# Annual Report **2005**

People caring for people

RAMSAY HEALTH CARE

# Contents 2005




**Ramsay Health Care Limited**
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**For more information**
To download a digital copy or for up-to-date information on the Company & market briefings, visit the "Investor Centre" at:
**www.ramsayhealth.com.au**

**Annual General Meeting 2005**
The Annual General Meeting of Ramsay Health Care Limited will be held at Shangri-La Hotel Sydney – Grand Ballroom 1, 176 Cumberland St, The Rocks, Sydney, NSW 2000 on Tuesday, 22 November 2005 at 10.30am.

**Key dates for 2005** (Indicative)
Interim Results announced - 27 February 2006

Interim Dividend:
Ordinary Shareholders – 18 April 2006
CARES holders – 20 April 2006

Preliminary Final Results announced – 28 August 2006

Final Dividend Paid:
Ordinary Shareholders – 16 October 2006
CARES holders – 20 October 2006

Annual General Meeting – 22 November 2006

## Ramsay Health Care
## **Management Principles**

- We aim to be leaders in all areas of our business
- We have a decentralised management structure but with key non-core functions centralised when it adds value
- We encourage our managers to conduct their hospitals as autonomous business units and achieve prominence in their local communities with support of the Ramsay brand nationally
- We strive for continuous quality improvement and better outcomes for all
- We strive to build positive partnerships with doctors and other stakeholders in our business
- We are committed to managing and recognising staff performance
- We provide staff at all levels with career enhancement and professional development opportunities
- We are committed to achieving financial and operational performance targets
- We are committed to encouraging and developing teaching and research in the private hospital sector
- We encourage the development of our special culture known as "The Ramsay Way"

# 2004 - 2005
# **Highlights**

2005 was a year of growth and transformation as Ramsay Health Care became the largest private hospital operator in Australia through the acquisition of Affinity Health, while continuing to grow profitability at its existing hospital facilities.

### **Operating** Highlights

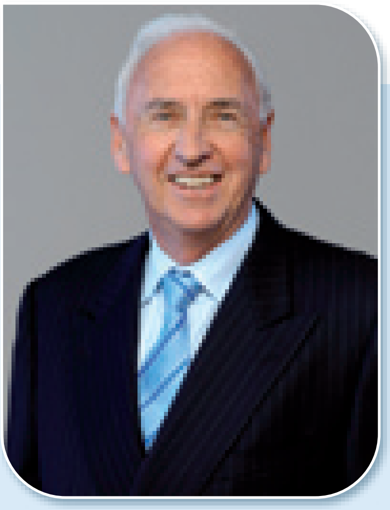
- A year of significant profit growth in underlying business, augmented by growth through acquisitions
- The acquisition of Affinity Health makes Ramsay Health Care Australia's premier private hospital operator
- Core net profit up 27%
- Excluding Affinity, core net profit up 21%
- All hospital divisions reported solid EBITDA growth
- Admissions (excluding Affinity) up 43%
- Final dividend of 11.5 cents, fully franked, making the full year dividend 20.0 cents, up 14%

### **Financial** Highlights

| | Year ended 30 June 2005 | Year ended 30 June 2004 | % increase |
|---|---|---|---|
| Operating revenue | $1,442.8 m | $768.1 m | 88% |
| Earnings before interest & tax | $112.8 m | $76.9 m | 47% |
| Core* net profit after tax | $54.1 m | $42.7 m | 27% |
| Core* EPS (cents per share) | 39.0¢ | 33.1¢ | 18% |
| Full year Dividend per share *(fully-franked)* | 20.0¢ | 17.5¢ | 14% |

*Core net profit & core earnings per share are before amortisation of goodwill and intangibles, and before non-recurring charges

# Chairman's Review



The highlight of the past year was the acquisition of Affinity Health whereby Ramsay Health Care doubled in size and became the largest private hospital operator in the country. Post the Affinity acquisition, our greater scale allows us to apply the successful Ramsay model across a broader portfolio of hospitals for the benefit of all our stakeholders. I am constantly overwhelmed by the terrific feedback I receive personally from patients who use our facilities and experience the great service provided by the staff and doctors of our hospitals. This is "The Ramsay Way" and is fundamental to the continuing success of our business.

The Ramsay Health Care slogan "People Caring for People" drives our corporate culture. Operating private hospitals is all about people and relationships and a significant focus of our business strategy is ensuring we have strong and respectful relationships with all our stakeholder groups – our doctors, our staff and our patients. If we had the best facilities in the world, but did not have good staff and doctors, then we may as well not be in business. The strength of our relationships enables us to provide the highest standard, most cost effective level of care to the community.

The acquisition of Affinity provides us with an opportunity to merge two quality private hospital portfolios. We believe we have an exciting future ahead of us and that we can lead the industry in a range of new initiatives that will be beneficial to the public, the health funds and government. Our increased market share will enable us to achieve a range of benefits including economies of scale, benchmarking of best practice and enhanced career opportunities for our staff. Our increased scale will give us greater industry influence and allow us to take a greater leadership role in the health care industry.

I am confident that with our management team at the helm, we will experience a smooth integration of the former Affinity hospitals and will also progress new and exciting initiatives as the expanded New Ramsay.

Our strategic focus in the coming year will be four pronged. Firstly, we will micromanage our business, including the integration of Affinity, focusing on core competencies and being the best hospital manager, using the Ramsay Management Principles and The Ramsay Way as our guide.

Secondly, we will invest in our existing business, including capacity expansion where we see the need. Not only capital investment will be a priority, but also investment in our human resources.

Thirdly, we will acquire hospitals that add value and meet our investment criteria.

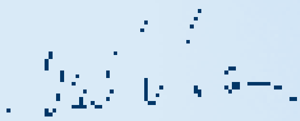
Lastly, we will still consider diversification outside of hospitals but keeping close to core competencies, as we have done with aged care.

The level of private health fund membership remains at historically high levels and demand for private hospital services is expected to stay strong. This year we experienced a 43% increase in admissions in Ramsay Hospitals, excluding the impact of the Affinity acquisition. Private health care is a growth industry supported by strong demographics. Importantly, the concept of a health care system balanced between the public and private sectors is currently supported by both sides of Australian politics.

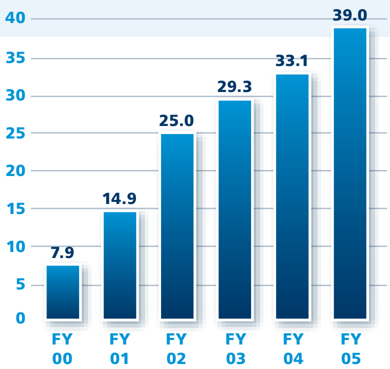
Once again, the Company has recorded a significant profit increase. Accordingly, the Directors have declared a fully franked final dividend of 11.5 cents per share, up from 10 cents in the previous corresponding half-year, taking the full year dividend to 20.0 cents, an increase of 14% on the 17.5 cents paid in FY2004. The Directors have also decided to reinstate the dividend reinvestment plan, the details of which will be distributed to shareholders in due course.

I would like to thank the Ramsay Health Care Board and Management for their support and assistance during this busy year. I also thank the staff and doctors working in our hospitals and facilities for their enormous efforts throughout the year.

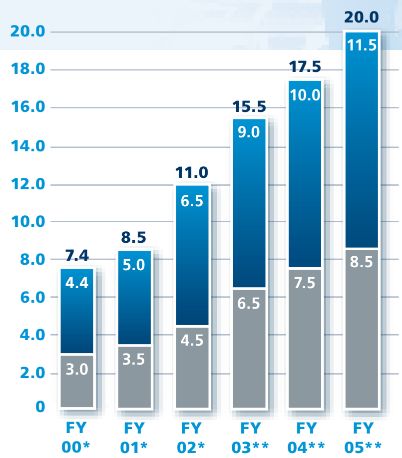
"POST THE AFFINITY ACQUISITION, OUR GREATER SCALE ALLOWS US TO APPLY THE SUCCESSFUL RAMSAY MODEL ACROSS A BROADER PORTFOLIO OF HOSPITALS FOR THE BENEFIT OF ALL OUR STAKEHOLDERS."



**PAUL RAMSAY** AO
Chairman

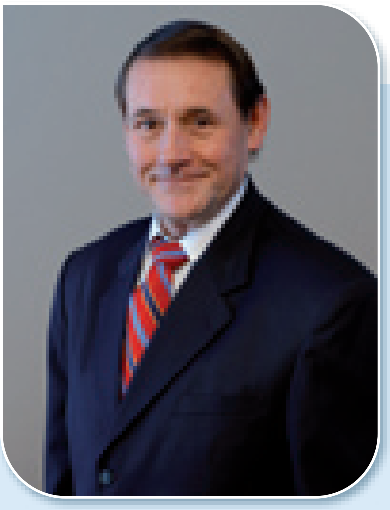



**Core earnings per share (¢)**




**Increased Dividend per share (¢)**
*Unfranked **Fully Franked
Final Interim

# Managing Director's Report



2005 has been a transforming year for Ramsay Health Care. In April of this year, Ramsay acquired Affinity Health, a strategically significant acquisition that brought together two groups of high quality hospital facilities and greatly enhanced Ramsay's presence in the private hospital sector where it has a proven track record of profitable growth and creating value for our shareholders. The acquisition has resulted in Ramsay now operating a total of 74 hospital and day clinic facilities, three of which are located in Indonesia.

The private hospital sector is still very much a growth industry which has been improved in recent years as a result of the Federal Government support of private health and positive changes in the underlying dynamics of the industry.

We are very excited about the prospect of integrating the new hospitals into Ramsay Health Care and the opportunities that are presented to us in becoming the largest private hospital operator in the country. We have always taken a leadership role in the private hospital industry in Australia and that leadership role can be enhanced by this acquisition. It makes us the premier private hospital operator in the country.

The acquisition of Affinity was only made possible because of the position of strength built for us by our staff. This strength is based on a track record of consistent operational and financial success due to the great work and commitment of our staff, doctors and management.

In the 2004/05 financial year, Ramsay Health Care Limited recorded a 27% rise in core net profit (before amortisation of goodwill and intangibles and before non-recurring charges) to a record $54.1 million for the year to 30 June 2005, up from $42.7 million a year ago.

Total revenue rose 88% to $1,442.8 million for the year.

While the acquisition of Affinity Healthcare required a significant amount of our resources and attention, we did not lose focus from the efficient micromanagement of the existing Ramsay hospitals, which performed strongly throughout the second half contributing to better than expected full year profit results. It is particularly pleasing that the underlying Ramsay business reported core net profit growth of 21% for the year, which is significantly above our initial expectations for the 2005 financial year. The better than expected result was due to higher revenue and ongoing cost containment across the group. Despite cost pressures, underlying margins remain at 10% demonstrating the strength of the Ramsay business. Ramsay plans to apply its proven management and systems to improve Affinity margins closer to those achieved by Ramsay and will, in due course, realise significant cost and revenue synergies through the integration process.

As part of our commitment to the ACCC during their investigation into the Affinity acquisition, there was a 'hold separate' period before we could manage the former Affinity hospitals. However, during this period, we were able to further refine our integration strategy. We believe we are well-placed now to achieve our targets for synergies and future earnings from these hospitals.

Ramsay is pleased with the outcome of the Australian Competition and Consumer Commission's investigations into its acquisition of Affinity. Ramsay had offered to sell 17 hospitals as part of its negotiations with the ACCC. Following the ACCC's investigations, it advised a requirement for Ramsay to divest an additional two hospitals.

While Ramsay was keen to retain as many Affinity hospitals as possible we were satisfied with this outcome. We were pleased that we did not lose any key hospitals through this process.

The acquisition of Affinity was funded using a combination of debt and equity. A new senior debt facility of $1.465 billion was raised and approximately $1 billion of this facility was used to fund the acquisition of Affinity. The remainder of the acquisition was funded by new ordinary equity totalling $200 million and a $260 million offer of Convertible Adjustable Rate Equity Securities (CARES). The net proceeds realised from the hospital divestments will be applied against Senior Debt.

Cash flow generation in FY2005 was consistent with profitability. Strong cash flow management resulted in gross operating cash flow of $218 million exceeding EBITDA (pre-non recurring items) of $169.0 million. This compares with last year's gross operating cash flow of $113 million exceeding EBITDA of $106 million.

Ramsay's robust cash generation and its revenue and earnings track record mean the company can service a high level of ongoing debt, but the Company's plans to reduce debt levels over time include the reinstatement of the dividend reinvestment plan, which is underwritten by Goldman Sachs JB Were for two years, covering four dividends.

While the Company is committed to using its strong cash flow to reduce gearing, Ramsay will still have capacity to spend capital where it is accretive to shareholder value and important to maintaining earnings and the high quality of the portfolio. The Company intends to review all capital expenditure, excluding routine maintenance, with this objective in mind.

## Other Acquisitions

During the year, the Company successfully completed a number of other acquisitions in addition to the Affinity purchase. In April, Ramsay finalised the purchase of five aged care facilities in Victoria from Ellis Residential Care (a total of 407 beds) for $51 million.

Also in April, Ramsay acquired two stand-alone hospital facilities – Murray Valley (30 beds) in Wodonga and Coastal Private Hospital (45 beds) in Perth. Both of these hospitals are close to existing Ramsay facilities, allowing for enhancement of service provision.

Following all of these acquisitions, and post the divestment of the 19 hospitals required by the ACCC, Ramsay's portfolio will consist of 72 hospital and day clinic facilities, including three hospitals in Indonesia, and 474 operating aged care places.

At the time of the acquisition of the five Ellis facilities in April this year, Ramsay said it expected the acquisition to have little financial impact in the 2005 financial year and less than half a cent earnings per share dilution in financial year 2006, during the transition process. The facilities are trading in line with these expectations.

## Outlook

Ramsay expects to produce continued solid growth through focusing on its core hospital management expertise. In addition, management will focus on successfully integrating Affinity and realising the identified synergies over the next few years. We are fully focused on The New Ramsay and the benefits that our increased size will bring in the market place.

Going forward our priorities for FY2006 year include:

- Successfully implementing the integration plan for the Affinity hospital facilities;
- Continuing to focus on Ramsay's core hospital management expertise across the whole portfolio to achieve optimal revenue and cost containment outcomes; and
- Effectively using robust cash flows to reduce gearing and to invest in enhancing the quality of the Ramsay portfolio.

Post divestment of the 19 hospitals, Ramsay will undertake a strategic review of all its assets to optimise shareholder value, including further investment in brownfield developments.

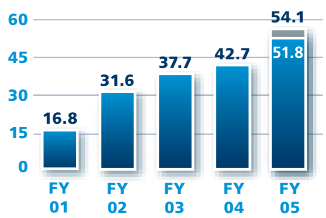
In the absence of unforeseen circumstances, Ramsay expects core net profit growth to be significantly higher in FY2006 principally from the Affinity contribution. However, Ramsay is targeting low double digit growth in core earnings per share on the increased number of shares on issue in 2006 compared with 2005.

Beyond FY2006, Ramsay believes profit contribution from The New Ramsay will see further significant increases in earnings.

