667	7,009
Balance at 30 June 2006	<u>7,020,667</u>	<u>7,009</u>

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, CARES, financial leases and hire purchase contracts and cash.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transactions, including principally interest rate swaps. The purpose is to manage interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group's policy is to maintain at least 50% of its borrowings at fixed rates of interest. To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 30 June 2006, after taking into account the effect of interest rate swaps, approximately 87 % of the Group's borrowings are at a fixed rate of interest.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, preference shares, finance leases and hire purchase contracts.

26. FINANCIAL INSTRUMENTS

(a) Net fair values

All financial assets and liabilities have been recognised at the balance date at their net fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised financial instruments

Cash, cash equivalents and short-term investments: The carrying amount approximates fair value because of their short-term to maturity.

Trade receivables and payables: The carrying amount approximates fair value.

Derivatives: The carrying amount is restated to fair value at each reporting period.

Short-term borrowings: The carrying amount approximates fair value because of their short-term to maturity.

Long-term borrowings: The fair values of long-term borrowings are estimated using discounted cash flows analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

Non-current investments/securities: For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
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26. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

Financial Instruments	Floating rate interest	Fixed interest rate maturing in:						Total carrying amount as per the Balance Sheet	Weighted average effective interest rate
		1 year or less	>1 year < 2 years	>2 years < 3 years	>3 years < 4 years	>4 years < 5 years	More than 5 years		
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	%

(i) Financial Assets:

Cash assets									
- 2006	41,795	-	-	-	-	-	-	41,795	5.52%
- 2005	57,584	-	-	-	-	-	-	57,584	5.67%
Other financial assets									
- 2006	97,507	-	-	-	-	-	-	97,507	5.50%
- 2005	-	-	-	-	-	-	-	-	N/A
Interest Rate Swaps									
- 2006	-	663	663	680	705	-	-	2,711	^
- 2005*	-	-	-	-	-	-	-	-	N/A

*: Interest rate swaps were not required to be recorded on the balance sheet in 2005. Refer to note 35 for further information.

^: Refer to 26 (c) for further information on the interest rate swaps.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
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26. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate risk (Continued)

(ii) Financial Liabilities:

Financial Instruments	Floating rate interest	Fixed interest rate maturing in:						Total carrying amount as per the Balance Sheet	Weighted average effective interest rate
		1 year or less	>1 year < 2 years	>2 years < 3 years	>3 years < 4 years	>4 years < 5 years	More than 5 years		
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	%
Bank loans - Australia									
- 2006	758,246	-	-	-	-	-	-	758,246	7.10%
- 2005	1,362,000	-	-	-	-	-	-	1,362,000	7.78%
Bank Loans – Indonesia									
- 2006	15,652	-	-	-	-	-	-	15,652	13.25
- 2005	14,472	-	-	-	-	-	-	14,472	9.5%
Loans – Insurance Funding									
- 2006	-	12,125	-	-	-	-	-	12,125	2.88%
- 2005	-	9,454	-	-	-	-	-	9,454	4.12%
Loans - Bondholders									
- 2006	-	2,082	2,256	2,367	2,484	2,692	26,480	38,361	8.38%
- 2005	-	1,922	2,082	2,256	2,367	2,484	29,172	40,283	8.38%
Finance lease liability									
- 2006	-	1,399	4,832	-	-	-	-	6,231	13.30%
- 2005	-	1,338	4,632	-	-	-	-	5,970	10.40%

All other financial instruments are non interest bearing.

(c) Hedging Activities

At 30 June 2006, the Group has an interest rate swap agreement in place with a notional amount of \$670,769,000 (2005: \$761,570,000) whereby it receives a fixed rate of interest of 7.2% (2005:7.3%) and pays a variable rate equal to the BBSY plus margin on the notional amount. The swap is being used to hedge the exposure to changes in the fair value of its secured loan. The secured loan and the interest rate swap have the same critical terms. Refer to note 33 for further details on the loan that is hedged.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

27. SHARE BASED PAYMENT PLANS

27.1 Executive Incentive Rights Plan (Cash Settled)

An executive incentive rights plan was established in January 2004 where Ramsay Health Care Limited may, at the discretion of the Board, grant rights over the ordinary shares of Ramsay Health Care Limited to Executive directors of the consolidated entity. These rights, entitle the holder to the cash equivalent of one fully paid ordinary share in the entity for nil consideration. The rights are granted in accordance with the plan's guidelines established by the directors of Ramsay Health Care Limited. The rights cannot be transferred and will not be quoted on the ASX. Non-executive directors are not eligible for this plan.

Information with respect to the number of rights granted under the executive incentive rights plan is as follows:

	2006		2005	
	Number of Rights	Weighted Average Fair Value	Number of Rights	Weighted Average Fair Value
Balance at beginning of year	321,428	\$8.96 *	160,714	\$9.61*
- granted	-		160,714	\$8.31*
Balance at end of year	<u>321,428</u>		<u>321,428</u>	
Exercisable at end of year	<u>-</u>		<u>-</u>	

The following table summarises information about rights held by the executive directors as at 30 June 2006:

Number of rights	Grant date	Vesting date	Weighted average Fair value
160,714	6 Jan 2004	6 Jan 2007	\$9.61 *
160,714	12 Sep 2004	12 Sep 2007	\$8.31 *

* Fair value at reporting date

Fair Values of Incentive Rights (Cash Settled)

The fair value of each incentive right is estimated on the date of grant using a Monte Carlo model with the following weighted average assumptions used for grants made on 6 January 2004 and 12 September 2004:

	Granted 12-Sep-04	Granted 6-Jan-04
Dividend yield	3.13%	3.13%
Expected volatility	20% to 30%	20% to 30%
Historical volatility	25%	25%
Risk-free interest rate	5.84%	5.84%
Effective life of incentive right	3 years	3 years

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases. The expected life of the rights is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
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27. SHARE BASED PAYMENT PLANS (CONTINUED)

27.2 Executive Performance Rights Plan (Equity)

An executive performance rights scheme has been established in January 2004 where Ramsay Health Care Limited may, at the discretion of the Board, grant rights over the ordinary shares of Ramsay Health Care Limited to executives of the consolidated entity. The rights are issued for nil consideration and are granted in accordance with the plan's guidelines established by the directors of Ramsay Health Care Limited. The rights cannot be transferred and will not be quoted on the ASX. Non-executive directors are not eligible for this plan.

Information with respect to the number of rights granted under the executive performance rights plan is as follows:

	2006		2005	
	Number of rights	Weighted Average Fair Value	Number of Rights	Weighted Average Fair Value
Balance at beginning of year	694,928	3.64 @	310,714	\$2.80 @
- granted	540,447	6.75 @	384,214	\$4.32 @
- vested	(8,375)	3.64 @	-	-
- forfeited	(18,235)	3.64 @	-	-
Balance at end of year	<u>1,208,765</u>		<u>694,928</u>	
Exercisable at end of year	<u>-</u>		<u>-</u>	

The following table summarises information about rights held by specified executives as at 30 June 2006:

Number of rights	Grant date	Vesting date	Weighted average Fair value
310,714	6 Jan 2004	6 Jan 2007	\$2.80 @
357,604	12 Sep 2004	12 Sep 2007	\$4.32 @
540,447	22 Nov 2005	22 Nov 2008	\$6.75 @

@ Fair value at grant date

Fair Values of Performance Rights (Equity)

The fair value of each performance right is estimated on the date of grant using a Binomial option-pricing model with the following weighted average assumptions used for grants made on 6 January 2004, 12 September 2004 and 20 July 2005:

	Granted 22-Nov-05	Granted 12-Sep-04	Granted 6-Jan-04
Dividend yield	2.44%	3.11%	3.7%
Expected volatility	20% to 25%	20% to 25%	25% to 30%
Historical volatility	23%	35%	35%
Risk-free interest rate	5.31%	5.27%	5.95%
Effective life of incentive right	3 years	3 years	3 years

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases. The expected life of the rights is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

28. DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

P.J. Ramsay AO	Non-Executive Chairman
M.S. Siddle	Non-Executive Deputy Chairman
I.P.S. Grier	Managing Director
B.R. Soden	Finance Director
M.L. Brislee	Non-Executive Director (resigned 22 November 2005)
A.J. Clark AM	Non-Executive Director
P.J. Evans	Non-Executive Director
R.H. McGeoch AM	Non-Executive Director
K.C.D. Roxburgh	Non-Executive Director

(ii) Executives

C. Rex	Chief Operating Officer
C. McNally	Business Development Manager
K. Cass-Ryall	WA State Operations Manager

Other than the resignation of Mrs. Brislee, there were no other changes of the CEO or key management personnel after reporting date and the date the financial report was authorised for issue.

(b) Compensation of Key Management Personnel

Further details regarding the compensation of key management personnel are disclosed in the Directors' Report.

	CONSOLIDATED		RAMSAY HEALTH CARE LTD *	
	2006	2005	2006	2005
	\$	\$	\$	\$
Non-Executive Directors				
Short term	693,500	507,500	693,500	507,500
Post employment	231,604	200,050	231,604	200,050
	<u>925,104</u>	<u>707,550</u>	<u>925,104</u>	<u>707,550</u>
Executive Directors				
Short term	2,367,925	1,908,794	2,367,925	1,908,794
Post employment	24,278	23,170	24,278	23,170
Shared based payment options	2,980,126	851,784	2,980,126	851,784
	<u>5,372,329</u>	<u>2,783,748</u>	<u>5,372,329</u>	<u>2,783,748</u>
Executives				
Short term	2,184,157	1,712,096	-	-
Post employment	36,417	34,755	-	-
Shared based payment options	863,712	305,144	-	-
	<u>3,084,286</u>	<u>2,051,995</u>	<u>-</u>	<u>-</u>
Total				
Short term	5,245,582	4,128,390	3,061,425	2,416,194
Post employment	292,299	257,975	255,882	223,220
Shared based payment options	3,843,838	1,156,928	2,980,126	851,784
	<u>9,381,719</u>	<u>5,543,293</u>	<u>6,297,433</u>	<u>3,491,198</u>

* Remuneration of the Directors is paid by a related party and is not re-charged to the parent entity.

**AMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

28. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(c) Compensation Performance Rights: granted and vested during the year (consolidated)

During the financial year, performance rights were granted as equity compensation benefits under the long-term incentive plan to certain key management personnel as disclosed above. Performance rights are issued for nil consideration and are granted in accordance with the plan's guidelines established by the directors of Ramsay Health Care Limited. The rights cannot be transferred and will not be quoted on the ASX. Non-executive directors are not eligible for this plan. The performance rights vest in accordance with the performance criteria described above. No exercise price is payable upon their vesting.

30 June 2006	Vested	Granted	Grant Date	Fair Value at Grant date \$ (note 27)	First Test Date	Second Test Date	Last Test & Expiry Date
Directors							
P.Grier	-	* 322,377	22/11/05	6.75	30/06/08	31/12/08	30/06/09
B.Soden	-	34,387	22/11/05	6.75	30/06/08	31/12/08	30/06/09
Executives							
C.Rex	-	53,097	22/11/05	6.75	30/06/08	31/12/08	30/06/09
C.McNally	-	25,284	22/11/05	6.75	30/06/08	31/12/08	30/06/09
K. Cass-Ryall	-	7,585	22/11/05	6.75	30/06/08	31/12/08	30/06/09

* Granted in accordance with the terms of Mr Grier's three year employment contract

30 June 2005	Vested	Granted	Grant Date	Fair Value at Grant date \$ (note 27)	First Test Date	Second Test Date	Last Test & Expiry Date
Directors							
P.Grier	-	107,143 ⁽¹⁾	12/09/04	4.32	30/06/07	31/12/07	30/06/08
B.Soden	-	53,571 ⁽¹⁾	12/09/04	4.32	30/06/07	31/12/07	30/06/08
Executives							
C.Rex	-	71,429 ⁽²⁾	12/09/04	4.32	30/06/07	31/12/07	30/06/08
C.McNally	-	35,714 ⁽²⁾	12/09/04	4.32	30/06/07	31/12/07	30/06/08
K. Cass-Ryall	-	21,429 ⁽²⁾	12/09/04	4.32	30/06/07	31/12/07	30/06/08

(1) Cash settled incentive rights

(2) Equity based formance Rights

(d) Shares issued under the Performance Rights Plan

No ordinary shares have been issued and no Performance Rights have vested at the date of this report

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

28. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(e) Performance and Incentive Right holdings of Key Management Personnel (consolidated)

30 June 2006	Performance/ Incentive Right	Balance at beginning of period 01 Jul 05	Granted as Remuneration	Exercised	Balance at end of period 30 Jun 06	Vested at 30 Jun 06
Directors						
P.Grier	Equity Performance Rights	-	322,377	-	322,377	-
B.Soden	Equity Performance Rights	-	34,387	-	34,387	-
P.Grier	Cash settled Incentive Rights	214,286	-	-	214,286	-
B.Soden	Cash settled Incentive Rights	107,142	-	-	107,142	-
Executives						
C.Rex	Equity Performance Rights	142,858	53,097	-	195,955	-
C.McNally	Equity Performance Rights	71,428	25,284	-	96,712	-
K.Cass-Ryall	Equity Performance Rights	42,858	7,585	-	50,443	-

30 June 2005	Performance/ Incentive Right	Balance at beginning of period 01 Jul 04	Granted as Remuneration	Exercised	Balance at end of period 30 Jun 05	Vested at 30 Jun 05
Directors						
P.Grier	Equity Performance Rights	-	-	-	-	-
B.Soden	Equity Performance Rights	-	-	-	-	-
P.Grier	Cash settled Incentive Rights	107,143	107,143	-	214,286	-
B.Soden	Cash settled Incentive Rights	53,571	53,571	-	107,142	-
Executives						
C.Rex	Equity Performance Rights	71,429	71,429	-	142,858	-
C.McNally	Equity Performance Rights	35,714	35,714	-	71,428	-
K.Cass-Ryall	Equity Performance Rights	21,429	21,429	-	42,858	-

(f) Shareholding of Key Management Personnel (consolidated)

30 June 2006	Balance - 01 Jul 05		Granted as Remuneration		Exercise of Performance Rights		Net Change - Other		Balance - 30 Jun 06	
	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.
Directors										
P.Grier	85,740	-	-	-	-	-	-	-	85,740	-
B.Soden	5,987	-	-	-	-	-	138	-	6,125	-
Executives										
C.Rex	-	-	-	-	-	-	-	-	-	-
C.McNally	32,500	-	-	-	-	-	757	-	33,257	-
K.Cass-Ryall	-	-	-	-	-	-	-	-	-	-