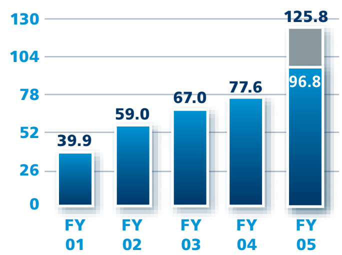
I would like to thank the Ramsay Management Team for their extra work and dedication during this year. Special thanks to the executive team of Craig McNally, Business Development Manager, Chris Rex, Chief Operating Officer and Bruce Soden, Finance Director, and in turn, their respective teams, who have worked long on the numerous acquisitions and integration issues. However, the success of our Company is also in large part due to the staff and doctors that work day-to-day in our hospitals and I extend sincere thanks to them for their hard work and dedication.

"WE ARE FULLY FOCUSED ON THE NEW RAMSAY & THE BENEFITS THAT OUR INCREASED SIZE WILL BRING IN THE MARKET PLACE."

**PAT GRIER**
Managing Director

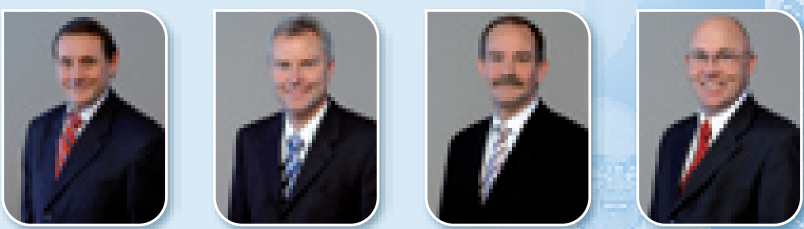



**Core Net Profit ($m)**
RHC (existing business)
Affinity (acq. April 2005)




**EBITA growth ($m)**
RHC (existing business)
Affinity (acq. April 2005)

# Our **Organisation**



**The Executive**
Left to right: Pat Grier, Chris Rex, Bruce Soden & Craig McNally

## **Organisation** Structure

**MANAGING DIRECTOR**
Pat Grier

**FINANCE**
Bruce Soden - Finance Director

- **Company Secretary**
  Larry Ransley
- **Treasury**
- **Banking & Finance**
- **Investor Relations**
- **Group Accounting - Corporate**
- **Group Accounting - Operations**
- **Taxation**

**OPERATIONS**
Chris Rex - Chief Operating Officer

- **Hospitals**
  - **State/Regional Managers - Hospitals**
    NSW, QLD, VIC, SA, WA & Indonesia
- **Corporate Services**
  - **IT**
  - **Risk Management**
  - **Marketing**
  - **Purchasing**
- **Human Resources**
- **Health Fund Contracts**
- **Legal Counsel**

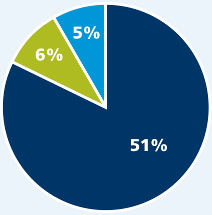
**PLANNING & DEVELOPMENT**
Craig McNally
- Business Development Manager

- **Business Development**
- **Aged Care**
- **Silver Circle**

RAMSAY HEALTH CARE

"FY05 WAS AN EXCELLENT YEAR WHICH PRODUCED QUALITY RESULTS ACROSS THE PORTFOLIO."

# Review of **Operations**




**Breakdown of Group EBITA growth**
(excluding Affinity)



From an operational perspective, FY05 was an excellent year which produced quality results across the portfolio. Despite the significant resources required to complete the Affinity acquisition and subsequent ACCC activity, management's focus on the existing operations was not diminished.

Overall, admissions in Ramsay hospitals (excluding Affinity) were up 43% on the prior year. A substantial part of this increase was due to the addition of the former Benchmark hospitals, but even with this removed, admissions still rose by 8%.

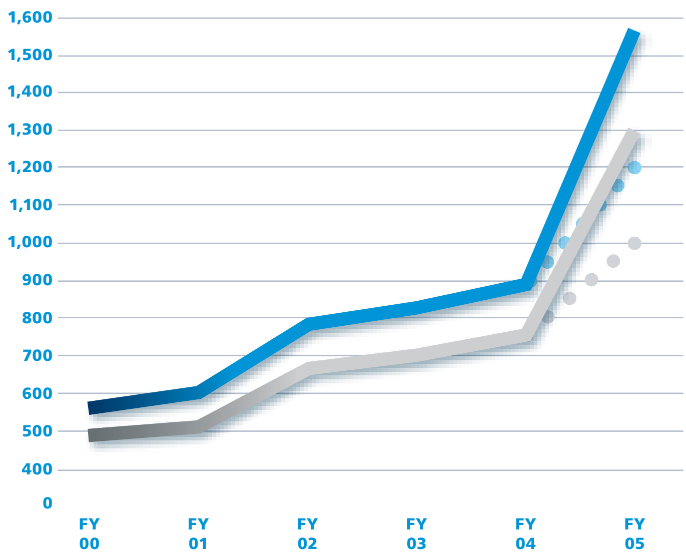
The increase in admissions and associated revenue was well managed with EBITA margins being maintained over the year. Assisting this result were successful outcomes in the annual price negotiations with Health Funds.

In addition to the strong organic growth experienced by the business, there was a continuation of the flow through of benefits from previous capacity expansions at the Group's hospitals which contributed approximately 5% to EBITA growth during the year. This was particularly marked at two of the Group's hospitals, Greenslopes and Lake Macquarie. At Greenslopes the additional beds and operating theatre capacity, plus an additional cardiac catheterisation laboratory,continued to enhance the hospital's operating performance. At Lake Macquarie the first full year's operation of the expanded hospital provided results that surpassed expectations.

Elsewhere, the newly acquired Benchmark hospitals were successfully integrated into the Group with projected synergies exceeded in both timing and quantum. The performance of the former Benchmark hospitals was in line with expectations.

In the Psychiatric division, the year saw strong growth across the portfolio, particularly in Melbourne and Sydney. Utilisation continued to grow in both in-patient and day-patient programs. Mental Health continues to be an area of significant importance in the health care arena with great emphasis on improving access and treatment for people suffering from mental health issues.

The two former Veteran hospitals, Hollywood and Greenslopes had a good year and continued the blending process of excellent health care provision for both War Veterans and a growing health insured population. The later part of the hospitals' activity continued to grow strongly at both hospitals whilst the Veterans continued to utilise these hospitals at record levels.




**Occupancy (Patient Days)**


## QUEENSLAND HOSPITALS

Caboolture Private Hospital
Cairns Private Hospital
Caloundra Private Hospital
Greenslopes Private Hospital
Hillcrest - Rockhampton Private Hospital
John Flynn Private Hospital
Nambour Selangor Private Hospital
New Farm Clinic
Noosa Hospital
North West Private Hospital
Pindara Private Hospital
Pindara Day Surgery
Short Street Day Surgery*
St Andrew's Ipswich Private Hospital

## NEW SOUTH WALES HOSPITALS

Albury Wodonga Private Hospital
Armidale Private Hospital
Baringa Private Hospital
Berkeley Vale Private Hospital
Castlecrag Private Hospital
Coffs Harbour Day Surgery
Dudley Private Hospital
Figtree Private Hospital
Hunters Hill Private Hospital
Kareena Private Hospital
Lake Macquarie Private Hospital
Lawrence Hargrave Private Hospital
Macarthur Private Hospital
Mt Wilga Private Hospital
North Shore Private Hospital
Northside Clinic
Northside Cremorne Clinic
Northside West Clinic
Nowra Private Hospital
Port Macquarie Private Hospital
Southern Highlands Private Hospital
St George Private Hospital
Strathfield Private Hospital
Tamara Private Hospital
Warners Bay Private Hospital
Westmead Private Hospital

*Management contract only
[+]Required divestment

## SOUTH AUSTRALIA HOSPITALS

Adelaide Clinic
Central Districts Private Hospital
College Grove Rehabilitation Hospital
Fullarton Private Hospital
Kahlyn Day Centre
North Eastern Community Hospital*
Wakefield Hospital

## WESTERN AUSTRALIA HOSPITALS

Attadale Private Hospital
Coastal Private Hospital
Glengarry Private Hospital
Hollywood Private Hospital
Joondalup Health Campus

## VICTORIA HOSPITALS

Albert Road Clinic
Beleura Private Hospital
Casey Gardens Day Centre
Donvale Rehabilitation Hospital
Frances Perry House
Glenferrie Private Hospital
Linacre Private Hospital
Masada Private Hospital
Mildura Base Hospital
Mitcham Private Hospital
Murray Valley Private Hospital
Peninsula Private Hospital
Shepparton Private Hospital
South Eastern Private Hospital[+]
The Avenue Hospital
The Valley Private Hospital[+]
Wangaratta Private Hospital
Warringal Private Hospital
Waverley Private Hospital

## INDONESIA HOSPITALS

RS Internasional Bintaro
RS Mitra Internasional Jl.
RS Suabaya Internasional PT.

## AGED CARE FACILITIES

Bairnsdale Aged Care Facility
Gracedale Private Nursing Home
Lakeview Aged Care Facility
Paynesville Aged Care Facility
Sale Aged Care Facility

## COMMUNITY CARE

HCS Home Care Services - South Australia
Silver Circle New South Wales
Silver Circle Victoria

# ...Review of **Operations**

Preparatory work has been ongoing to establish the hospitals' operating platform for the possible extension of Veterans' contracting in Brisbane and Perth to other private hospitals in 2006.

Throughout the year, the Company continued to refine its purchasing arrangements with suppliers to ensure the cost effective provision of high quality products at its hospitals.

A significant part of the second half of the year was taken up with the acquisition of Affinity and subsequent ACCC activity. During the latter process, Ramsay Health Care operational personnel were prohibited from getting involved in the management of any Affinity hospitals. However, a substantial amount of work was done in developing integration plans for the business. This planning covered all aspects of the process: Human Resources, Information Technology, Purchasing, Risk Management, Marketing and other Head Office activities, but also of course, the operational management of the newly enlarged business. Detailed plans were prepared which prefaced significant synergies that will be achieved over the course of the forthcoming years.

Following the Affinity acquisition Ramsay is targeting pre-tax cost synergies of approximately $35 million per annum by the end of year three (i.e. FY2008). Approximately 45% of these pre-tax synergies are expected to be achieved in the first full year (i.e. FY2006).

In addition, Ramsay expects to achieve pre-tax revenue synergies of approximately $15 million per annum by the end of year three (i.e. FY2008). Approximately 50% of these synergies are expected to be achieved in the second full year (i.e. FY2007).

As a result of revenue and cost benefits, the Company expects that incremental core EBITDA of approximately $50 million per annum can still be achieved in year three (i.e.FY2008). Based on its assessment of the Affinity group over the past few months, Ramsay expects to at least achieve these synergy targets.

"IN ADDITION TO THE STRONG ORGANIC GROWTH EXPERIENCED BY THE BUSINESS, THERE WAS A CONTINUATION OF THE FLOW THROUGH OF BENEFITS FROM PREVIOUS CAPACITY EXPANSIONS..."

Kareena Private Hospital

The Avenue Hospital

# **Affinity** Acquisition

St George Private Hospital

The Affinity acquisition is one of the most significant developments in the Company's 40 year history, and it presents enormous opportunities for Ramsay Health Care going forward.

Affinity had a portfolio of 48 hospitals across Australia and 3 hospitals in Indonesia. Simultaneously, Ramsay agreed to divest 17 hospitals mainly to satisfy the requirements of the competition regulator, the ACCC (Australian Competition and Consumer Commission).

On 30 August 2005, the ACCC resolved its competition concerns with Ramsay's acquisition of Affinity and removed a 'hold separate' requirement which it had put in place at the acquisition date. However, the ACCC required Ramsay to divest a further two hospitals making a total divestment of 19 hospital facilities. Whilst the Company was keen to retain as many hospitals as possible, and worked closely with ACCC during their investigation period to put its case forward, Ramsay agreed to the ACCC ruling and the required divestments.

Shepparton Private Hospital

The Company had been in negotiation to sell 14 previously agreed divestment hospitals and reached agreement to sell these hospitals to Healthscope in September 2005 with the only change being selling Sunnybank instead of North West Private Hospital in Brisbane. Healthscope made a superior offer for the hospitals and the final decision to go with Healthscope was made after much consideration and, in the end, was made in the best interests of Ramsay's shareholders. As at October 2005, the Company is in the process of selling the other five hospitals which it is required to divest.

After all the divestments are finalised Ramsay Health Care will have a portfolio of 72 private hospitals and day clinic facilities across Australia and Indonesia with over 7,800 beds and more than 20,000 staff.

The Company has always taken a leadership role in the private hospital industry in Australia and that leadership role can be enhanced by this acquisition.

The Affinity acquisition enhances Ramsay's long term growth potential and this will be realised through the following stages:

**Stage 1** - Acquisition synergies will be achieved through integration and economies of scale.

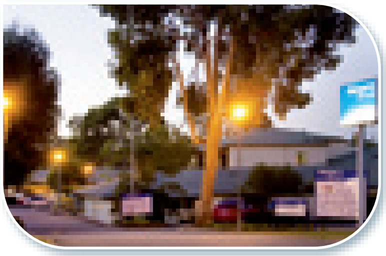
**Stage 2** – Upside through value-added management and margin improvement at ex-Affinity facilities.

**Stage 3** – Brownfield capacity expansion.

The focus for the current financial year will be to implement the Affinity Integration Plan and realise our synergy targets for the year. The Company will continue to focus on its core hospital management expertise. Over the medium term, profit growth is expected be driven by continuing strong organic growth and improved earnings from Affinity under Ramsay Health Care Management.

Wangaratta Private Hospital

Glengarry Private Hospital

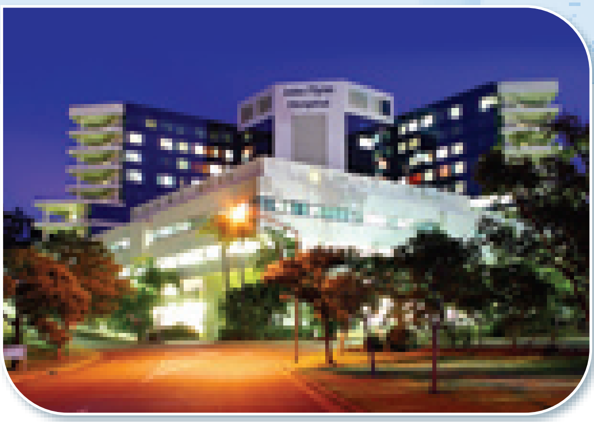


"THE AFFINITY ACQUISITION IS ONE OF THE MOST SIGNIFICANT DEVELOPMENTS IN THE COMPANY'S 40 YEAR HISTORY, & PRESENTS ENORMOUS OPPORTUNITIES FOR RAMSAY HEALTH CARE GOING FORWARD."