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
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28. DIRECTORS AND EXECUTIVES DISCLOSURES (CONTINUED)

(f) Shareholding of Key Management Personnel (consolidated) (Continued)

30 June 2005	Balance - 01 Jul 04		Granted as Remuneration		Exercise of Performance Rights		Net Change - Other		Balance - 30 Jun 05	
	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.	Ord.	Pref.
Directors										
P.Grier	76,485	-	-	-	-	-	9,255	-	85,740	-
B.Soden	5,387	-	-	-	-	-	600	-	5,987	-
Executives										
C.Rex	-	-	-	-	-	-	-	-	-	-
C.McNally	32,500	-	-	-	-	-	-	-	32,500	-
K. Cass-Ryall	-	-	-	-	-	-	-	-	-	-

The company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports under Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in the Directors' Report designated as audited.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
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	Consolidated		Ramsay Health Care Limited	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
29. EXPENDITURE COMMITMENTS				
(a) Finance leases and hire purchase commitments – Group as lessee				
- not later than one year	1,794	1,367	-	-
- later than one year but not later than five years	5,268	5,228	-	-
Total minimum lease payments	7,062	6,595	-	-
- future finance charges	(831)	(625)	-	-
- lease liability	6,231	5,970	-	-
- current liability	21	1,399	-	-
- non-current liability	23	4,832	-	-
	6,231	5,970	-	-
Total lease liability accrued for:				
<i>Current</i>				
- Surplus lease space (operating lease)(i)	843	654	-	-
- Finance leases	21	1,399	-	-
	2,242	1,992	-	-
<i>Non-current</i>				
- Surplus lease space (operating lease)(i)	-	843	-	-
- Finance leases	23	4,832	-	-
	4,832	5,475	-	-
	7,074	7,467	-	-

The Group has finance leases and hire purchase contracts for various items of medical equipment, fittings and other equipment. The leases have an average lease term of 2 years and the average discount rate implicit in the leases is 12.6% (2005: 10.4%). The security over finance leases is disclosed in note 21 and 23.

- (i) These commitments represent payments due for vacant leased premises under a non-cancellable operating lease, and have been recognised as a liability in the current financial year, as the remaining payments for the premises will provide no further benefits to the consolidated entity. The payments have been discounted at the rate implicit in the lease.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
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FOR THE YEAR ENDED 30 JUNE 2006**

29. EXPENDITURE COMMITMENTS (continued)

	Consolidated		Ramsay Health Care Limited	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
(b) Lease expenditure commitments – Group as lessee				
Operating leases (non-cancellable):				
Minimum lease payments				
- not later than one year	12,722	25,310	-	-
- later than one year but not later than five years	42,446	76,740	-	-
- later than five years	59,081	101,528	-	-
Aggregate lease expenditure contracted for at balance date	<u>114,249</u>	<u>203,578</u>	<u>-</u>	<u>-</u>
Amounts provided for:				
- surplus lease space - current	843	654	-	-
- non-current	-	843	-	-
	<u>843</u>	<u>1,497</u>	<u>-</u>	<u>-</u>
Amounts not provided for:				
- rental commitments	<u>113,406</u>	<u>202,081</u>	<u>-</u>	<u>-</u>
Aggregate lease expenditure contracted for at balance date	<u>114,249</u>	<u>203,578</u>	<u>-</u>	<u>-</u>

Operating leases have an average lease term of 13 years and an average implicit interest rate of 9% (2005: 9%). Assets which are the subject of operating leases include land and buildings, motor vehicles and items of medical equipment.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Ramsay Health Care Limited	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000

**29. EXPENDITURE COMMITMENTS
(continued)**

(c) Capital expenditure commitments

Estimated capital expenditure
contracted for at balance date but not
provided for, payable:

- not later than one year	14,366	25,941	-	-
- later than one year but not later than two years	-	654	-	-
	<u>14,365</u>	<u>26,595</u>	<u>-</u>	<u>-</u>

(d) Commitment to manage and operate the Mildura Base Hospital

Ramsay Health Care Pty Limited has a 15 year agreement with Mildura Base Hospital Pty Limited to manage and operate the Mildura Base Hospital, in accordance with the Hospital Service Agreement between Mildura Base Hospital Pty Limited and the State of Victoria. Under this agreement Ramsay Health Care Australia Pty Limited takes full operator risk. The Hospital was opened on 19 September 2000.

(e) Guarantee and indemnity in relation to a hospital sold during the year

In relation to the sale of one of the hospitals Ramsay Health Care Limited has entered into a guarantee in favour of Australian Unity. Ramsay Health Care Limited granted a guarantee and indemnity in favour of an unrelated third party, Australian Unity ('Landlord'), the lessor of The Valley Private Hospital ('Lessee'). Ramsay has guaranteed, amongst other things, the performance of the lessees' obligations under the lease. The guaranteed obligations include the payment of all sums of money payable by the Lessee and the Landlord and prompt performance of all obligations of the tenant. Ramsay has sold all of the shares in the lessee to BCN (refer note 7). Ramsay's obligations to guarantee the performance and payment of monies continue during the term of the lease. No liability is expected to arise.

30. SEGMENTAL INFORMATION

The consolidated entity operates in the private hospital industry segment, predominantly in the geographical segment of Australia.

31. SUPERANNUATION COMMITMENTS

The Group contributes to industry and individual superannuation funds established for the provision of benefits to employees of entities within the economic entity on retirement, death or disability. Benefits provided under these plans are based on contributions for each employee and for retirement are equivalent to accumulated contributions and earnings. All death and disability benefits are insured with various life assurance companies. The entity contributes to the funds at various agreed contribution levels, which are not less than the statutory minimum.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

	Consolidated		Ramsay Health Care Limited	
	2006	2005	2006	2005
	\$	\$	\$	\$
32. AUDITORS' REMUNERATION				
Amounts received or due and receivable by the Auditors for:				
Audit of financial statements	1,088,000	1,016,000	-	-
Audit of other reports	80,000	-	-	-
Other audit related services	30,000	10,000	-	-
Total audit	<u>1,198,000</u>	<u>1,026,000</u>	<u>-</u>	<u>-</u>
Other services				
Taxation	552,000	162,000	-	-
Other	3,000	394,000	-	-
Total Other Services	<u>555,000</u>	<u>556,000</u>	<u>-</u>	<u>-</u>
	<u>1,753,000</u>	<u>1,582,000</u>	<u>-</u>	<u>-</u>

In addition to the above fees in 2005, Ernst & Young Transaction Advisory Services Limited (EYTA), a company controlled by Ernst & Young, provided advice to the Group in 2005, in connection with the company's acquisition of Affinity Health Limited and the divestment of certain of the Affinity hospitals following completion of that transaction. EYTA was paid \$1,500,000 during 2005 for work related to the acquisition. Additional fees of \$600,000 for divestment related work performed up to 30 June 2005 had not been billed by EYTA at 30 June 2005.

33. BORROWINGS

(a) Accounting Policies

- (i) **Bilateral Facility and Bank Overdraft:**
These facilities are carried at the principal amount. Interest is charged as an expense as it accrues.
- (ii) **Bank Loans:**
The bank loans are carried at the principal amount. Interest is charged as an expense as it accrues.