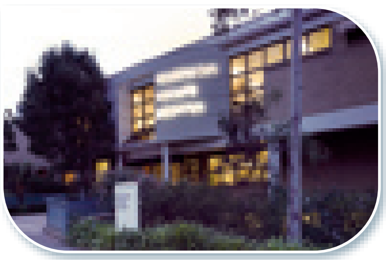
Caboolture Private Hospital

John Flynn Private Hospital



Strathfield Private Hospital

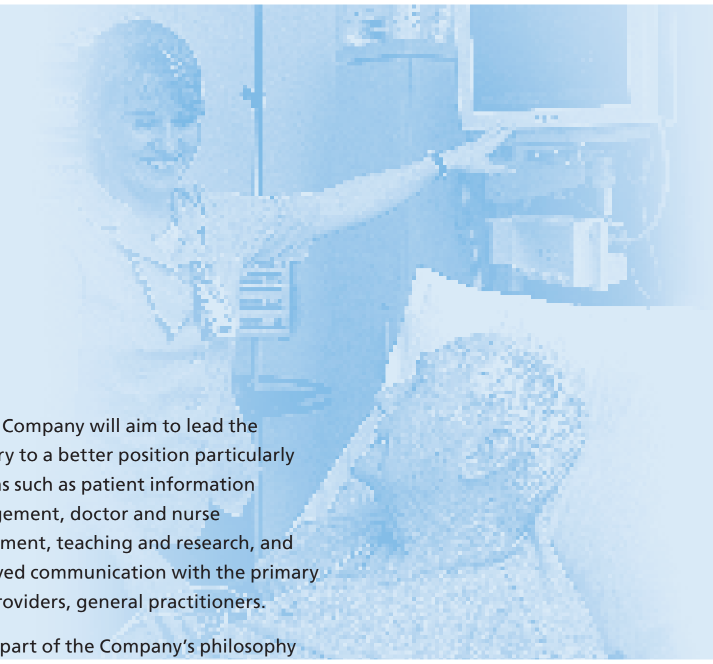
Warringal Private Hospital



# **Industry** Outlook

"IT IS VITAL THAT WITH AN AGEING POPULATION & AN INCREASING UTILISATION OF HEALTH RESOURCES THAT VIABLE PUBLIC & PRIVATE HEALTH CARE SERVICES ARE AVAILABLE & ACCESSIBLE TO ALL AUSTRALIANS."





The private health industry continues to enjoy solid growth as the result of an increasing commitment by government and the community at large.

Private health insurance membership has hit record levels over the past few years largely due to the Federal Government's incentive through the lifetime health cover and 30% rebate scheme.

Both sides of politics have recognised the importance of ensuring the ongoing success of the current balanced health care system in Australia and this was demonstrated in policies developed before the last Federal election.

It is vital that with an ageing population and an increasing utilisation of health resources that viable public and private health care services are available and accessible to all Australians.

To this end, Ramsay Health Care appreciates the position it is in and the importance of ensuring a sustainable and viable alternative for Australians to the public health system. The Company has been a well-respected leader in private hospital care for over four decades and now, with the largest portfolio of private hospitals in Australia, it is in a position to be a leading role model for the industry.

The Company will aim to lead the industry to a better position particularly in areas such as patient information management, doctor and nurse recruitment, teaching and research, and improved communication with the primary care providers, general practitioners.

It is part of the Company's philosophy to be a leader in all areas of the business and to strive for continuous quality improvement and better outcomes for all. Ramsay Health Care looks forward to taking the private health industry forward to a better place in the future.

**Above:** Ramsay Health Care representative, Dayani Perera & other aid workers in Sri Lanka.
**Right:** Ramsay Health Care staff see the last shipment off to Sri Lanka

# Ramsay Health Care's **Tsunami Relief Efforts**

The Ramsay Health Care Tsunami relief package of more than $250,000 worth of urgent medical supplies were air and sea freighted to Sri Lanka in January 2005.

The supplies included syringes, bandages, plasters, scalpels and giving packs, and they were used in the administration of first aid, pain relief, antibiotics and immunisation to patients, and for the management of fractures, wounds, and infections.

Ramsay Health Care coordinated the distribution of these urgently required medical supplies directly with the Sri Lankan Navy Medical Unit, the Sri Lankan Government, and members of the Medical Industry Association in Australia.

There were nearly 17,000 critically injured and wounded people in Sri Lanka and therefore the need to get medical supplies into the country was urgent.

Ramsay Health Care believed that channelling its efforts and funds to supply much-needed medical supplies was the way that the Company could be of most assistance in helping victims of this disaster.

Many Ramsay Health Care suppliers gave fantastic support to this relief package, certain Health Funds contributed money and also donated funds towards airlifting urgently required supplies to Sri Lanka. Many Ramsay Health Care staff also worked tirelessly to help coordinate the massive relief effort.

The Commander of the Sri Lankan Navy's Medical Unit personally coordinated the distribution of medical supplies donated by Ramsay Health Care to hospitals throughout the affected areas.

Locally, Ramsay hospitals contributed to the effort through a corporate employee appeal as well as other local appeals by supplying medical and pharmaceutical aid, food, clothing and money.

A number of medical and nursing staff from Ramsay hospitals volunteered to assist in the disaster relief effort and Ramsay Health Care supported their efforts by providing leave and free travel insurance.

Overall, the Company was extremely proud to have been of assistance to those most in need, during this enormous and catastrophic humanitarian crisis.

Ramsay Health Care representative, Dayani Perera, pictured with Sri Lankan Navy Commander, Vice Admiral Daya Sandagiri, in Sri Lanka. (Photo – Dayani Perera)

### NAVY CHIEF THANKS RAMSAY

Chief of Defence Staff & Commander of the Sri Lanka Navy, Vice Admiral Daya Sandagiri, addressed a letter to Ramsay Managing Director Pat Grier thanking Ramsay for their assistance and generous contribution.

"Dear Mr Grier

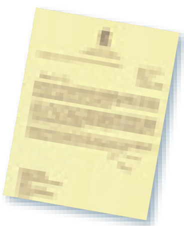
On behalf of the officers and men of the Sri Lanka Navy, I sincerely thank Ramsay Health Care for its valuable contribution of medical supplies sent to our country. The medical supplies have and will continue to be used to treat the critically injured and wounded survivors of the recent Tsunami.

I wish to place on record the co-operation and assistance extended by Ramsay Health Care and your suppliers viz. Baxter Healthcare Pty Ltd, Smith & Nephew and Terumo. These much needed medical supplies have arrived safely and are on the way to hospitals and treatment centres throughout the affected areas in Sri Lanka to help victims of this disaster.

We greatly appreciate the enormous efforts that have gone into coordinating the distribution of these supplies to Sri Lanka. Please convey out sincere appreciation to all those who assisted in sending the medical supplies to Sri Lanka.

Yours sincerely

Daya"



# **Board** of 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 30 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)

## **M L Brislee**

**Non-Executive Director**
Appointed 15/06/97

Mrs Marjorie Brislee, a former manager of Ramsay Health Care, joined the company in 1976 and has hospital management experience in Australia, United States, Hong- Kong and the United Kingdom.

## **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)

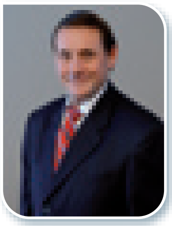
## **P J Evans** FCA

**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)



## **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.

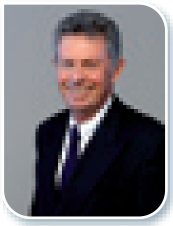
## **R H McGeoch** AM LLB MAICD

**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:

- Gullivers Travel Group Limited (Current)
- 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)



## **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)
- Everest Babcock & Brown Group (Current)

## **B R Soden** B.Comm CA MAICD

**Finance Director**
Appointed 02/01/97

Mr Bruce Soden joined Ramsay Health Care in 1987 after having spent 12 years with Arthur Andersen & Co in their Sydney, Milan and Johannesburg offices in the Financial Consulting Division. Mr Soden was appointed Finance Director of Ramsay Health Care's operating entities in 1994. 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 01/06/97

Mr Larry Ransley is a Chartered Accountant with 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. Before his appointment as Company Secretary Mr Ransley was responsible for the development and supervision of the Company's hospital accounting systems.

This statement outlines the Company's main corporate governance practices during the year ending 30 June 2005. The Board has reviewed the Company's corporate governance policies in the light of the Best Practice Recommendations published by the Australian Stock Exchange Corporate Governance Council (the "ASX Recommendations"). In general, the Company has 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.

# Corporate Governance Statement



## Management & 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 on 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 2005, the Board held 8 special board meetings 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 nine 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.

| Name | Position Held | Date appointed | Length of tenure at 30 June 2005* |
|---|---|---|---|
| Paul Ramsay | Non-executive/Chairman | 26/05/75 | 7 years |
| Michael Siddle | Non-executive/Deputy Chairman | 26/05/75 | 7 years |
| Marjorie Brislee | Non-executive Director | 15/06/97 | 7 years |
| Tony Clark | Non-executive Director | 06/10/98 | 6 years |
| Peter Evans | Non-executive Director | 25/06/90 | 7 years |
| Rod McGeoch | Non-executive Director | 03/07/97 | 7 years |
| Kerry Roxburgh | Non-executive Director | 03/07/97 | 7 years |
| Pat Grier | Executive Director/Managing Director | 25/06/97 | 7 years |
| Bruce Soden | Executive Director/Financial Director | 02/01/97 | 7 years |

*Note: Length of tenure at 30 June 2005 is measured from the later of the Company's listing in September 1997 or the date of the director's appointment.

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 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 has considered the test set down in the ASX Recommendations in relation to independence and has assessed each of the Directors against that test. Overall, the Board is satisfied that no Director is hindered in his or her ability to exercise unfettered and independent judgment.

The Board considers that Mr Kerry Roxburgh, Mr Rod McGeoch and Mrs Marjorie Brislee are independent Directors on the basis that they are free of any business or other relationship 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 observations 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 recognises the Recommendation that the Chairman be an independent Director. However, the Board views Mr Ramsay's many years of experience in the private hospital industry as a significant valuable asset for the Company.
- Three non-executive directors, Mr Siddle, Mr Clark and Mr Evans, are also directors of Paul Ramsay Holdings Pty Limited:
  - 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 private hospitals and property development. Given his experience and insight, the Directors consider that Mr Siddle makes a significant contribution to the Board.
  - 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. While not technically independent Directors according to the ASX Corporate Governance Council's definition, 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 regularly assess the contribution and performance of each Director and of the Board as a whole. The Chairman, with the assistance of the Deputy Chairman has and will continue to discuss with each Director his or her performance and contribution to the Board.

## Ethical Standards & Code of Conduct

Directors and employees of the company are expected to maintain standards of business conduct, which are ethical. 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 & 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.

## 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 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.

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).

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;

a) Confirm on an annual basis that:
   – the statutory auditor has complied with al 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 (page 24 to 30). 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 & 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 their independence is hindered in their 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.

### 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.

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 treasury activities;

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

g) 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
**Marjorie Brislee** – Non-executive Director
**Rod McGeoch** – Non-executive Director, alternate
**Pat Grier** – Executive Managing Director

The Chief Operating Officer, the Group Risk Manager, the Manager Human Resources, the Manager Occupational Health and Safety and the Financial Controller also attend meetings of the Risk Management 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 on the efficiency and effectiveness of the Company's Risk Management and Internal Control systems.

## 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.

# Corporate **Directory**



## Directors

**Non Executive Directors**

Paul Ramsay (Chairman)
Michael Siddle (Deputy Chairman)
Marjorie Brislee
Tony Clark
Peter Evans
Rod McGeoch
Kerry Roxburgh

**Executive Directors**

Pat Grier (Managing Director)
Bruce Soden (Finance Director)

## Company Secretary

Larry Ransley

## 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: (02) 9433 3444

## Share Registry

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000
Mail address: GPO Box 7045
Sydney NSW 1115
Website: www.cshare.com.au
Investor Enquiries at: 1300 855 080

# Financial Report
## for the year ended 30 June 2005



Contents 2005



RAMSAY HEALTH CARE LIMITED & CONTROLLED ENTITIES
ABN 57 001 288 768

# RAMSAY HEALTH CARE LIMITED DIRECTORS' REPORT

Your Directors submit their report for the year ended 30 June 2005.

## DIRECTORS

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





The Directors were in office for this entire period unless otherwise stated.

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

### Interests in the shares & options of the Company & 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:

| | Ramsay Health Care Limited | |
|---|---|---|
| **Director** | **Ordinary Shares** | **Rights over Ordinary Shares** |
| P.J. Ramsay | 72,688,571 | - |
| M.S. Siddle | 26,667 | - |
| M.L. Brislee | 24,089 | - |
| A.J. Clark | 85,000 | - |
| P.J. Evans | 6,312 | - |
| I.P.S. Grier | 85,740 | - |
| R.H. McGeoch | 133,334 | - |
| K.C.D. Roxburgh | 72,223 | - |
| B.R. Soden | 5,387 | - |

Mr Paul Ramsay has a relevant interest in 72,688,571 (2004: 66,334,939) 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.

## PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the economic 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 & DIVIDENDS

### Consolidated Results

The consolidated result of the economic entity after providing for income tax was a profit of $30,071,000 (2004: profit of $38,353,000). The operating profit before tax was $51,518,000 (2004: $56,670,000).

### Earnings per Share

Basic earnings per share 21.7 cents (2004: 29.8 cents)
Diluted earnings per share 21.7 cents (2004: 29.8 cents)

## Dividends

Dividends paid or recommended for payment are as follows:

**Ordinary Dividends**

| | |
|---|---|
| Final dividend recommended @ 11.5 cents per ordinary share | $19,594,000 (2004: $12,893,000) |
| Interim dividend paid during the year @ 8.5 cents per ordinary share | $11,902,000 (2004: $9,670,000) |

**CARES Dividends**

| | |
|---|---|
| Dividend recommended at a dividend rate of 6.013% p.a. per CARES, payable on 20 October 2005 | $6,382,000 (2004: Nil) |

## REVIEW OF OPERATIONS

For existing Ramsay hospitals (excluding Benchmark and Affinity), admissions rose 8%. Including Benchmark but excluding Affinity, admissions were up 43%.

All Ramsay existing hospital divisions, medical surgical, veteran, psychiatric and rehabilitation, reported solid EBITA growth for the year. Organic growth accounted for approximately 6% of EBITA growth for the year.

During the year, Ramsay achieved satisfactory outcomes from health fund negotiations. Together with cost containment initiatives, this resulted in the EBITA margin for the existing Ramsay hospitals remaining at 10% despite the dilutionary impact of prosthesis revenue.

The benefits of previous capacity expansion at existing Ramsay hospitals continue to flow through to earnings, achieving returns on investments at or above the company's expectations and contributing approximately 5% to EBITA growth during the year.

As previously advised, Greenslopes and Hollywood are further developing strategies to manage the end of the exclusive contract with the Department of Veterans' Affairs this year.

Plans to transition these hospitals to a higher private patient intake have been in place for a number of years, and it is unclear yet what the negative impact, if any, of the DVA contract changes will be on the hospitals' earnings. Ramsay has been focused on positioning Greenslopes and Hollywood for continued strong growth in the medium to longer term.

During the 2005 financial year, the company successfully completed a number of acquisitions in addition to the Affinity purchase.