(b) Terms and Conditions

i. Senior Debt Facility and Working Capital Facility

On 7 June 2005 the Ramsay Group entered into a Senior Sale and Purchase Agreement and related documents for the issue, sale and purchase of notes ("SSPA"). The SSPA has 2 Facilities, Facility A with a commitment amount of \$1,045,000,000 expiring April 2010 and Facility B with a commitment amount of \$350,000,000 expiring July 2006. The \$350,000,000 was fully repaid during the year.

The aggregate amount outstanding under the SSPA on 30 June 2006 was \$770,093,000 (30 June 2005: \$1,362,000,000).

Certain terms and conditions pertaining to the SSPA were amended effective 18 January 2006. As a result of these amendments Facility A is a revolving facility.

On 7 June 2005, the Ramsay Group also entered into a Working Capital Facility Agreement ("Working Capital Facility") with ANZ and NAB with a commitment amount of \$50,000,000. No amounts were drawn under the Working Capital Facility as at 30 June 2006 (30 June 2005: \$0).

The SSPA and the Working Capital Facility are fully secured. The Company and all wholly owned subsidiaries of the Company (except for dormant companies) have given guarantees and all asset security. The all asset security includes fixed and floating charges and specific property mortgages over freehold land (including improvements and fixtures thereon). The undrawn portion of this facility as at 30 June 2006 was \$274,907,000 (2005:\$33,000,000).

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

33. BORROWINGS (Continued)

(b) Terms and Conditions (Continued)

ii. Bilateral Facilities

These facilities were entered into in conjunction with the SSPA and its subsequent syndication, and are provided by ANZ, NAB and Westpac Banking Corporation (“*Westpac*”).

The commitment limit under the ANZ facility for working capital is \$35,000,000 (2005:\$35,000,000); which comprises a cash advance facility, overdraft facility and indemnity/guarantee facility. A further transactional encashment facility is also provided which permits the encashment of payroll and other cheques at any ANZ branch.

The limit on the NAB facility for working capital is \$10,000,000 (2005:\$10,000,000); which comprises a cash advance facility, overdraft facility and indemnity/guarantee facility.

The Westpac facility comprises various transactional banking facilities including set-off and lease line facilities. Westpac also provides a bank guarantee facility with a limit of approximately \$4,000,000 (2005:\$4,000,000).

Under these facilities as at 30 June 2006 bank guarantees totalling \$30,085,642 (30 June 2005: \$32,236,195) had been issued. The undrawn portion of the above facilities at 30 June 2006 was \$14,914,358 (2005:\$12,763,805).

iii. Indonesian Bank Loan

There is a bank loan with PT ANZ Panin Bank in place in relation to the three Indonesian hospitals. The total facility limit is IDR 107,596,500,000 (2005: IDR 107,596,500,000) (AUD 15,652,085) (2005: AUD 14,471,776). At 30 June 2006 the loan was fully drawn (2005: the loan was fully drawn).

The interest rate is JIBOR plus 0.5% per annum. The loan termination date is 2 November 2009.

Security given under these facilities consists of:

Standby Letters of credit in the amount of AUD 16.5 million, IDR 107,596,500,000 (AUD 16.5 million equivalent at the first advance of 1 March 2004) and AUD 125,000 both issued by the ANZ Banking group Limited.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

34. RELATED PARTY TRANSACTIONS

Directors

Directors of Ramsay Health Care Limited during the year ended 30 June 2006 were:

P.J. Ramsay
M.S. Siddle
M.L. Brislee (resigned 22 November 2005)
A.J. Clark
P.J. Evans
I.P.S. Grier
B.R. Soden
R.H. McGeoch
K.C.D. Roxburgh

Specified executives of Ramsay Health Care Limited at 30 June 2006 were:

C Rex – Chief Operating Officer
C McNally – Business Development Manager
K. Cass-Ryall - WA State Operations Manager

Ultimate Parent

Paul Ramsay Holdings Pty Limited is the ultimate Australian controlling entity.

Equity Instruments of Directors

The beneficial and direct interest of each director in the equity of the Company as at the date of this report (2005: 27 September 2005) was as follows:

Director	Ordinary Shares				Rights	
	2006		2005		2006	2005
	Direct	Indirect ⁽¹⁾	Direct	Indirect ⁽¹⁾		
P.J. Ramsay	-	73,148,372	-	72,688,571	-	-
M.S. Siddle	26,667	-	26,667	-	-	-
A.J. Clark	85,000	-	85,000	-	-	-
P.J. Evans	6,312	-	6,312	-	-	-
I.P.S. Grier	85,740	-	85,740	-	536,663	214,286
R.H. McGeoch	-	133,334	-	133,334	-	-
K.C.D. Roxburgh	72,982	-	72,223	-	-	-
B.R. Soden	2,889	3,236	2,824	3,163	141,529	107,142

⁽¹⁾ Shares in which the director does not have a direct interest including shares held in director related entities and shares held by family members.

The terms and vesting conditions over these rights are as disclosed in note 27.

Mr Ramsay has a relevant interest in 73,148,372 (2005: 72,688,571) shares held by Paul Ramsay Holdings Pty Limited and is a director of that Company. Mr Siddle, Mr Clark and Mr Evans are also directors of Paul Ramsay Holdings Pty Limited.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

34. RELATED PARTY TRANSACTIONS (continued)

Movements in Directors' equity holdings

During the year:

- Mr P J Ramsay acquired indirectly through Paul Ramsay Holdings Pty Limited, 459,801 ordinary shares through the Dividend Re-investment Plan during the year.
- Mr K C Roxburgh acquired 759 ordinary shares through the Dividend Re-investment Plan during the year.
- Mr B R Soden acquired 138 ordinary shares through the Dividend Re-investment Plan during the year.

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

Transactions with Directors of Ramsay Health Care Limited and the Group

- Entities associated with Mr Ramsay, Mr Siddle, Mr Clark and Mr Evans:

Paul Ramsay Holdings Pty Limited has a licence from the economic entity to occupy office space at a commercial arms length licence fee. In addition, any expenditure incurred on behalf of Paul Ramsay Holdings Pty Limited is charged at cost recovery plus a 5% margin.

During the year costs charged by Paul Ramsay Holdings Pty Limited, for services rendered to the Group amounted to \$120,000 (2005: \$120,000).

During the year an amount of \$60,000(2005:\$60,000) was paid to Mr M.S. Siddle (Non-executive Director) by Paul Ramsay Holdings Pty Limited for services rendered.

Other related party transactions within the wholly owned group

	2006 \$000	2005 \$000
Loans to Subsidiaries:		
- Interest free	585,246	612,563

35. IMPACT OF ADOPTING AASB 132 AND AASB 139

The Group elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below is the are impacted upon adoption of AASB 132 and AASB 139, including the financial impact to equity and profit.

Interest rate swaps

AIFRS

For interest rate swaps that are designated as cash flow hedges under AASB 139, the effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

Previous accounting policy under AGAAP

Interest rate swaps were not recognised on balance sheet. Net receipts and payments were recognized as an adjustment to interest expense in the period in which they were incurred.