In April, Ramsay finalised the purchase of five aged care facilities in Victoria from Ellis Residential Care for $51 million.

Also in April, Ramsay acquired two stand-alone hospital facilities – Murray Valley (30 beds) in Wodonga and Coastal Private Hospital (45 beds) in Perth. Both of these hospitals are close to existing Ramsay facilities, allowing for enhancement of service provision.

Benchmark hospitals are trading in line with Ramsay's prior statement that they would be slightly earnings per share positive in the 2005 financial year.

Following all of these acquisitions, and post the divestment of 19 hospitals as part of the Affinity acquisition, Ramsay's portfolio will consist of 70 hospital facilities, three hospitals in Indonesia and 474 operating aged care places.

## CORPORATE INFORMATION

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

## EMPLOYEES

The consolidated entity employed 30,546 employees as at 30 June 2005 (2004: 9,932).

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

### Acquisition of Affinity Holdings SARL

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 currently operates 48 hospitals across metropolitan and regional Australia and 3 hospitals in Indonesia. Affinity has annual revenue of approximately $1.3 billion.

Pre-acquisition, Ramsay had 42 facilities throughout Australia including 36 private hospitals, 5 aged care facilities and 1 day surgery. The acquisition of Affinity provides Ramsay with a unique opportunity to expand significantly in its core private hospital business through one transaction and allow Ramsay to apply its successful hospital management expertise across a greater number of facilities for the benefit of its shareholders, doctors, patients and employees.

## INCENTIVE RIGHTS (CASH SETTLED)

At 30 June 2005 there were 321,428 incentive rights granted under the Executive Incentive Rights Plan. Refer to note 23.1 of the financial statements for further details of the rights outstanding.

## PERFORMANCE RIGHTS (EQUITY)

At 30 June 2005 there were 694,928 performance rights granted under the Executive Performance Rights Plan. Refer to note 23.2 of the financial statements for further details of the rights outstanding.

## SIGNIFICANT EVENTS AFTER THE BALANCE DATE

### Agreement to Sell 14 Hospitals to Healthscope for $490 Million

On 5 September 2005, Ramsay Health Care Limited announced it had entered an agreement with Healthscope Limited under which Healthscope will acquire 14 Affinity hospitals for total proceeds of $490 million, conditional on the approval of the Australian Competition and Consumer Commission (ACCC).

Ramsay had previously given an undertaking to the ACCC to sell 14 hospitals to partially address competition issues associated with the $1.4 billion acquisition of Affinity in April 2005.

The total purchase price includes a $13.5 million payment for Transitional Services. In addition, Healthscope will reimburse Ramsay for development capital expenditure paid by Ramsay since the hospitals were purchased in April.

As part of the agreement, Healthscope has paid Ramsay a deposit of $20 million which is only refundable in limited circumstances.

Any sale will also be subject to ACCC consent.

## LIKELY DEVELOPMENTS & 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 & INSURANCE OF DIRECTORS & 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 arrangements in place for directors and executives of Ramsay Health Care Limited (the company).

### *Remuneration Philosophy*

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 high 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 reviewing and making recommendations to the Board on compensation arrangements for the non-executive 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.

## REMUNERATION REPORT (continued)

### *Remuneration Structure*

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 20 November 2001 when shareholders approved an aggregate remuneration of $600,000 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 (2004: $940,000) has been provided as at 30 June 2005 and $160,000 (2004: $160,000) expensed in the current year.

The remuneration of non-executive directors for the financial year ended 30 June 2005 is detailed in table 1 of this Report.

### *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 Tern Incentive (LTI)

## **REMUNERATION REPORT** (continued)

### ***Executive Directors and Executive Remuneration*** (continued)

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 on this Report details the fixed and variable components of the 5 most highly remunerated executives, for the financial year ended 30 June 2005.

### ***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.

### ***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.

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:

## **REMUNERATION REPORT** (continued)

### ***Variable Pay – Long Term Incentive (LTI)*** (continued)

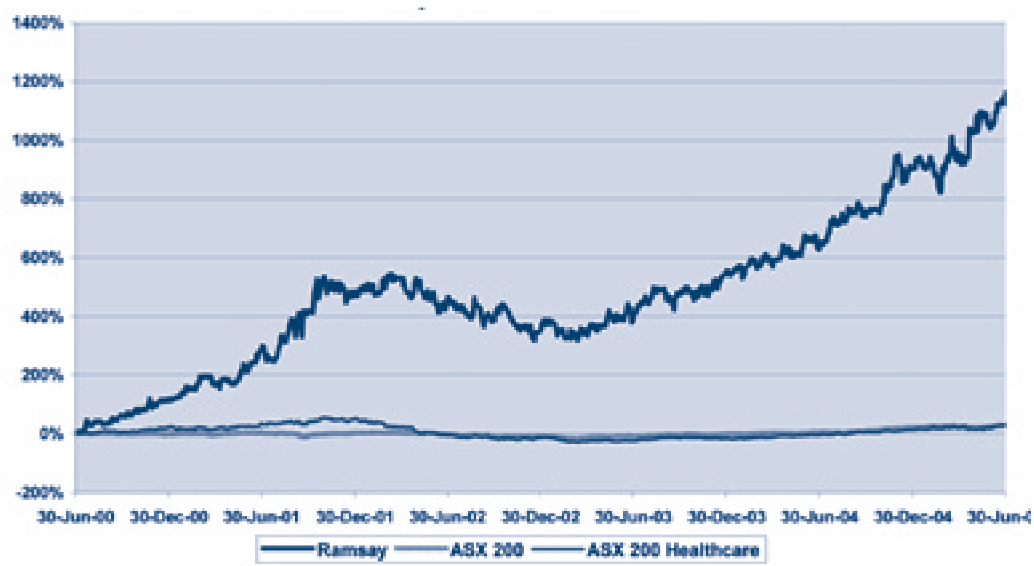
| Ramsay Health Care Group's TSR Performance | % of Share Rights Available to Vest |
|---|---|
| Less than 50% relative to the TSR Ranking Group | Nil |
| 50% relative to the TSR Ranking Group | 50% |
| 50% to 75% relative to the TSR Ranking Group | Between 50% and 100% increasing on a straight line basis |
| Equal to or greater than 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***

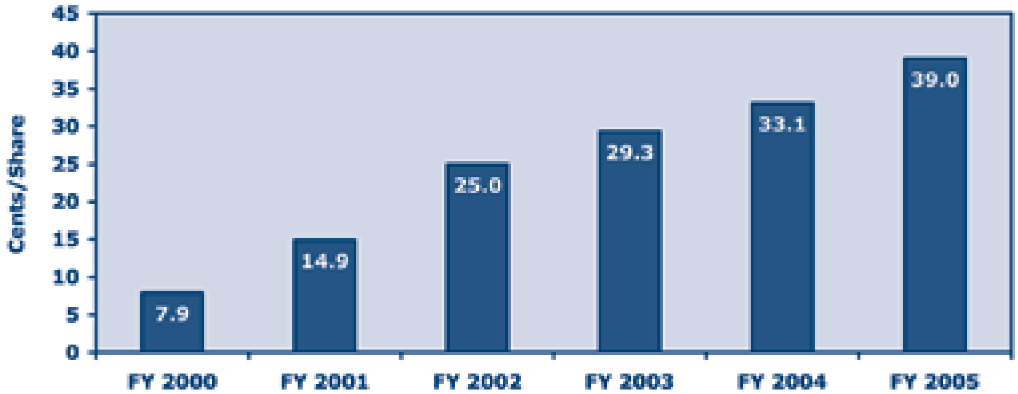
The Graph below shows the performance of the company as measured by the company's TSR, compared to the ASX 200 and ASX 200 Healthcare indices.

**Ramsay Total Shareholder Return**




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 current period).

**Core Earnings Per Share**



## **REMUNERATION REPORT** (continued)

### ***Variable Pay – Long Term Incentive (LTI)*** (continued)

***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.

### *Table 1. Director Remuneration – Audited*

***Non-Executive Directors***

P.J. Ramsay AO – Non-Executive Chairman
M.L. Brislee – Non-Executive Director
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 | | Primary Benefits | | | | Post Employment | | Cash Settled Incentives | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & Fees | Non Monetary | Leave Entitle-ments | Cash Bonus (2) | Super-annuation | Retire-ment Benefits Provided (1) | Number of Incentive Rights Granted | Amortised Cost of Incentive Rights | |
| **P Ramsay** | **2005** | **120,000** | **-** | **-** | **-** | **10,800** | **40,000** | **-** | **-** | **170,800** |
| | 2004 | 120,000 | - | - | - | 10,800 | 40,000 | - | - | 170,800 |
| **M Brislee** | **2005** | **62,500** | **-** | **-** | **-** | **-** | **20,000** | **-** | **-** | **82,500** |
| | 2004 | 61,458 | - | - | - | - | 20,000 | - | - | 81,458 |
| **A Clark** | **2005** | **62,500** | **-** | **-** | **-** | **5,625** | **20,000** | **-** | **-** | **88,125** |
| | 2004 | 61,458 | - | - | - | 5,531 | 20,000 | - | - | 86,989 |
| **P Evans** | **2005** | **72,500** | **-** | **-** | **-** | **6,525** | **20,000** | **-** | **-** | **99,025** |
| | 2004 | 67,292 | - | - | - | 6,056 | 20,000 | - | - | 93,348 |
| **R McGeoch** | **2005** | **65,000** | **-** | **-** | **-** | **5,850** | **20,000** | **-** | **-** | **90,850** |
| | 2004 | 62,917 | - | - | - | 5,663 | 20,000 | - | - | 88,580 |
| **K Roxburgh** | **2005** | **62,500** | **-** | **-** | **-** | **5,625** | **20,000** | **-** | **-** | **88,125** |
| | 2004 | 61,458 | - | - | - | 5,531 | 20,000 | - | - | 86,989 |
| **M Siddle** | **2005** | **62,500** | **-** | **-** | **-** | **5,625** | **20,000** | **-** | **-** | **88,125** |
| | 2004 | 61,458 | - | - | - | 5,531 | 20,000 | - | - | 86,989 |
| **Totals** | **2005** | **507,500** | **-** | **-** | **-** | **40,050** | **160,000** | **-** | **-** | **707,550** |
| | 2004 | 496,041 | - | - | - | 39,112 | 160,000 | - | - | 695,153 |

***Executive Directors***

I.P.S. Grier – Managing Director
B.R. Soden – Finance Director

| Name | | Salary & Fees | Non Monetary | Leave Entitle-ments | Cash Bonus (2) | Super-annuation | Cash Settled Incentives | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Number of Incentive Rights Granted | Amortised Cost of Incentive Rights | % of Remuner-ation | |
| **P Grier** | **2005** | **643,727** | **40,290** | **72,837** | **280,000** | **11,585** | **107,143** | **567,858** | **35%** | **1,616,297** |
| | 2004 | 577,406 | 15,183 | 12,771 | 180,000 | 11,002 | 107,143 | 59,255 | 7% | 855,617 |
| **B Soden** | **2005** | **400,000** | **22,015** | **49,925** | **400,000** | **11,585** | **53,571** | **283,926** | **24%** | **1,167,451** |
| | 2004 | 345,000 | 17,680 | 27,623 | 62,000 | 11,002 | 53,571 | 29,627 | 6% | 492,932 |
| **Totals** | **2005** | **1,043,727** | **62,305** | **122,762** | **680,000** | **23,170** | **160,714** | **851,784** | **31%** | **2,783,748** |
| | 2004 | 922,406 | 32,863 | 40,394 | 242,000 | 22,004 | 160,714 | 88,882 | 7% | 1,348,549 |

## REMUNERATION REPORT (continued)

### *Table 2. Executive Remuneration (specified executives) – Audited*

***Specified Executives***

C. Rex – Chief Operating Officer

C. Bromwich – NSW State Operations Manager

K. Cass-Ryall – CEO Hollywood Private Hospital

C. McNally – Business Development Manager

A. Kinkade – CEO Greenslopes Private Hospital

| Name | | Primary Benefits | | | | Post Employment | Equity Settled Performance Rights | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & Fees | Non Monetary | Leave Entitle-ments | Cash Bonus (2) | Super-annuation | Number of Rights Granted | Amortised Cost of Rights | % of Remuner-ation | |
| **C Rex** | **2005** | **425,000** | **11,301** | **35,230** | **170,000** | **11,585** | **71,429** | **169,525** | **21%** | **822,641** |
| | 2004 | 385,000 | 11,727 | 5,257 | 70,000 | 11,002 | 71,429 | 33,293 | 6% | 516,279 |
| **C McNally** | **2005** | **320,000** | **21,101** | **48,374** | **350,000** | **11,585** | **35,714** | **84,761** | **10%** | **835,821** |
| | 2004 | 285,000 | 18,554 | 26,302 | 100,000 | 11,002 | 35,714 | 16,646 | 4% | 457,504 |
| **A Kinkade** | **2005** | **309,000** | **8,263** | **946** | **35,000** | **11,585** | **21,429** | **50,858** | **12%** | **415,652** |
| | 2004 | 295,000 | 8,345 | (2,018) | 32,500 | 11,002 | 21,429 | 10,000 | 3% | 354,829 |
| **C Bromwich** | **2005** | **284,000** | **13,952** | **12,785** | **95,000** | **11,585** | **28,571** | **67,809** | **14%** | **485,131** |
| | 2004 | 270,000 | 9,103 | 69,130 | 35,000 | 11,002 | 28,571 | 13,317 | 3% | 407,552 |
| **K Cass-Ryall** | **2005** | **279,000** | **18,753** | **3,337** | **30,000** | **11,585** | **21,429** | **50,858** | **13%** | **393,533** |
| | 2004 | 265,000 | 13,339 | 8,578 | 27,500 | 11,002 | 21,429 | 10,000 | 3% | 335,419 |
| **Totals** | **2005** | **1,617,000** | **73,370** | **100,672** | **680,000** | **57,925** | **178,572** | **423,811** | **14%** | **2,952,778** |
| | 2004 | 1,500,000 | 61,068 | 107,249 | 265,000 | 55,010 | 178,572 | 83,256 | 4% | 2,071,583 |

***Notes:***

(1) Retirement Benefits are frozen to current serving non-executive directors, and will not be extended to new non-executive directors.

(2) STI Bonuses paid during the year were granted in respect of performance in the 2004 Financial Year and in respect of the successful completion of the Affinity transaction in April 2005.

### *Table 3. Performance & Incentive Rights – Audited*

At 30 June 2005 there were:

a) 321,428 cash settled incentive rights granted under the Executive Incentive Rights Plan. Refer to not 23 of the financial statements for further details of the rights outstanding.

b) 694,928 performance rights granted under the equity based Executive Performance Rights Plan. Refer to note 23 of the financial statements for further details of the rights outstanding.

## Fair Values of Incentive Rights (Cash Settled)

The fair value of each incentive 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 and 12 September 2004:

| | **Granted 12 September 2004** | **Granted 6 January 2004** |
|---|---|---|
| Dividend yield | 2.43% | 2.43% |
| Expected volatility | 20% to 25% | 25% to 30% |
| Historical volatility | 35% | 35% |
| Risk-free interest rate | 5.10% | 5.10% |
| 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.

## REMUNERATION REPORT (continued)

The resulting weighted average fair values per incentive right for those rights vesting after 6 January 2004 are:

| Number of Rights | Grant date | Vesting date | Weighted average fair value |
|---|---|---|---|
| 160,714 | 6-Jan-2004 | 6-Jan-2007 | $8.16 * |
| 160,714 | 12-Sep-2004 | 12-Sep-2007 | $7.74 * |
| 321,428 | | | |

Currently, these fair values are recognised as expenses in the financial statements resulting in an employee benefits expense of $459,778 (2004: $88,882) for the 2005 financial year. Note that no adjustments to these amounts have been made to reflect estimated or actual forfeitures (i.e. incentive rights that do not vest).

* Fair value at 30 June 2005.

### 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 and 12 September 2004:

| | Granted 12 September 2004 | Granted 6 January 2004 |
|---|---|---|
| Dividend yield | 3.11% | 3.7% |
| Expected volatility | 20% to 25% | 25% to 30% |
| Historical volatility | 35% | 35% |
| Risk-free interest rate | 5.27% | 5.95% |
| 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 resulting weighted average fair values per incentive right for those rights vesting after 6 January 2004 are:

| Number of Rights | Grant date | Vesting date | Weighted average fair value |
|---|---|---|---|
| 310,714 | 6-Jan-2004 | 6-Jan-2007 | $2.80 * |
| 384,214 | 12-Sep-2004 | 12-Sep-2007 | $4.32 * |
| 694,928 | | | |

Currently, these fair values are not recognised as expenses in the financial statements. Should they have been recognised, they would have resulted in an employee benefits expense of $843,267 (2004: $144,825) for the 2005 financial year. Note that no adjustments to these amounts have been made to reflect estimated or actual forfeitures (i.e. incentive rights that do not vest).

* Fair value at grant date.

## 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 | 8 | 7 | 6 | 11 |
| Number of Meetings attended: | | | | | |
| P.J. Ramsay | 9 | 8 | | | |
| M.S. Siddle | 11 | 8 | | 6 | |
| M.L. Brislee | 10 | 8 | | | 10 |
| A.J. Clark | 11 | 8 | 7 | | |
| P.J. Evans | 11 | 8 | 7 | 6 | 11 |
| I.P.S. Grier | 11 | 8 | | | 8 |
| R.H. McGeoch | 11 | 8 | | 6 | |
| K.C.D. Roxburgh | 11 | 8 | 7 | | |
| B.R. Soden | 11 | 8 | | | |

## COMMITTEES

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

| Committee | Members |
|---|---|
| Audit Committee | Messrs Evans, Roxburgh, Clark |
| Remuneration Committee | Messrs McGeoch, Evans, Siddle |
| Risk Management Committee | Messrs, Evans, McGeoch (alternative), Grier, Mrs Brislee |

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 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 & 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.

## TAX CONSOLIDATION

Effective 1 July 2003, for the purposes of income taxation, Ramsay Health Care Ltd and its 100% owned subsidiaries have formed a tax consolidated group. Members of the group have committed to entering into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis.

Ramsay Health Care Ltd acquired 100% of the share capital of Affinity Holdings SARL on 14 April 2005. As Affinity Holdings SARL was not a resident company of Australia as at 30 June 2005, it is not included in the tax consolidated group of Ramsay Health Care Ltd and its 100% owned subsidiaries. Affinity Holdings SARL became a resident Australian Company in August 2005.

## NON-AUDIT SERVICES

During the year, the Company's auditor, Ernst & Young, provided certain non-audit services to the Company and group entities in addition to their statutory audit services for fees totalling $556,012. Those non-audit services consisted of:

| | |
|---|---|
| • Acquisition due diligence | $296,821 |
| • AIFRS advice | $15,000 |
| • Risk assurance | $72,731 |
| • Share Plan | $9,600 |
| | $394,152 |
| • Taxation advice and compliance | $161,860 |
| | $556,012 |

Fees for audit and audit-related services provided by the auditor during the year totalled $1,026,765. The audit-related services component of that amount was $10,350, consisting of special purpose audit reports.

In addition, Ernst & Young Transaction Advisory Services Limited (EYTA), a company controlled by Ernst & Young, provided advice to the Company during the year in connection with the Company's acquisition of Affinity Holdings SARL (Affinity Transaction) and the divestment of certain of the Affinity hospitals following completion of that transaction. EYTA was paid $1,500,000 during the year 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. Further costs have been incurred by EYTA subsequent to 30 June 2005 in relation to that transaction. Details of the amounts paid to EYTA are also set out in note 29 to the consolidated financial statements.

In accordance with advice from the Company's Audit Committee, the directors are satisfied that the provision of non-audit services during the year by Ernst & Young is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Also in accordance with advice from the Company's Audit Committee, the directors are satisfied that the provision of those non-audit services did not compromise the auditor independence requirements of the Corporations Act 2001 because:

- they have no reason to question the veracity of the auditor's independence declaration referred to in the immediately following section of this report;
- safeguards designed to ensure the integrity and objectivity of the auditor are in place which have been reviewed by the Audit Committee; and

## NON-AUDIT SERVICES (continued)

- The non-audit services provided did not undermine the general principles relating to audit independence as set out in Professional Statement F1 - Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting as in a management or decision making capacity for the Company or acting as an advocate for the Company.
- In relation to the Affinity transaction, independent accountants, actuaries and valuers have reviewed, and as appropriate will continue to review, the relevant assets and liabilities arising from the Transaction.

Details of the amounts paid for audit and non-audit services provided during the year are set out in note 29 to the consolidated financial statements.

## AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration (made under section 307C of the Corporations Act 2001) is set out on page 33 and forms part of this report.

ERNST & YOUNG

**Ernst & Young Centre**
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock Exchange 10172

## 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 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

**ERNST & YOUNG**

C. M. Hosking

**COLLEEN HOSKING**
**Partner**

Sydney
Date: 20 September 2005

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

## CORPORATE GOVERNANCE

In recognition of the need for the highest standards of corporate behaviour and accountability, the Directors of Ramsay Health Care Limited 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**
**Chairman**

**I.P.S. GRIER**
**Managing Director**

Sydney, 27 September 2005

Ernst & Young

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## INDEPENDENT AUDIT REPORT TO MEMBERS OF RAMSAY HEALTH CARE LIMITED



### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, 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 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard 1046 *Director and Executive Disclosures by Disclosing Entities*, under the heading, "remuneration report" in pages 24 to 30 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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 on it 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 1046 and the *Corporations Regulations 2001*. 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 remunerations disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.

ERNST & YOUNG

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
- 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. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed. In addition to our audit of the financial report and remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

## 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 2005 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 in pages 24 to 30 of the directors report comply with accounting standard AASB 1046 and the *Corporations Regulations 2001*.

Ernst & Young

**ERNST & YOUNG**

C. M. Hosking

**COLLEEN HOSKING**
**Partner**

Sydney
Date: 27 September 2005

# RAMSAY HEALTH CARE LIMITED DIRECTORS' DECLARATION

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

1. In the opinion of the directors:

(a) the financial statements and notes 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 2005 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.

2. This declaration has been made after receiving the declaration provided by the Managing Director and the Finance Director required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.

On behalf of the Board

**P.J. RAMSAY**
**Chairman**

**I.P.S. GRIER**
**Managing Director**

Sydney, 27 September 2005

# RAMSAY HEALTH CARE LIMITED & CONTROLLED ENTITIES
# STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Operating revenue | | 1,442,771 | 767,659 | 580 | 3,119 |
| Dividends received | | 6 | 445 | 136,772 | - |
| Interest income | | 971 | 784 | - | 1 |
| Proceeds on sale of assets | | 1,989 | 385 | - | - |
| Total revenue from ordinary activities | 2 | 1,445,737 | 769,273 | 137,352 | 3,120 |
| Details of Expenditure: | | | | | |
| Personnel costs (excluding specific items) | | (761,888) | (414,034) | (234) | (160) |
| Occupancy costs (excluding specific items) | | (72,895) | (31,557) | - | - |
| Medical consumables and supplies | | (383,139) | (187,088) | - | - |
| Cost of services | | (55,525) | (29,666) | (1,274) | (1,007) |
| Depreciation and amortisation | 3 (a) | (56,748) | (28,305) | - | - |
| Borrowing cost expense (excluding specific item) | 3 (a) | (46,649) | (16,396) | - | - |
| Carrying value of assets sold | | (1,820) | (908) | - | - |
| Specific items | | | | | |
| - Borrowing costs associated with divestment hospitals | 3 (c) | (2,602) | - | - | - |
| - Borrowing costs associated with bridge funding | 3 (c) | (3,873) | - | - | - |
| - Corporate restructuring | 3 (c) | (6,222) | - | - | - |
| - Due Diligence costs associated with Mayne's Bid | 3 (c) | - | (2,493) | - | - |
| - Unamortised borrowing costs written off | 3 (c) | (2,858) | (2,156) | - | - |
| Total expenses from ordinary activities | | (1,394,219) | (712,603) | (1,508) | (1,167) |
| **Profit from ordinary activities before income tax expense** | | 51,518 | 56,670 | 135,844 | 1,953 |
| **Income tax expense relating to ordinary activities** | 4 | (21,120) | (18,317) | (13,426) | (586) |
| **Profit from ordinary activities after income tax expense** | | 30,398 | 38,353 | 122,418 | 1,367 |
| **Profit attributable to minority interests** | | (327) | - | - | - |
| **Net profit attributable to members of Ramsay Health Care Limited** | | 30,071 | 38,353 | 122,418 | 1,367 |
| Share issue costs | | (17,705) | - | (17,705) | - |
| **Total revenue, expenses and valuation adjustment recognised directly in equity** | | (17,705) | - | (17,705) | - |
| **Total changes in equity other than those resulting from transactions with owners as owners** | | 12,366 | 38,353 | 104,713 | 1,367 |
| Basic earnings per share (cents per share) | 32 | 21.7 cents | 29.8 cents | | |
| Diluted earnings per share (cents per share) | 32 | 21.7 cents | 29.8 cents | | |
| Franked dividends per share (cents per share) | 5 | 20.0 cents | 17.5 cents | | |

# RAMSAY HEALTH CARE LIMITED & CONTROLLED ENTITIES
# STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2005

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | |
| Cash assets | 24 (b) | 51,434 | 22,488 | 99 | 46 |
| Receivables | 6 | 306,545 | 74,773 | 2,674 | 74 |
| Inventories | 7 | 48,673 | 12,849 | - | - |
| Other | 8 | 23,005 | 11,346 | - | - |
| **TOTAL CURRENT ASSETS** | | 429,657 | 121,456 | 2,773 | 120 |
| **NON CURRENT ASSETS** | | | | | |
| Receivables | 31 | - | - | 607,212 | 18,235 |
| Other financial assets | 9 | 3,000 | 305 | 139,997 | 139,997 |
| Property, plant & equipment | 10 | 1,476,407 | 519,084 | - | - |
| Intangible assets | 11 | 807,867 | 7,996 | - | - |
| Deferred tax assets | 12, 4 | 95,554 | 25,062 | 34,680 | 25,062 |
| Other | 13 | 17,563 | 16,266 | - | - |
| **TOTAL NON CURRENT ASSETS** | | 2,400,391 | 568,713 | 781,889 | 183,294 |
| **TOTAL ASSETS** | | 2,830,048 | 690,169 | 784,662 | 183,414 |
| **CURRENT LIABILITIES** | | | | | |
| Accounts payable | 14 | 266,419 | 82,831 | 95 | 12 |
| Interest-bearing liabilities | 15 | 10,653 | 7,545 | - | - |
| Provisions | 16 | 106,072 | 29,133 | 3,644 | 940 |
| Current tax liabilities | 4 | 18,357 | 11,971 | - | 11,971 |
| **TOTAL CURRENT LIABILITIES** | | 401,501 | 131,480 | 3,739 | 12,923 |
| **NON CURRENT LIABILITIES** | | | | | |
| Accounts payable | 17 | 14,332 | - | 3,146 | 15,498 |
| Interest-bearing liabilities | 18 | 1,377,810 | 225,956 | - | - |
| Provisions | 19 | 172,073 | 30,470 | - | - |
| Deferred tax liabilities | 20, 4 | 64,215 | 31,674 | 32,984 | 31,674 |
| **TOTAL NON CURRENT LIABILITIES** | | 1,628,430 | 288,100 | 36,130 | 47,172 |
| **TOTAL LIABILITIES** | | 2,029,931 | 419,580 | 39,869 | 60,095 |
| **NET ASSETS** | | 800,117 | 270,589 | 744,793 | 123,319 |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Ordinary issued capital | 21.1 | 393,556 | 121,870 | 393,556 | 121,870 |
| Convertible adjustable rate equity securities | 21.2 | 252,165 | - | 252,165 | - |
| Reserves | 22 | 54,307 | 54,533 | - | - |
| Retained profits | 22 | 99,462 | 94,186 | 99,072 | 1,449 |
| Parent interests | | 799,490 | 270,589 | 744,793 | 123,319 |
| Minority interests | | 627 | - | - | - |
| **TOTAL SHAREHOLDERS' EQUITY** | | 800,117 | 270,589 | 744,793 | 123,319 |

# RAMSAY HEALTH CARE LIMITED & CONTROLLED ENTITIES
# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from customers | | 1,486,955 | 766,734 | 580 | 3,111 |
| Payments to suppliers & employees | | (1,308,298) | (670,573) | (1,425) | (944) |
| Dividends received | | 6 | 445 | - | - |
| Income tax paid | | (28,714) | (21,042) | - | - |
| Borrowing costs paid | | (50,798) | (17,506) | - | - |
| Interest received | | 971 | 784 | - | 1 |
| GST received | | 49,195 | 30,318 | - | - |
| GST paid | | (14,737) | (12,631) | - | - |
| Expenditure on capitalised borrowing costs | | (20,672) | (2,788) | - | - |
| Net cash flows from/(used in) operating activities | 24 (a) | 113,908 | 73,741 | (845) | 2,168 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchase of property, plant and equipment | | (61,688) | (34,112) | - | - |
| Deferred payment on Silver Circle | | (1,133) | - | - | - |
| Acquisition of Benchmark Healthcare Group | 24 (d) | (106,619) | (13,478) | - | - |
| Acquisition of Gracedale Private Nursing Home | 24 (e) | (9,802) | - | - | - |
| Acquisition of Ellis Aged Care | 24 (f) | (38,457) | - | - | - |
| Acquisition of Murray Valley Private Hospital | 24 (g) | (1,926) | - | - | - |
| Acquisition of Rockingham Family Hospital | 24 (h) | (1,489) | - | - | - |
| Acquisition of Affinity Healthcare Ltd | 24 (i) | (811,808) | - | - | - |
| Acquisition of Home Care Services | 24 (j) | (1,485) | - | - | - |
| Purchase of business | 24 (k) | - | (2,938) | - | - |
| Proceeds from sale of property, plant and equipment | | 1,989 | 385 | - | - |
| Net cash flows used in investing activities | | (1,032,418) | (50,143) | - | - |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from issue of ordinary shares | | 281,557 | 379 | 281,557 | 378 |
| Issue costs - ordinary shares | | (9,870) | - | (9,870) | - |
| Proceeds from issue of CARES | | 260,000 | - | 260,000 | - |
| Issue costs - CARES | | (7,835) | - | (7,835) | - |
| Dividends paid | | (24,795) | (21,273) | (24,796) | (21,273) |
| Repayment of finance lease - principal | | (6,320) | (774) | - | - |
| Borrowings - receipts other | | 976,159 | 9,400 | - | 18,578 |
| Borrowings - repayment other | | (521,438) | (5,722) | - | - |
| Advances to related parties | | - | - | (498,158) | - |
| Net cash flows from/(used in) financing activities | | 947,458 | (17,990) | 898 | (2,317) |
| Net increase/(decrease) in cash held | | 28,946 | 5,608 | 53 | (149) |
| Add opening cash brought forward | | 22,488 | 15,011 | 46 | 195 |
| (Increase)/Decrease in restricted cash balances | | (6,996) | 1,869 | - | - |
| **CLOSING CASH CARRIED FORWARD** | 24 (b) | 44,438 | 22,488 | 99 | 46 |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the Group are set out below:

### (a) Basis of Accounting

The financial report has been prepared in accordance with the historical cost convention, except for property and certain plant and equipment, measured at fair value.