Impact as at 1 July 2005

Recognition of a derivative payable of \$6,445,000, recognition of a deferred tax asset of \$1,933,000 and a decrease to the cash flow hedge reserve of \$4,512,000.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

**36. CONSOLIDATED INCOME STATEMENT AND BALANCE SHEET OF
THE CLOSED GROUP**

The consolidated income statement and balance sheet of the entities that are members of the “Closed Group” are as follows:

	<i>Closed Group</i>
	<i>2006</i>
	<i>\$'000</i>
Consolidated Income Statement	
Profit from operations before income tax	123,643
Income tax expense	(38,383)
Net profit for the period	85,260
Retained earnings at the beginning of the year	99,241
Dividends provided for or paid	(51,854)
Retained earnings at the end of the year	<u>132,647</u>
Consolidated Balance Sheet	
ASSETS	
Current Assets	
Cash and cash equivalents	35,500
Trade and other receivables	247,409
Inventories	31,356
Other financial assets	97,507
Derivatives	2,711
Other current assets	37,299
	<u>451,782</u>
Assets classified as held for sale	3,200
Total Current Assets	<u>454,982</u>
Non-current Assets	
Other financial assets	1,983
Goodwill and intangibles	530,913
Deferred tax assets	83,705
Property, plant and equipment	988,685
Total Non-current Assets	<u>1,605,286</u>
TOTAL ASSETS	<u>2,060,268</u>
LIABILITIES	
Current Liabilities	
Trade and other payables	183,627
Interest-bearing loans and borrowings	13,197
Provisions	158,546
Income tax payable	3,017
Total Current Liabilities	<u>358,387</u>
Non-current Liabilities	
Interest-bearing loans and borrowings	762,913
Deferred income tax liabilities	71,675
Provisions	64,651
Total Non-current Liabilities	<u>899,239</u>
TOTAL LIABILITIES	<u>1,257,626</u>
NET ASSETS	<u>802,642</u>
EQUITY	
Contributed equity	412,614
CARES	252,165
Retained earnings	132,647
Other reserves	5,216
TOTAL EQUITY	<u>802,643</u>

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

37. SUBSEQUENT EVENTS

There have been no significant events after the balance date that may significantly affect the Group's operations in future years, the results of these operations in future years or the Group's state of affairs in future years.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006**

SHAREHOLDER INFORMATION

The following additional information required by the Australian Stock Exchange Limited, was applicable as at 7 September 2006:

(a) Distribution of Shareholders – Ordinary Shareholders.

Size of Holding	Number of Shareholders	Ordinary Shares	% of Issued Capital
1 – 1,000	5,172	3,049,790	1.76
1,001 – 5,000	6,482	14,234,202	8.23
5,001 – 10,000	811	5,556,309	3.21
10,001 – 100,000	363	8,357,562	4.83
100,001 and over.	48	141,851,290	81.97
Totals	12,876	173,049,153	100.00

(b) The number of shareholdings held in less than marketable parcels is 100 for a total of 2,119 ordinary shares.

(c) 20 Largest Shareholders – Ordinary Shareholders.

Name.	Number of fully paid Ordinary Shares	% of Issued Capital
1. Paul Ramsay Holding Pty Limited	73,148,372	42.27
2. Westpac Custodian Nominees Limited	13,344,606	7.71
3. National Nominees Limited	12,164,254	7.03
4. J P Morgan Nominees Australia Limited	11,697,198	6.76
5. ANZ Nominees Limited	4,531,234	2.62
6. AMP Life Limited	3,008,544	1.74
7. RBC Dexia Investor Services Australia Nominees Pty Limited	2,672,109	1.54
8. Queensland Investment Corporation	1,967,877	1.14
9. ANZ Nominees Limited	1,864,631	1.08
10. Cogent Nominees Pty Limited	1,815,498	1.05
11. Citicorp Nominees Pty Limited	1,661,167	0.96
12. Citicorp Nominees Pty Limited (CFS Future Leaders Fund A/c)	1,588,055	0.92
13. Cogent Nominees Pty Limited (SMP A/c)	1,473,437	0.85
14. Victorian Workcover Authority	1,202,049	0.69
15. Transport Accident Commission	805,681	0.47
16. ARGO Investments Limited	783,634	0.45
17. Citicorp Nominees Pty Limited (CFSIL CFS WS Small Comp A/c)	744,975	0.43
18. CPU Share Plans Pty Limited	685,134	0.40
19. The University of Melbourne	618,188	0.36
20. Questor Financial Services Limited	481,705	0.28
Totals	136,258,348	78.74%

(d) Substantial Shareholders.

The names of the Substantial Shareholders listed in the Company's Register as at 7 September 2006 are:

Shareholder	Number of fully paid Ordinary Shares
Paul Ramsay Holdings Pty Limited	73,148,372
Barclays Global Investors Group	11,307,259

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006**

SHAREHOLDER INFORMATION (CONTINUED)

(e) Voting Rights.

In accordance with the Constitution each member present at a meeting whether in person, or by proxy, or by power of attorney, or by a duly authorised representative in the case of a corporate member, shall have one vote on show of hands, and one vote for each fully paid ordinary share on a poll.

(f) Distribution of Shareholders – CARES.

Size of Holding	Number of Shareholders	Ordinary Shares	% of Issued Capital
1 – 1,000	3,492	849,041	32.66
1,001 – 5,000	126	274,800	10.57
5,001 – 10,000	15	105,856	4.07
10,001 – 100,000	17	594,969	22.88
100,001 and over.	3	775,334	29.82
Totals	3,653	2,600,000	100.00

(g) 20 Largest Holders – CARES.

Name.	Number of fully paid Ordinary Shares	% of Issued Capital
1. J P Morgan Nominees Australia Limited	549,004	21.12
2. Australian Foundation Investment Company Limited	115,000	4.42
3. Cogent Nominees Pty Limited (SMP A/cs)	111,330	4.28
4. National Nominees Limited	88,095	3.39
5. RBC Dexia Investor Services Australia Nominees Pty Limited (JBENIP A/c)	77,954	3.00
6. ANZ Nominees Limited	76,162	2.93
7. Questor Financial Services Limited	53,146	2.04
8. Citicorp Nominees Pty Limited	50,056	1.93
9. Australian Executor Trustees Limited	43,894	1.69
10. Goldman Sachs JBWere Capital Markets Limited		
11. Suncorp General Insurance Limited	29,200	1.12
12. ARGO Investments Limited	28,399	1.09
13. GIO General Limited	25,000	0.96
14. RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI A/c)	23,008	0.88
15. Cogent Nominees Pty Limited	21,519	0.83
16. Brencorp No 11 Pty Limited	16,500	0.63
17. Executor Trustee Australia Limited	14,700	0.57
18. Australian Executor Trustees Limited	12,534	0.48
19. Fortis Clearing Nominees Pty Limited	11,983	0.46
20. Gresham Partners Capital Limited	11,569	0.44
	11,250	0.43
Totals	1,370,303	52.70%

(h) The number of CARES holdings held in less than marketable parcels is 1 for a total of 3 CARES.

(i) On Market Buy Backs.

At the date of this report there is no current on market buy back.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006**

CORPORATE DIRECTORY

Directors

Non Executive Directors

Paul Ramsay (Chairman)

Michael Siddle (Deputy Chairman)

Tony Clark

Peter Evans

Rod McGeoch

Kerry Roxburgh

Executive Directors

Pat Grier (Managing Director)

Bruce Soden (Group Finance Director)

Company Secretaries

Larry Ransley

Bruce Soden

Auditors

Ernst & Young

680 George Street

Sydney NSW 2000

Registered Office

9th Floor, 154 Pacific Highway

St Leonards NSW 2065

Email: enquiry@ramsayhealth.com.au

Website: www.ramsayhealth.com.au

Telephone: 61 2 9433 3444

Facsimile: 61 2 9433 3460

Share Registry

Computershare Investor Services Pty Limited

Level 3, 60 Carrington Street

Sydney NSW 2000

Mail Address: GPO Box 2975 Melbourne Vic 3001

Email: web.queries@computershare.com.au

Website: www.computershare.com

Enquires (within Australia) 1300 855 080

Enquires (outside Australia) 61 3 9415 4000

Facsimile: 61 2 8235 8150

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006**

INFORMATION ON DIRECTORS

**P J Ramsay AO
Chairman
Appointed 26/05/75**

Mr Paul Ramsay has been involved in health care since 1964 when he developed and managed one of the first private psychiatric hospitals in Sydney. As Chairman of Ramsay Health Care, he has overseen the building of nine private hospitals and has developed Ramsay Health Care to its present strong position in Australian health care. In 2002, Mr Ramsay was conferred an Officer of the Order of Australia for services to the community through the establishment of private health care facilities, expanding regional television services and as a benefactor to a range of educational, cultural, artistic and sporting organizations.

During the last three years Mr Ramsay has also served as a director on the following listed Companies:

- Prime Television Limited (Current Chairman)
- Becker Group Limited (Current)

**M S Siddle
Deputy Chairman
Appointed 26/05/75**

Mr Michael Siddle has been with Ramsay Health Care for 35 years and was Managing Director during the period from 1975 to 1988. He has been closely involved with the group's expansion through both construction and acquisition.

During the last three years Mr Siddle has also served as a director on the following listed Companies:

- Prime Television Limited (Current Deputy Chairman)

**A J Clark AM FCA FAICD
Non-Executive Director
Appointed 06/10/98**

Mr Tony Clark is a Chartered Accountant and was formerly Managing Partner of KPMG NSW. In 1995 Mr Clark was awarded membership of the Order of Australia for services to Business, Commerce and Community.

During the last three years Mr Clark has also served as a director on the following listed Companies:

- Cumnock Coal Limited (Current Chairman)
- Carlton Investments Limited (Current)
- Amalgamated Holdings Limited. (Current)
- Telstra Corporation Limited (Resigned August 2005)

**P J Evans FCA
Non-Executive Director
Appointed 25/06/90**

Mr Peter Evans is a Chartered Accountant who has been in public practice for over 20 years with precedent firms of KPMG and as a sole practitioner since 1989. He has specialised in the financial management of hospitals and has had extensive experience in the health care field for over 25 years.

During the last three years Mr Evans has also served as a director on the following listed Companies:

- Prime Television Limited (Current)

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006**

INFORMATION ON DIRECTORS (CONTINUED)

**I P S Grier MAICD
Managing Director
Appointed 25/06/97**

Prior to entering the health care sector, Mr Pat Grier was National Sales Manager for Reckitt and Colman and General Manager of Revlon. In 1984 he joined Hospital Corporation Australia, which was the largest private surgical hospital group in Australia. In 1988, Mr Grier joined Ramsay Health Care as manager of the group's operating entities and was appointed Managing Director in 1994. He is currently a director of the Australian Private Hospital Association.

**R H McGeoch AM LLB MAICD
Non-Executive Director
Appointed 03/07/97**

Mr Rod McGeoch is immediate past Chairman of Corrs Chambers Westgarth, a leading Australian law firm and has been a solicitor for 34 years. He was Chief Executive of Sydney's successful bid for the 2000 Olympic Games and served on the Sydney Organising Committee for the Olympic Games until November 1998. Currently, Mr McGeoch is Chairman of Vantage Private Equity Growth Limited and a director of Frontiers Group (UK) Limited. He is Chairman of Saatchi & Saatchi's Trans Tasman Advisory Board and a Trustee of the Sydney Cricket and Sports Ground Trust. Mr McGeoch also holds a number of honorary positions and in 1990 was awarded membership of the Order of Australia for services to Law and the Community.

During the last three years Mr McGeoch has also served as a director on the following listed Companies:

- LIPA Pharmaceuticals Limited (Current)
- Sky City Entertainment Group Limited (Current Chairman)
- Telecom Corporation of New Zealand Limited (Current)
- Australian Growth Properties Limited (Resigned December 2003)
- Gullivers Travel Group Limited (Resigned September 2006)

**K C D Roxburgh B.Comm MBA SDIAM
Non-Executive Director
Appointed 03/07/97**

Mr Kerry Roxburgh is a SDIA Practitioner Member - Stockbroking. In 2000 he completed a term as CEO of E*TRADE Australia Limited where he is currently non-executive Chairman. Prior to this appointment he was an Executive Director of Hongkong Bank Australia where for 10 years he held various positions including Head of Corporate Finance and Executive Chairman of the group's stockbroker, James Capel Australia. He is also non-executive Chairman of Asian Express Airlines Pty Limited and a non-executive director of PNG Sustainable Energy and The Medical Indemnity Protection Society, LawCover Insurance and Professional Insurance Australia. Until 1986 Mr Roxburgh was in practice for 20 years as a Chartered Accountant during which time he was Chairman of the Sydney practice of Mann Judd.

During the last three years Mr Roxburgh has also served as a director on the following listed Companies:

- E*TRADE Australia Limited (Current Chairman)
- Charter Hall Group (Current Chairman)
- Babcock & Brown Capital Limited (Current)
- Everest Babcock & Brown Group (Current)

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006**

INFORMATION ON DIRECTORS (CONTINUED)

**B R Soden B.Comm CA MAICD
Group Finance Director
Appointed 02/01/97**

As Group Finance Director, Mr Soden is responsible for the capital management, financial reporting, tax, treasury, legal, corporate governance, and investor relations activities of Ramsay Health Care. Mr Soden's 30 years of finance experience includes a number of years with a major global accounting firm and 19 years in the health care industry at an executive level. He has guided Ramsay Health Care's capital management strategy through its IPO, all of its acquisitions, as well as its debt and equity raisings. Mr Soden was appointed Finance Director of Ramsay Health Care's operating entities in 1994 leading up to the float of Ramsay Health Care in 1997 and his appointment as Group Finance Director. Prior to this, he spent four years based in New Orleans as Senior Vice President and Director of Ramsay Health Care, Inc. a listed United States health care company.

**L R Ransley CA
Company Secretary
Appointed 1/06/05**

Mr Larry Ransley is a member of the Institute of Chartered Accountants in Australia. Before joining Ramsay Health Care in 1992, he had 25 years experience in all aspects of professional accounting. He previously worked for KMG Hungerfords and was a partner in a tax accounting based practice.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the system by which companies are directed, managed and held to account. This statement outlines the Ramsay Health Care's main corporate governance practices during the year ending 30 June 2006. The Board has reviewed the Company's corporate governance policies in the light of the *Principles of Good Corporate Governance and Best Practice Recommendations* published by the Australian Stock Exchange Corporate Governance Council (the "ASX Recommendations"). The Company has adopted a governance framework that is designed to meet best practice. The Board recognises that an effective culture is critical to success. The Company has considered and generally followed the ASX Recommendations during the past financial year. Departures from the Recommendations, together with the reasons for the departure, are disclosed in this statement.

Management and oversight

The role of the Board of Directors, as the governing body of the Company, is to effectively represent and promote the interests of the Company's shareholders. The Board is accountable to the shareholders for the management of the Company's business affairs, and, as such, is responsible for the overall strategy, governance and performance of the Company.