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

### (b) Changes in Accounting Policy

The accounting policies adopted are consistent with those of the previous year.

### (c) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising Ramsay Health Care Limited (the parent entity) and all entities which Ramsay Health Care Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

All intercompany balances and transactions including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

### (d) Foreign Currencies

#### *Exchange of foreign currency transactions*

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable to and by the entities within the consolidated entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year, or where applicable the contractual exchange rate.

All exchange differences arising on settlement or restatement are brought to account in determining the profit or loss for the financial period.

#### *Translation of financial reports of overseas operations*

All overseas operations are deemed self sustaining, as each is financially and operationally independent of Ramsay Health Care Limited. The financial reports of overseas operations are translated using the current rate method and any exchange differences are taken directly to the foreign exchange translation reserve.

### (e) Cash

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts and restricted cash.

### (f) Trade & Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred. Interest is taken up as income on an accrual basis.

### (g) Inventories

Inventories are recorded using the FIFO method and valued at the lower of cost and net realisable value. Inventories include medical and food supplies to be consumed in providing future patient services.

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

### (h) Investments

Investments are valued at the lower of cost and recoverable amount. Dividends, distributions, and interest are brought to account when received.

### (i) Recoverable Amount

Non current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have been discounted to their present value, using a market determined risk adjusted discount rate.

### (j) Property, Plant & Equipment

#### *Cost and Valuation*

Property, plant and equipment, including land and buildings of licensed private hospitals are measured on a fair value basis. At each reporting date, the value of each asset in these classes is reviewed to ensure that it does not differ materially from the assets fair value at that date. Where necessary, the asset is revalued to reflect its fair value. Any surplus on revaluation is credited directly to the asset revaluation reserve and excluded from income. Any net downward revaluation of the class of assets in excess of the asset revaluation reserve previously recognized for that class of asset, is recognised as an expense. Potential capital gains tax on assets acquired after the introduction of capital gains tax has not been taken into account in determining the fair value. All other classes of property, plant and equipment are measured at cost.

The cost of property, plant and equipment constructed within the Group includes the cost of materials, direct labour and an appropriate proportion of fixed and variable overhead. Interest payable and related borrowing costs are capitalised on qualifying assets having a total value in excess of $100,000, subject to the overall effect of such capitalisation not being to overstate the recoverable amount of such asset. Costs related to development projects are capitalised from the time the Company becomes the successful tenderer.

Any gain or loss on the disposal of assets, including revalued assets, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds from disposal and is included in the results of the Group in the period of disposal.

#### *Depreciation*

All property, plant and equipment including capitalised leasehold assets, but excluding freehold land are depreciated over their estimated useful lives commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. Costs of renewal and replacement of surgical instruments are charged directly against revenue.

Hospital and bed licences are stated at fair value and no amortisation has been provided against these assets as the Directors believe that the life of such licences is of such duration, and the residual value would be such that the amortisation charge, if any, would not be material.

Depreciation is provided on a straight line basis on all property, plant and equipment other than freehold land.

Major depreciation periods are:

- 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

There has been no change in the depreciation periods from prior year.

### (k) Intangible Assets

#### *Goodwill*

Purchased goodwill and goodwill arising on consolidation represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity.

Goodwill is amortised on a straight line basis over the period during which benefits are expected to be received. These periods range between 10 and 20 years.

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

### (l) Trade, Other Payables, Sundry Creditors & Accrued Expenses

Liabilities for trade creditors and other amounts are carried at cost 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.

Payables to related parties are carried at the principal amount. Interest when charged by the lender, is recognised as an expense on an accrual basis.

Deferred cash settlements are recognised at the principal amount of the outstanding consideration payable on the acquisition of an asset.

### (m) Interest Bearing Liabilities

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

### (n) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### *Operating Leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

#### *Finance Leases*

Finance lease liability is determined in accordance with the requirements of AASB 1008 “Leases”.

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the statement of financial performance.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

### (o) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements; and other types of employee benefits;

are recognised against profits on a net basis in their respective categories.

The chief entity and controlled entities contribute to industry and individual superannuation funds. The entity contributes to the funds at various agreed contribution levels, which are not less than the statutory minimum. Any contributions made to the superannuation plans are recognised against profits when due.

The value of the employee share rights scheme described in note 23 is not being charged as an employee benefits expense.

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

### (p) Revenue Recognition

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

#### *Patient Revenue*

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

#### *Interest*

Interest is accrued on a daily basis based on the principal amount and prevailing interest rate.

#### *Dividends*

Dividends are recognised when received.

#### *Rental Revenue*

Rental income is recognised on an accruals basis.

#### *Grants*

Grants are recognised when cash is received.

### (q) Taxes

#### *Income Tax*

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Where assets are revalued no provision for potential capital gains tax has been made.

The income tax expense for the year is calculated using the 30% tax rate.

#### *Goods & Services Tax (GST)*

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 Statement of Financial Position.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority

### (r) Earnings per Share (EPS)

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

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

- costs of servicing equity (other than dividends) and preference share 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.

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

### (s) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, on or before balance date.

### (t) 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.

### (u) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

### (v) Derivative financial instruments

#### *Interest rate swaps*

Ramsay Health Care Ltd enters into interest rate swap agreements that are used to convert the variable interest rate of its long term borrowings to long term fixed interest rates. The swaps are entered into with the objective of reducing the risk of rising interest rates.

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

### (w) Accommodation Bond Liabilities

Liabilities for accommodation bonds are carried at cost.

### (x) Comparatives

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

| | Consolidated | | Ramsay Health Care Limited | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| **2. REVENUE FROM ORDINARY ACTIVITIES** | | | | |
| Revenue from operating activities: | | | | |
| Revenue from services | 1,414,132 | 752,253 | - | - |
| Management fees | | | | |
| Controlled entities (fully owned) | - | - | 580 | 619 |
| Rental income | | | | |
| Other persons/corporations | 10,935 | 6,773 | - | - |
| Guarantee fee | | | | |
| Controlled entities (fully owned) | - | - | - | 2,500 |
| Bad debts recovered | 24 | 44 | - | - |
| Income from ancillary services | 17,680 | 8,589 | - | - |
| Total revenue from operating activities | 1,442,771 | 767,659 | 580 | 3,119 |
| Revenue from non-operating activities: | | | | |
| Dividends and distributions | | | | |
| Other persons/corporations | 6 | 445 | - | - |
| Controlled entities (fully owned) | - | - | 136,772 | - |
| Interest | | | | |
| Other persons/corporations | 971 | 784 | - | - |
| Controlled entities (fully owned) | - | - | - | 1 |
| Proceeds on sale of property, plant and equipment | 1,989 | 385 | - | - |
| Total revenue from outside the operating activities | 2,966 | 1,614 | 136,772 | 1 |
| Total revenues from ordinary activities | 1,445,737 | 769,273 | 137,352 | 3,120 |

| | Consolidated | | Ramsay Health Care Limited | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| **3. EXPENSES & LOSSES/(GAINS)** | | | | |
| **(a) Expenses** | | | | |
| Amortisation of non-current assets: | | | | |
| - Goodwill | 13,003 | 658 | - | - |
| - Leasehold improvements | 596 | 405 | - | - |
| - Capitalised leased assets | 1,254 | 469 | - | - |
| | 14,853 | 1,532 | - | - |
| Depreciation of non-current assets: | | | | |
| - Plant and equipment | 32,773 | 19,226 | - | - |
| - Buildings | 9,122 | 7,547 | - | - |
| | 41,895 | 26,773 | - | - |
| Total depreciation and amortisation | 56,748 | 28,305 | - | - |
| Bad and doubtful debts: | | | | |
| - Trade debtors | 632 | 295 | - | - |
| Rental - operating leases | 26,269 | 5,837 | - | - |
| Contributions to superannuation funds | 36,347 | 25,194 | - | - |
| Borrowing costs: | | | | |
| - Interest expense | | | | |
| Other persons/corporations | 45,946 | 16,284 | - | - |
| - Finance charges - lease liability | 158 | 112 | - | - |
| - Finance charges - hire purchase | 545 | - | - | - |
| | 46,649 | 16,396 | - | - |
| Borrowing costs disclosed as specific items: | | | | |
| - Borrowing costs related to divestment hospitals | 2,602 | - | - | - |
| - Borrowing costs related to divestment bridge funding | 3,873 | - | - | - |
| - Unamortised borrowing costs written off | 2,858 | 2,156 | - | - |
| | 9,333 | 2,156 | - | - |
| - Borrowing costs associated with 2005 refinancing | 17,814 | - | - | - |
| - Borrowing costs associated with 2004 refinancing | - | 2,788 | - | - |
| Total Borrowing Costs | 73,796 | 21,340 | - | - |
| Less: Borrowing Costs Capitalised | (17,814) | (2,788) | - | - |
| Total Borrowing Costs Expensed | 55,982 | 18,552 | - | - |
| **(b) Losses / (Gains)** | | | | |
| Net (gain) / loss on disposal of property, plant and equipment | (169) | 523 | - | - |
| **(c) Specific Items** | | | | |
| - Borrowing costs associated with divestment hospitals | 2,602 | - | - | - |
| - Borrowing costs associated with bridge funding | 3,873 | - | - | - |
| - Write off borrowing costs associated with July 2004 refinancing | 2,858 | - | - | - |
| - Corporate restructuring costs associated with Affinity acquisition | 6,222 | - | - | - |
| - Due diligence costs associated with the unsuccessful bid for Mayne's Hospital Portfolio | - | 2,493 | - | - |
| - Write off of borrowing costs associated with 2001 refinancing | - | 2,156 | - | - |
| | 15,555 | 4,649 | - | - |

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| **4. INCOME TAX** | | | | | |
| The prima facie tax on profit from ordinary activities differs from the income tax provided in the financial statements as follows: | | | | | |
| Profit from ordinary activities before income tax | | 51,518 | 56,670 | 135,844 | 1,953 |
| Prima facie tax on profit from ordinary activities at 30% (2004: 30%) | | 15,455 | 17,001 | 40,753 | 586 |
| Tax effect of permanent differences: | | | | | |
| - Goodwill amortisation | | 3,901 | 197 | - | - |
| - Net allowable add backs / (deductions) | | 1,764 | 1,256 | 13,705 | - |
| - Rebateable Dividends | | - | - | (41,032) | - |
| Overprovision | | - | (137) | - | - |
| Income tax expense attributable to ordinary activities | | 21,120 | 18,317 | 13,426 | 586 |
| **Deferred tax assets and liabilities** | | | | | |
| Current tax payable / (receivable) | | 18,357 | 11,971 | (2,525) | 11,971 |
| Provision for deferred income tax - non-current | 20 | 64,215 | 31,674 | 32,984 | 31,674 |
| Future income tax benefit - non-current | 12 | 95,554 | 25,062 | 34,680 | 25,062 |

## Tax consolidation

For the purposes of income taxation, Ramsay Health Care Limited and its 100% owned Australian subsidiaries, constitute an Australian tax consolidated group. Members of the group have entered into a tax sharing arrangement to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. The agreement also provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The head entity of the tax consolidated group is Ramsay Health Care Limited.

Ramsay Health Care Limited acquired an indirect interest in the share capital of Affinity Health Holdings Australia Pty Limited and Affinity Health Finance Australia Pty Limited on 14 April 2005. As Affinity Health Holdings Australia Pty Limited and Affinity Health Finance Australia Pty Limited are not wholly-owned by Ramsay Health Care Limited as at 30 June 2005, they are not eligible to be included in the tax consolidated group of Ramsay Health Care Limited.

Affinity Health Holdings Australia Pty Limited and Affinity Health Finance Australia Pty Limited and their 100% owned Australian subsidiaries constitute a separate Australian tax consolidated group. The head entity of the Affinity Health tax consolidated group is Affinity Health Finance Australia Pty Limited.

| | Consolidated | | Ramsay Health Care Limited | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| **5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES & CARES** | | | | |
| **(a) Ordinary dividends paid during the year:** | | | | |
| *(i) Interim dividend paid* | | | | |
| - Franked dividends - ordinary (8.5 cents per share) (2004: 7.5 cents per share) | 11,902 | 9,670 | 11,902 | 9,670 |
| *(ii) Previous year final dividend paid* | | | | |
| - Franked dividends - ordinary (10 cents per share) (2004: 9 cents per share) | 12,893 | 11,603 | 12,893 | 11,603 |
| | 24,795 | 21,273 | 24,795 | 21,273 |
| **(b) Ordinary dividends proposed and not recognised as a liability:** | | | | |
| *Current year final dividend proposed* | | | | |
| - Franked dividends - ordinary (11.5 cents per share) (2004: 10 cents per share) | 19,594 | 12,893 | 19,594 | 12,893 |
| **(c) CARES dividends proposed and not recognised as a liability:** | | | | |
| - 20 October 2005 dividend proposed | 6,382 | - | 6,382 | - |

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.

| | | | | |
|---|---|---|---|---|
| **(d) 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% (2004: 30%) | | | 30,901 | 12,796 |
| - franking credits that will arise from the payment of income tax payable as at the end of the financial year * | | | 1,370 | 21,792 |
| | | | 32,271 | 34,588 |

* As Ramsay Health Care Limited and its 100% owned Australian subsidiaries constitute a tax consolidated group, this represents the current tax payable for the group.

The tax rate at which paid dividends have been franked is 30% (2004: 30%). 100% of the proposed dividends will be franked at the rate of 30% (2004: 30%).

| | Note | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| **6. RECEIVABLES (CURRENT)** | | | | | |
| Trade debtors | | 280,455 | 67,834 | - | - |
| Provision for doubtful debts | | (6,014) | (2,148) | - | - |
| | | 274,441 | 65,686 | - | - |
| Amounts receivable from related parties | | | | | |
| Wholly owned group | | | | | |
| - Controlled entities | 31 | - | - | 2,525 | - |
| Other debtors | | 32,434 | 9,476 | 149 | 74 |
| Provision for doubtful debts | | (330) | (389) | - | - |
| | | 32,104 | 9,087 | 2,674 | 74 |
| | | 306,545 | 74,773 | 2,674 | 74 |

### *Terms and Conditions:*

Trade debtors are carried at nominal amounts due less any provision for doubtful debts. A provision for doubtful debts is recognised when collection of the full nominal amount is no longer probable. Credit sales are mainly on 15 to 30 day terms, dependent on the conditions of specific contracts.

### *Concentration of Credit Risk:*

The economic entity'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 economic entity'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. Concentration of credit risk on trade debtors arise as follows:

| Consolidated Maximum Credit Risk Exposure | | | | |
|---|---|---|---|---|
| | Percentage of Total Trade Debtors (%) | | $000 | |
| | 2005 | 2004 | 2005 | 2004 |
| Health funds | 65 | 68 | 176,265 | 44,705 |
| Government | 16 | 21 | 43,581 | 13,864 |
| Other | 19 | 11 | 54,595 | 7,117 |
| Total | 100 | 100 | 274,441 | 65,686 |

| | | Consolidated | | Ramsay Health Care Limited | |
|---|---|---|---|---|---|
| | | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |

## 7. INVENTORIES (CURRENT)

| | | | | |
|---|---|---|---|---|
| Amount of medical and food supplies to be consumed in providing future patient services - at cost | 48,673 | 12,849 | - | - |

## 8. OTHER ASSETS (CURRENT)

| | | | | |
|---|---|---|---|---|
| Prepayments | 23,005 | 11,346 | - | - |

## 9. OTHER FINANCIAL ASSETS (NON-CURRENT)

### (a) Investments at cost comprise:

| | | | | | |
|---|---|---|---|---|---|
| Ordinary Shares: | | | | | |
| - Listed on a prescribed stock exchange | | 25 | 25 | - | - |
| - Other | | 2,833 | 138 | - | - |
| | | 2,858 | 163 | - | - |
| Units in unit trust: | | | | | |
| - Listed on a prescribed stock exchange | | 77 | 77 | - | - |
| - Unsecured notes – unlisted | | 65 | 65 | - | - |
| | | 142 | 142 | - | - |
| | | 3,000 | 305 | - | - |
| Investment in controlled entities: | | | | | |
| - Unlisted shares and units | 9 (b) | - | - | 139,997 | 139,997 |
| | | 3,000 | 305 | 139,997 | 139,997 |

Listed shares and units are carried at the lower of cost or recoverable amount. Dividend income is recognised when the dividends are received from the investee.

Unlisted shares and notes are carried at the lower of cost or recoverable amount. Distributions are recognised as income when received.

## 9. OTHER FINANCIAL ASSETS (NON-CURRENT) (continued)

### (b) Investments in controlled entities:

Investments in controlled entities comprise:

| | Country of Incorporation | Beneficial Percentage Held 2005 % | Beneficial Percentage Held 2004 % | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| Retrogen Sdn Bhd # (in liquidation) | Malaysia | - | 100% | - | - |
| 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 Limited and its controlled entity Pty Ltd | Australia | 100% | 100% | | |
| Ramsay Aged Care Pty Limited | Australia | 100% | 100% | | |
| Ramsay Aged Care Properties Pty Ltd | Australia | 100% | - | | |
| Glad Pty Limited | Australia | 100% | - | | |
| Benchmark Healthcare Holdings Limited and its controlled entities: | | | | | |
| Benchmark Healthcare Pty Limited | Australia | 100% | - | | |
| Donvale Private Hospital Pty Limited | Australia | 100% | - | | |
| Donvale Private Hospital Unit Trust | Australia | 100% | - | | |
| The Benchmark Hospital Group Pty Limited | Australia | 100% | - | | |
| Beleura Holdings Unit Trust | Australia | 100% | - | | |
| Dandenong Valley Private Hospital Pty Limited | Australia | 100% | - | | |
| Dandenong Valey Private Hospital Unit Trust | Australia | 100% | - | | |
| Benchmark - Surrey Pty Limited | Australia | 100% | - | | |
| Surrey Hospital Unit Trust | Australia | 100% | - | | |
| Benchmark - Peninsula Pty Limited | Australia | 100% | - | | |
| Peninsula Hospital Unit Trust | Australia | 100% | - | | |
| Benchmark - Donvale Pty Limited | Australia | 100% | - | | |
| Chelsea Hospital Unit Trust | Australia | 100% | - | | |
| Benchmark - Windermere Pty Limited | Australia | 100% | - | | |
| Windermere Hospital Unit Trust | Australia | 100% | - | | |
| Benchmark - Beleura Pty Limited | Australia | 100% | - | | |
| Beleura Hospital Unit Trust | Australia | 100% | - | | |
| Benchmark The Valley Pty Limited | Australia | 100% | - | | |
| The Valley Private Hospital Unit Trust | Australia | 100% | - | | |
| Beleura Properties Pty Limited | Australia | 100% | - | | |
| Beleura Properties Unit Trust | Australia | 100% | - | | |
| Balance carried forward | | | | 139,997 | 139,997 |

| | Country of Incorporation | Beneficial Percentage Held 2005 % | 2004 % | Ramsay Health Care Limited 2005 $000 | 2004 $000 |
|---|---|---|---|---|---|
| **9. OTHER FINANCIAL ASSETS (NON-CURRENT)** (continued) | | | | | |
| Balance brought forward | | | | 139,997 | 139,997 |
| AHH Holdings Health Care Pty Limited and its Controlled entities: | Australia | 100% | - | | |
| AH Holdings Health Care Pty Limited and its Controlled entities: | Australia | 100% | - | | |
| Affinity Health Care Holdings Pty Limited | Australia | 100% | - | | |
| PT Affinity Health Indonesia | Indonesia | 92% | - | | |
| Affinity Health Holdings Australia Pty Limited | Australia | 100% | - | | |
| Affinity Health Finance Australia Pty Limited | Australia | 100% | - | | |
| Affinity Health Limited and its Controlled entities: | Australia | 100% | - | | |
| Affinity Health (FP) Pty Limited | Australia | 100% | - | | |
| Affinity Health Foundation Pty Limited | Australia | 100% | - | | |
| AHC Foundation Pty Limited | Australia | 100% | - | | |
| AHC Radiology Pty Limited | Australia | 100% | - | | |
| AHC Tilbox Pty Limited | Australia | 100% | - | | |
| AME Hospitals Pty Limited | Australia | 100% | - | | |
| AME Properties Pty Limited | Australia | 100% | - | | |
| AME Property Trust | Australia | 100% | - | | |
| AME Superannuation Pty Limited | Australia | 100% | - | | |
| AME Trading Trust | Australia | 100% | - | | |
| AME Trust | Australia | 100% | - | | |
| AMNL Pty Limited | Australia | 100% | - | | |
| Armidale Hospital Pty Limited | Australia | 100% | - | | |
| Attadale Hospital Property Pty Ltd | Australia | 100% | - | | |
| Australian Hospital Care (Allamanda) Pty Limited | Australia | 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 (Latrobe) Pty Limited | Australia | 100% | - | | |
| Australian Hospital Care (Masada) Pty Limited | Australia | 100% | - | | |
| Australian Hospital Care (MPH) Pty Limited | Australia | 100% | - | | |
| Australian Hospital Care (MSH) Pty Limited | Australia | 100% | - | | |
| Australian Hospital Care (Northpark) Pty Limited | Australia | 100% | - | | |
| Balance carried forward | | | | 139,997 | 139,997 |

## 9. OTHER FINANCIAL ASSETS (NON-CURRENT) (continued)

| | Country of Incorporation | Beneficial Percentage Held 2005 % | Beneficial Percentage Held 2004 % | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| Balance brought forward | | | | 139,997 | 139,997 |
| Affinity Health Limited and its Controlled entities: (continued) | Australia | 100% | - | | |
| Australian Hospital Care (Pindara) Pty Limited | Australia | 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% | - | | |
| Australian Hospital Care 1988 Pty Limited | Australia | 100% | - | | |
| Australian Hospital Care Investments Pty Limited | Australia | 100% | - | | |
| Australian Hospital Care Limited | Australia | 100% | - | | |
| Australian Hospitals Unit Trust | Australia | 100% | - | | |
| Australian Medical Enterprises Limited | Australia | 100% | - | | |
| Australian Hospital Care Retirement Plan Pty Limited | Australia | 50% | - | | |
| C&P Hospitals Holdings Pty Limited | Australia | 100% | - | | |
| C.R.P.H Pty Limited | Australia | 100% | - | | |
| Caboolture Hospital Pty Limited | Australia | 100% | - | | |
| Dabuvu Pty Limited | Australia | 100% | - | | |
| eHealth Technologies Limited | Australia | 100% | - | | |
| Glengarry Hospital Property Pty Limited | Australia | 100% | - | | |
| Glengarry Hospital Unit Trust No1 | Australia | 100% | - | | |
| Glengarry Hospital Unit Trust No2 | Australia | 100% | - | | |
| Hadassah Pty Limited | Australia | 100% | - | | |
| Health Technologies Pty Limited | Australia | 100% | - | | |
| HOAIF Pty Limited | Australia | 100% | - | | |
| Hospital Affiliates of Australia Pty Limited | Australia | 100% | - | | |
| Hospital Corporation Australia Pty Limited | Australia | 100% | - | | |
| Hallcraft Pty Limited | Australia | 100% | - | | |
| Hallcraft Unit Trust | Australia | 100% | - | | |
| HCA Management Pty Limited | Australia | 100% | - | | |
| HCoA Hospital Holdings (Australia) Pty Limited | Australia | 100% | - | | |
| HCoA Operations (Australia) Pty Limited | Australia | 100% | - | | |
| Hospital Developments Pty Limited | Australia | 100% | - | | |
| Hospitals of Australia Limited | Australia | 100% | - | | |
| Jamison Private Hospital Property Pty Limited | Australia | 100% | - | | |
| Joondalup Hospital Pty Limited | Australia | 100% | - | | |
| Knox Private Hospital Unit Trust | Australia | 100% | - | | |
| Logan Hospital Pty Limited | Australia | 100% | - | | |
| Malahini Pty Limited | Australia | 100% | - | | |
| Balance carried forward | | | | 139,997 | 139,997 |

| | Country of Incorporation | Beneficial Percentage Held 2005 % | Beneficial Percentage Held 2004 % | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| **9. OTHER FINANCIAL ASSETS (NON-CURRENT)** (continued) | | | | | |
| Balance brought forward | | | | 139,997 | 139,997 |
| Affinity Health Limited and its | | | | | |
| Controlled entities: (continued) | Australia | 100% | - | | |
| Masada Private Hospital Unit Trust | Australia | 100% | - | | |
| Mayne Properties Pty Limited | Australia | 100% | - | | |
| Melbourne Hospital Pty Limited | Australia | 100% | - | | |
| Noosa Privatised Hospital Pty Limited | Australia | 100% | - | | |
| Pindara Private Hospital Unit Trust | Australia | 100% | - | | |
| P.M.P.H Pty Limited | Australia | 100% | - | | |
| P.O.W Hospital Pty Limited | Australia | 100% | - | | |
| Port Macquarie Hospital Pty Limited | Australia | 100% | - | | |
| Pruinosa Pty Limited | Australia | 100% | - | | |
| Rannes Pty Limited | Australia | 100% | - | | |
| Rehabilitation Holdings Pty Limited | Australia | 100% | - | | |
| Relkban Pty Limited | Australia | 100% | - | | |
| Relkmet Pty Limited | Australia | 100% | - | | |
| Ringwood Private Hospital Unit Trust | Australia | 100% | - | | |
| Spare Unit Trust | Australia | 100% | - | | |
| The AHC Radiology Unit Trust | Australia | 100% | - | | |
| The Victorian Rehabilitation Centre Pty Limited | Australia | 100% | - | | |
| Tilemo Pty Limited | Australia | 100% | - | | |
| Victoria House Holdings Pty Limited | Australia | 100% | - | | |
| Votraint No. 664 Pty Limited | Australia | 100% | - | | |
| Votraint No. 665 Pty Limited | Australia | 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 | | | | 139,997 | 139,997 |

## 9. OTHER FINANCIAL ASSETS (NON-CURRENT) (continued)

| | Country of Incorporation | Beneficial Percentage Held 2005 % | Beneficial Percentage Held 2004 % | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| Balance brought forward | | | | 139,997 | 139,997 |
| Alpha Healthcare and its Controlled entities: (continued) | Australia | 100% | 100% | | |
| 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 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% | - | | |
| Ramsay Health Care Services (VIC) Pty Limited | Australia | 100% | - | | |
| Ramsay Health Care Services (WA) Pty Limited | Australia | 100% | - | | |
| Ramsay Health Care Australia Pty Limited and its controlled entities (continued): | | | | | |
| 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% | 100% | | |
| | | | | 139,997 | 139,997 |

# Audited by other member firms of Ernst & Young International
* Denotes $2.00

| | Consolidated | | Ramsay Health Care Limited | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| **10. PROPERTY, PLANT & EQUIPMENT** | | | | |
| Licensed private hospitals at fair value (a) | 1,248,239 | 441,621 | - | - |
| Leasehold improvements - at cost | 67,388 | 10,980 | - | - |
| Less: accumulated amortisation | (17,192) | (2,120) | - | - |
| | 50,196 | 8,860 | - | - |
| Total land and buildings | 1,298,435 | 450,481 | - | - |
| Plant and equipment | | | | |
| Plant and equipment - at cost | 585,032 | 176,102 | - | - |
| Less: accumulated depreciation | (408,047) | (108,760) | - | - |
| | 176,985 | 67,342 | - | - |
| Plant and equipment under lease | 4,429 | 3,263 | - | - |
| Less: accumulated amortisation | (3,442) | (2,002) | - | - |
| | 987 | 1,261 | - | - |
| Total plant and equipment | 177,972 | 68,603 | - | - |
| Total property, plant and equipment | 1,476,407 | 519,084 | - | - |

### (a) Valuations

The fair values of hospital assets have been determined at 30 June 2005 by reference to director valuations, based upon independent valuations previously obtained. These independent valuations were performed on 30 June 2003. Such valuations are performed on an open market basis, being the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the valuation date.

### (b) Assets pledged as security

Refer to note 28 and 30.