The Board's specific responsibilities include:

- (a) Setting the strategic direction for the Company, by establishing, developing, modifying and monitoring the Company's strategic objectives;
- (b) Monitoring the performance of the Company's management and ensuring that appropriately skilled management are employed to implement the Board's decisions;
- (c) Ensuring that appropriate compliance frameworks are in place and are operating effectively;
- (d) Identifying areas of significant business risk;
- (e) Approving decisions concerning the capital of the Company and approving and monitoring the Company's financial and other reporting.

The respective roles and responsibilities of the Board and of management are outlined in detail in the Ramsay Health Care Limited Board Charter, available under the Corporate Governance section on the Company's website.

To ensure efficient and effective management and oversight the Board normally holds 11 scheduled meetings each financial year, with one scheduled meeting dedicated to an annual review with senior management of the Company's strategic direction. The Board may also meet on other occasions between scheduled meetings to deal with specific matters as the need arises.

In the financial year ending 30 June 2006, the Board held 8 special board meetings [Larry is this figure correct – it seems high?] in addition to the 11 scheduled board meetings. Details of Directors' attendance at Board and committee meetings are set out in the Directors' Report.

Structure of the Board

Composition

The Board currently comprises eight Directors, seven non-executive Directors (including the Chairman and Deputy Chairman) and two executive Directors. The composition of the Board and the length of tenure of each member of the Board are set out in the table below.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Name	Position Held	Date appointed	Length of tenure at 30 June 2006*
Paul Ramsay	Non-executive/Chairman	26/05/75	8 years
Michael Siddle	Non-executive/Deputy Chairman	26/05/75	8 years
Tony Clark	Non-executive Director	06/10/98	7 years
Peter Evans	Non-executive Director	25/06/90	8 years
Rod McGeoch	Non-executive Director	03/07/97	8 years
Kerry Roxburgh	Non-executive Director	03/07/97	8 years
Pat Grier	Executive Director/Managing Director	25/06/97	8 years
Bruce Soden	Executive Director/Financial Director	02/01/97	8 years

* Note: Length of tenure at 30 June 2006 is measure from the Company's listing in September 1997

The appointment and removal of Directors is governed by the Company's Constitution. The Board is responsible for selecting and approving its own candidates to fill any casual vacancies that may arise from time to time. Directors who have been appointed to fill casual vacancies must then offer themselves for re-election at the next annual general meeting of the Company.

In addition, at each Annual General Meeting, one third of the Directors (excluding the Managing Director) must offer themselves for re-election subject to the proviso that no Director shall serve more than three years without being a candidate for re-election.

The Board as a whole serves as an informal Nominations Committee and continually assesses the balance of executive and non-executive Directors and the composition of the Board in terms of skills, expertise and diversity required to ensure that the Board is equipped to meet the needs of the Company in the current environment.

The Directors have a broad range of skills and experience. Details of the background and particular expertise of each Director are set out under the heading "Board of Directors" of this Annual Report. There are no share qualifications for any Directors.

Independence

The Board acknowledges the importance of each director bringing independent judgement to bear in decision making. Robust discussion of issues is encouraged by the Chairman. It has considered the comments on assessing the independence of directors in the ASX Recommendations. The Board is satisfied that no Director is hindered in his or her ability to exercise unfettered and independent judgement.

The Board considers that Mr Kerry Roxburgh, and Mr Rod McGeoch are independent Directors on the basis that they are free of any business or other affiliation that could materially interfere with, or could reasonably be perceived to materially interfere with, their ability to exercise unfettered and independent judgement in the discharge of their responsibilities and duties.

The Board makes the following disclosures in relation to certain other of its non-executive directors:

- The current Chairman of the Board, Mr Paul Ramsay, is a non-executive Director who is also a director and shareholder of Paul Ramsay Holdings Pty Limited, the Company's largest shareholder with 42% of the Company's share capital (10% down from the Shareholding held by Paul Ramsay Holdings Pty Limited in 2004). Mr Ramsay founded the business in 1964 and has built the Company to its present strong position in Australian health care. The Board acknowledges the Recommendation that the Chairman be an independent Director. Mr Ramsay brings extensive experience and in-depth knowledge of the health care sector to the role of Chairman, as well as skills and experience gained in other businesses. The Company believes that Mr Ramsay's experience in the industry and in business generally is invaluable and that the introduction of an independent Chairman would not adequately compensate Ramsay Health Care for the loss of Mr Ramsay's valuable contributions.
- Three non-executive directors, Mr Siddle, Mr Clark and Mr Evans, are also directors of Paul Ramsay Holdings Pty Limited. None of those directors believe that this affiliation prevents them from bringing independent judgement to bear in making Board decisions.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

▪ Mr Siddle has had a long association with the Chairman, Mr Paul Ramsay and has an indirect beneficial interest in shares of Paul Ramsay Holdings Pty Limited. Mr Siddle has considerable knowledge and experience in the management of private hospitals and property development. Given his experience and insights, the Directors consider that the interests of the shareholders are best met by the continued contribution of Mr Siddle.

▪ Mr Clark and Mr Evans are not shareholders of Paul Ramsay Holdings Pty Limited and they do not have a direct or indirect beneficial interest in the Company. Whilst they do not satisfy the definition of independence published in the ASX Recommendations, both bring extensive business experience and skill in the fields of accounting and finance. The Board does not consider that the independence of these directors is compromised in any material way by their relationship with the substantial shareholder.

Directors are entitled to seek independent professional advice at the expense of the Company as required in the furtherance of their duties, subject to prior consultation with, and the approval of, the Chairman.

The independence of Board members is a matter which the Board will continue to monitor in accordance with the ASX Recommendations in the forthcoming year.

Board Performance

The Board is aware of the need to assess the performance of each Director and of the Board as a whole. To this end the Chairman regularly discusses with each Director, his or her performance and contribution to the Board. Further consideration is being given to a more structured form of board performance evaluation.

Ethical Standards and Code of Conduct

Directors and employees of the company are expected to maintain high standards of ethical business conduct. To this end, the Board has adopted a Code of Conduct, which prescribes the principles and standards with which all directors, executive officers and employees are expected to maintain in the performance of their respective functions.

These principles and standards address a range of matters including the responsibilities and obligations of management and staff of the Company in relation to compliance with applicable laws including privacy legislation, protecting the confidentiality of confidential and personal information of third parties; respecting the rights of people with whom the Company's interacts, workplace health and safety; conflicts of interest, risk management and diligence and professional conduct.

The Code of Conduct has been published under the Corporate Governance section of the Company's website.

Policy on Share Trading by Directors and Senior Executives

The Board has adopted a policy on trading in Company shares by directors and senior executives. The policy, which restricts Directors and senior executives from acting on any material information before it has been released to the market, only permits the purchase or sale of Company shares during the following periods:

- a) A period of six weeks, commencing on the day following the release of the half-yearly financial results; and
- b) A period of six weeks, commencing the day following the release of the annual results.

Continuous Disclosure

The Board has also adopted a policy on continuous disclosure to ensure compliance with the disclosure obligations under ASX Listing Rule 3.1.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees

There are 3 formal board committees which operate under terms of reference approved by the Board: the Audit Committee, the Remuneration Committee and the Risk Management Committee.

The formal charter for each Board Committee has been published on the Company's website.

The number of meetings attended by the members of each Committee in the past financial year is disclosed in the Director's Report.

Audit Committee

The Audit Committee assists the Board in fulfilling its fiduciary responsibilities in relation to corporate accounting and reporting practices. The Committee is chaired by a qualified accountant and all members are financially literate.

The Audit Committee's responsibilities are to:

- a) Oversee the reporting process and to provide an objective review of the financial information presented by management to the Board and for presentation to shareholders, regulatory authorities and the general public;
- b) Oversee the existence and maintenance of internal controls and accounting systems;
- c) Review the scope and effectiveness of the external audit;
- d) Oversee and review the appointment, performance and remuneration of external auditors; and
- e) Maintain lines of communication between the Board and the external auditors.

The Audit Committee is comprised of 3 non-executive Directors. The members of this Committee during the past financial year were:

Mr Peter Evans	Non-executive Chairman
Mr Kerry Roxburgh	Non-executive Director
Mr Tony Clark	Non-executive Director

The Board acknowledges the ASX Recommendation that the Audit Committee should consist of a majority of independent Directors. Mr Roxburgh is an independent Director. Although, for the reasons outlined above, Mr Evans and Mr Clark are not technically independent Directors, the Board does not consider that their independence is hindered in their roles as Audit Committee members and is satisfied that the Audit Committee is of sufficient independence to discharge its mandate effectively.

The Managing Director and the Finance Director attend meetings of the Audit Committee along with other members of the executive team and the external auditor by invitation only.

The external auditors have a standing invitation to meet with the Audit Committee or the Chairman of the Audit Committee, at any time, without the presence of the executive Directors or management.

In addition to the Audit Committee's responsibilities outlined above, the Audit Committee also reviews the nomination and performance of the Company's external auditors, and approves the external audit plan and fees in respect of the external audit.

The Audit Committee acknowledges that a high quality, independent statutory audit, is essential to the maintenance of the highest standards in financial reporting. To ensure that the statutory auditor is at all times independent, as well as perceived to be independent, the Committee has adopted a Charter of Audit Independence. The Charter contains procedures designed to ensure independence and articulates various obligations of the statutory auditor, the Company's management and the Audit Committee. These include procedures relating to the appointment of auditors and communications between the auditor and the Audit Committee, reporting obligations, as well as procedures for provision by the auditor of suitably qualified personnel to ensure an effective audit.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The Charter also contains guidelines in relation to the provision of non-audit services by the auditor (a discussion of non-audit services provided during the year is contained in the Directors' Report commencing on page 3).

In addition, the Charter provides that no employee or former employee of the statutory auditor is permitted to serve as a Director or senior executive of the Company unless a minimum period of two years has passed since their leaving the employment of the statutory auditor.

The statutory auditor is also required to:

- a) Commit to the rotation of the senior partner in charge of the audit every five years;
- b) Confirm on an annual basis that:
 - the statutory auditor has complied with all legislation as well as professional regulations or guidance issued by the Australian Accounting Profession relating to Audit Independence;
 - the statutory auditor, its partners or the service team do not have any financial or business interests in the Company;
 - superannuation funds of the statutory auditor's partners or staff do not have a direct financial interest in the Company; and
 - total fees received from the Company do not have a material impact on the statutory auditor's operations or financial condition.

Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing compensation packages for the executive Directors. Full disclosure of all elements of Directors' and relevant senior executives' remuneration can be found in the Remuneration Report on page 6 to page 14. In making determinations in relation to remuneration, regard is had to comparable industry or professional salary levels, and to the specific performance of the individuals concerned.

The remuneration of managers and staff other than executive Directors is within the authority of the executive Directors. The executive Directors have discretion in regard to the remuneration of individual managers subject to the proviso that the overall level of remuneration falls within budget guidelines as approved by the Board.

The Remuneration Committee also makes recommendations to the Board, on the allocation of share options under the Company's Executive Incentive and Performance Rights Plans. In accordance with the Listing Rules, options issued to Directors require the approval of shareholders in general meeting.

The Remuneration Committee is comprised of 3 non-executive Directors. The members of the Committee during the past financial year were:

Rod McGeoch	Non-executive Director and Chairman of the Committee
Peter Evans	Non-executive Director
Michael Siddle	Non-executive Director

The Board acknowledges the ASX Recommendation that the Remuneration Committee should consist of a majority of independent Directors. Mr McGeoch is an independent Director. Although, for the reasons outlined above, Mr Evans and Mr Siddle are not technically an independent Directors, the Board does not consider that his independence is hindered in his role as Remuneration Committee member.

The Board as a whole, upon recommendation from the Remuneration Committee, determines the remuneration of non-executive Directors. Their recommendation will have regard to survey comparisons, inflation trends, and to special responsibilities assumed by Directors. Any increase in the maximum aggregate quantum of Directors' fees is subject to the approval of shareholders in general meeting.

RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2006

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Risk Management Committee

The Risk Management Committee is responsible for the ongoing assessment and management of risk to the Company, including clinical, medical, occupational health and safety and financial risk. The Risk Management Committee is also responsible for the accreditation process for all hospitals, including the review of clinical and infection control procedures. The Committee verifies the credentials of medical practitioners who use the Company's facilities, and receives reports from each hospital's medical advisory board. This process minimises the risk of malpractice.

The Board is currently reviewing the Risk Management Committee's terms of reference and Charter

In addition to the Risk Management Committee, the Board continues to manage and monitor ongoing business risk through:

(a) comprehensive reporting, whereby detailed management and business performance reports are prepared for the Board on a monthly basis. At each meeting of the Board, Directors receive and give consideration to reports from:

- the Managing Director;
- the Finance Director;
- operations and hospital management;
- risk management; and
- planning and development.

(b) the review and approval of budgeted routine and capital expenditure;

(c) the establishment of policies on limits of authority and the approval of expenditure;

(d) oversight and review of the six-monthly external audits, via the Audit Committee;

(e) oversight of the outsourced internal audit function, via the Audit Committee;

(f) oversight of treasury activities;

(g) oversight of professional and medical conduct, via the Risk Management Committee; and

(h) maintenance of annual insurance programmes.

The members of this Committee during the past financial year were:

Peter Evans	Non-executive Director and Chairman of the Committee
Kerry Roxburgh*	Non-executive Director
Pat Grier	Executive Managing Director

** Mr Roxburgh was appointed to the Risk Management Committee with effect from September 2006*

The Chief Operating Officer, the Group Clinical Governance Manager, Group Clinical Risk Manager, the Clinical Governance and Claims Manager, Group Accreditation and Quality Manager, and the Financial Controller also attend meetings of the Risk Management Committee attend meetings of this Committee.

In accordance with Recommendation 7.2 the Managing Director and the Finance Director provide to the Board on a six-monthly basis a written statement to the effect that the Company's Risk Management and Internal Control systems are operating efficiently and effectively.

**RAMSAY HEALTH CARE LIMITED AND CONTROLLED ENTITIES
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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Communication with Shareholders

The Board recognises the importance of communicating effectively with shareholders and the market generally and is committed to ensuring that shareholders are fully informed of all material matters that affect the position and prospects of the Company. To ensure shareholders are kept fully informed the Company:

- a) Maintains a special investor section on the Company website for publishing financial reports and up-to-date market releases as and when they are released and as an archive;
- b) Provides investors with an email alert facility, via the Company website, for all Company announcements to the market; and
- c) From time to time uses direct correspondence from the Chairman to update all shareholders on significant events...

Full advantage is also taken of the Annual Meetings to provide shareholders with information about the Company and the current state of play and shareholders are encouraged to participate through the question and answer session conducted as part of the Annual General Meeting. All members of the Board as well as the external auditor make themselves available for questions from shareholders as part of this process.