## 10. PROPERTY, PLANT & EQUIPMENT (continued)

### (c) Reconciliation

Reconciliations of the carrying amounts of hospital land and buildings and plant and equipment at the beginning and end of the current financial year:

| | Notes | Consolidated 2005 $000 | Ramsay Health Care Limited 2005 $000 |
|---|---|---|---|
| Licensed private hospitals | | | |
| Carrying amount at beginning | | 441,621 | - |
| Additions | | 17,195 | - |
| Disposals | | (1,620) | - |
| Additions through acquisition of entities/operations | 24 (d to k) | 800,165 | - |
| Depreciation expense | 3 (a) | (9,122) | - |
| | | 1,248,239 | - |
| Leasehold improvements | | | |
| Carrying amount at beginning | | 8,860 | - |
| Additions | | - | - |
| Disposals | | - | - |
| Additions through acquisition of entities/operations | 24 (d to k) | 41,932 | - |
| Depreciation expense | 3 (a) | (596) | - |
| | | 50,196 | - |
| Plant and equipment at cost | | | |
| Carrying amount at beginning | | 67,342 | - |
| Additions | | 44,493 | - |
| Disposals | | (200) | - |
| Additions through acquisition of entities/operations | 24 (d to k) | 98,123 | - |
| Depreciation expense | 3 (a) | (32,773) | - |
| | | 176,985 | - |
| Plant and equipment under lease | | | |
| Carrying amount at beginning | | 1,261 | - |
| Additions | | - | - |
| Disposals | | - | - |
| Additions through acquisition of entities/operations | 24 (d to k) | 980 | - |
| Depreciation expense | 3 (a) | (1,254) | - |
| | | 987 | - |
| Total property, plant and equipment | | 1,476,407 | - |

| | Consolidated | | Ramsay Health Care Limited | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |

## 11. INTANGIBLE ASSETS

| | | | | |
|---|---|---|---|---|
| Goodwill | 822,611 | 9,737 | - | - |
| Accumulated amortisation | (14,744) | (1,741) | - | - |
| | 807,867 | 7,996 | - | - |

## 12. DEFERRED TAX ASSETS

| | | | | |
|---|---|---|---|---|
| Future income tax benefit | 95,554 | 25,062 | 34,680 | 25,062 |

## 13. OTHER ASSETS (NON CURRENT)

| | | | | |
|---|---|---|---|---|
| Capitalised borrowing costs | 21,088 | 2,788 | - | - |
| Accumulated amortisation | (3,525) | - | - | - |
| | 17,563 | 2,788 | - | - |
| Advance payment for investment in Benchmark Healthcare | - | 13,478 | - | - |
| | 17,563 | 16,266 | - | - |

The amortisation of borrowing costs for 2005 is included in interest expense. Nil applicable in 2004 as borrowing costs were capitalised at end of financial year.

## 14. ACCOUNTS PAYABLE (CURRENT)

| | | | | |
|---|---|---|---|---|
| Accounts payable | 152,491 | 49,935 | - | - |
| Deferred payment | - | 1,133 | - | - |
| Hire purchase creditors | 818 | - | - | - |
| Revenue in advance | 8,289 | 10,072 | - | - |
| Sundry creditors and accrued expenses | 104,821 | 21,691 | 95 | 12 |
| | 266,419 | 82,831 | 95 | 12 |

The deferred payment relates to deferred contingent purchase consideration in relation to the acquisition of Silver Circle.

## 15. INTEREST BEARING LIABILITIES (CURRENT)

| | | | | |
|---|---|---|---|---|
| Secured: | | | | |
| - Lease liabilities (a) | 1,199 | 506 | - | - |
| - Loan - insurance funding (b) | 9,454 | 7,039 | - | - |
| | 10,653 | 7,545 | - | - |

(a) Lease liabilities are effectively secured by the leased asset.

(b) Loan – insurance funding. This loan is carried at the principal amount less any repayments. It is secured by the unexpired position of the insurance policy.

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| **16. PROVISIONS (CURRENT)** | | | | | |
| Employee benefits | 23 | 85,929 | 27,983 | - | - |
| Restructuring provisions | | 5,841 | 747 | - | - |
| Other | | 14,302 | 403 | 3,644 | 940 |
| | | 106,072 | 29,133 | 3,644 | 940 |
| **17. ACCOUNTS PAYABLE (NON-CURRENT)** | | | | | |
| Accommodation bond liabilities | | 11,542 | - | - | - |
| Hire purchase creditors | | 2,390 | - | - | - |
| Amounts payable to controlled entities | 31 | - | - | 3,146 | 15,498 |
| Retention payable | | 400 | - | - | - |
| | | 14,322 | - | 3,146 | 15,498 |

The Retention payable is in respect of the acquisition of Rockingham Family Hospital and is payable on 2 March 2008.

Accommodation bonds are repayable on transfer or demise of residents.

Hire purchase creditors are effectively secured by the assets subject to hire purchase.

## 18. INTEREST BEARING LIABILITIES (NON-CURRENT)

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| Secured liabilities: | | | | | |
| - Bank loans (a) | | 1,376,472 | 225,000 | - | - |
| - Lease liabilities (b) | | 1,338 | 956 | - | - |
| | | 1,377,810 | 225,956 | - | - |

(a) Further information on bank loans are set out in notes 28 and 30.

(b) Lease liabilities are effectively secured by the leased asset.

## 19. PROVISIONS (NON-CURRENT)

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| Employee benefits | 23 | 79,454 | 18,685 | - | - |
| Insurance (a) | 1 (t) | 83,140 | 10,016 | - | - |
| Other | | 9,479 | 1,769 | - | - |
| | | 172,073 | 30,470 | - | - |

(a) The insurance provision has been raised to cover the self insured portion of potential Medical Malpractice liabilities. This provision is actuarially assessed at the end of each reporting period.

| | Notes | Consolidated 2005 $000 | Ramsay Health Care Limited 2005 $000 |
|---|---|---|---|
| **(b) Movements in provisions** | | | |
| *(i) Insurance* | | | |
| Carrying amount at beginning of the financial year | | 10,016 | - |
| Additional provision | (a) | 73,788 | - |
| Amounts utilised during the year | | (664) | - |
| Carrying amount at the end of the financial year | | 83,140 | - |

(a) The additional provision includes a provision assumed on acquisition of Affinity.

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| **19. PROVISIONS (NON-CURRENT)** (continued) | | | | | |
| **(b) Movements in provisions** | | | | | |
| *(ii) Other* | | | | | |
| Carrying amount at the beginning of the financial year | | 1,769 | | | |
| Additional provision | | 7,710 | | | |
| Carrying amount at the end of the financial year | | 9,479 | | | |

| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
|---|---|---|---|---|
| **20. DEFERRED TAX LIABILITIES** | | | | |
| Deferred income tax liability | 64,215 | 31,674 | 32,984 | 31,674 |

## 21. CONTRIBUTED EQUITY

### 21.1 Ordinary Shares

### (a) Issued and paid up capital

| | | | | |
|---|---|---|---|---|
| 170,378,468 ordinary shares fully paid (30 June 2004: 128,928,506 ordinary shares fully paid) | 393,556 | 121,870 | 393,556 | 121,870 |

| | 2005 Number of Shares | 2005 $000 | 2004 Number of Shares | 2004 $000 |
|---|---|---|---|---|
| **(b) Movements in share issue:** | | | | |
| Beginning of financial year | 128,928,506 | 121,870 | 128,687,765 | 121,490 |
| Issued during the year: | | | | |
| - exercise of options | - | - | 240,750 | 380 |
| - share placement (institutional) @ $7.35 | 5,442,177 | 40,000 | - | - |
| - share purchase plan (retail investors) @ $7.35 | 220,524 | 1,620 | - | - |
| - share placement (Paul Ramsay Holdings Pty Ltd) @ $7.35 | 5,442,177 | 40,000 | - | - |
| | 11,104,878 | 81,620 | 240,750 | 380 |
| Less: Issue costs | | (1,285) | | - |
| | | 80,335 | | 380 |
| - institutional placement @ $7.00 | 14,746,504 | 103,225 | - | - |
| - entitlement offer $6.20 | 15,598,580 | 96,711 | - | - |
| | 30,345,084 | 199,936 | - | - |
| Less: Issue costs | | (8,585) | | - |
| | | 191,131 | - | - |
| Balance at 30 June 2005 | 170,378,468 | 393,556 | 128,928,506 | 121,870 |

### (c) Terms & conditions of contributed equity

#### *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.

## 21. CONTRIBUTED EQUITY (continued)

| | Consolidated | | Ramsay Health Care Limited | |
|---|---|---|---|---|
| | 2005 $000 | | 2005 $000 | |
| **21.2 Convertible Adjustable Rate Equity Securities (CARES)** | | | | |
| **(a) Issued and paid up capital** | | | | |
| 2,600,000 CARES shares fully paid (30 June 2004: nil CARES shares fully paid) | 252,165 | - | 252,165 | - |

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Number of Shares | $000 | Number of Shares | $000 |
| **(b) Movements in share issue:** | | | | |
| Beginning of financial year | - | - | - | - |
| Issued during the period: | | | | |
| - CARES issue @ $100 | 2,600,000 | 260,000 | - | - |
| | 2,600,000 | 260,000 | - | - |
| Less: Issue costs | | (7,835) | | - |
| | | 252,165 | - | - |
| Balance at 30 June 2005 | 2,600,000 | 252,165 | - | - |

### (c) Terms & conditions of CARES

| **Issuer** | **Ramsay Health Care Limited (ABN 57 001 288 768)** |
|---|---|
| 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:<br>Dividend Entitlement = $\frac{\text{Dividend Rate x Face Value x N}}{365}$<br>where:<br>N is the number of days in the Dividend Period<br>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.<br>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:<br>Dividend Rate = (market Rate + Margin) x (1-T)<br>where:<br>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.<br>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.<br>T is the prevailing Australian corporate tax rate applicable on the Allotment Date.<br>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 | One-time 2.00% (200 basis points) step-up in the Margin at 20 October 2010. |

## 21. CONTRIBUTED EQUITY (continued)

### 21.2 Convertible Adjustable Rate Equity Securities (CARES)

### (c) Terms & conditions

| | |
|---|---|
| Franking | 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.<br>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.<br>Ramsay also has the right to:<br>• convert or exchange CARES after the occurrence of a Regulatory Event; and<br>• convert CARES on the occurrence of a Change in Control Event.<br>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. |
| 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 | |
|---|---|---|---|---|---|
| | Notes | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| **22. RESERVES & RETAINED PROFITS** | | | | | |
| Asset revaluation | 22 (a) | 54,533 | 54,533 | - | - |
| Foreign exchange translation reserve | 22 (b) | (226) | - | - | - |
| | | 54,307 | 54,533 | - | - |
| Retained profits | 22 (c) | 99,462 | 94,186 | 99,072 | 1,449 |
| **(a) Reserves** | | | | | |
| Asset revaluation | | 54,533 | 54,533 | - | - |

(i) Nature and purpose of reserves:

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. The reserve can only be used to pay dividends in limited circumstances.

(ii) Movements in reserve:

| | | | | |
|---|---|---|---|---|
| Balance at beginning and end of year | 54,533 | 54,533 | - | - |

### (b) Foreign Exchange Translation Reserve

(i) Nature and purpose of reserves:

The foreign exchange translation reserve is used to record exchange differences arising from the translation of the financial statements of a self sustaining foreign operation.

(ii) Movements in reserve:

| | | | | |
|---|---|---|---|---|
| Balance at beginning of year | - | - | - | - |
| Revaluation reserve decrement | (226) | - | - | - |
| Balance at end of year | (226) | - | - | - |

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|

## 22. RESERVES & RETAINED PROFITS (continued)

### (c) Retained profits

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| Balance at the beginning of year | | 94,186 | 77,106 | 1,449 | 21,355 |
| Net profit attributable to members of Ramsay Health Care Limited | | 30,071 | 38,353 | 122,418 | 1,367 |
| Total available for appropriation | | 124,257 | 115,459 | 123,867 | 22,722 |
| Dividends paid on ordinary shares | | (24,795) | (21,273) | (24,795) | (21,273) |
| Balance at end of year | | 99,462 | 94,186 | 99,072 | 1,449 |

## 23. EMPLOYEE BENEFITS

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| The aggregate employee benefit liability is comprised of: | | | | | |
| - Provisions (current) | 16 | 85,929 | 27,983 | - | - |
| - Provisions (non-current) | 19 | 79,454 | 18,685 | - | - |
| - Accrued salaries, wages and on costs | | 21,468 | 7,285 | - | - |
| | | 186,851 | 53,953 | - | - |

## 23.1 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:

| | Notes | 2005 Number of rights | 2005 Weighted average fair value | 2004 Number of rights | 2004 Weighted average fair value |
|---|---|---|---|---|---|
| Balance at beginning of year | 23.1 (a) | 160,714 | $8.16 * | - | - |
| - granted | 23.1 (b) | 160,714 | $7.74 * | 160,714 | $8.16 * |
| Balance at end of year | 23.1 (d) | 321,428 | | 160,714 | |
| Exercisable at end of year | | - | | - | |

### (a) Rights held at the beginning of the reporting period

There were 160,714 rights held by the executive directors at 1 July 2004.

### (b) Rights granted during the reporting period

The following table summarises information about rights granted by Ramsay Health Care Limited to the executive directors during the year.

| Number of rights | Grant date | Vesting date | Weighted average fair value of incentive right |
|---|---|---|---|
| 160,714 | 12-Sep-04 | 12-Sep-07 | $7.74 * |

### (c) Rights exercised during the reporting period

There were no rights exercised by the executive directors during the year ended 30 June 2005.

## 23. EMPLOYEE BENEFITS (continued)

### (d) Rights held at the end of the reporting period

The following table summarises information about rights held by the executive directors as at 30 June 2005:

| Number of rights | Grant date | Vesting date | Weighted average Fair value of Incentive right |
|---|---|---|---|
| 160,714 | 6-Jan-04 | 6-Jan-07 | $8.16 * |
| 160,714 | 12-Sep-04 | 12-Sep-07 | $7.74 * |

* Fair value at 30 June 2005.

### 23.2 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:

| | | 2005 | | 2004 | |
|---|---|---|---|---|---|
| | Notes | Number of rights | Weighted average fair value | Number of rights | Weighted average fair value |
| Balance at beginning of year | 23.2 (a) | 310,714 | $2.80 @ | - | - |
| - granted | 23.2 (b) | 384,214 | $4.32 @ | 310,714 | $2.80 @ |
| Balance at end of year | 23.2 (d) | 694,928 | | 310,714 | |
| Exercisable at end of year | | - | | - | |

### (a) Rights held at the beginning of the reporting period

There were 310,714 rights held by the specified executives at 1 July 2004.

### (b) Rights granted during the reporting period

The following table summarises information about rights granted by Ramsay Health Care Limited to specified executives during the year.

| Number of rights | Grant date | Vesting date | Weighted average fair value of incentive right |
|---|---|---|---|
| 310,714 | 6-Jan-04 | 6-Jan-07 | $2.80 @ |
| 384,214 | 12-Sep-04 | 12-Sep-07 | $4.32 @ |

### (c) Rights exercised during the reporting period

There were no rights exercised by the specified executives during the year ended 30 June 2005.

### (d) Rights held at the end of the reporting period

The following table summarises information about rights held by specified executives as at 30 June 2005:

| Number of rights | Grant date | Vesting date | Weighted average fair value |
|---|---|---|---|
| 310,714 | 6-Jan-04 | 6-Jan-07 | $2.80 @ |
| 384,214 | 12-Sep-04 | 12-Sep-07 | $4.32 @ |

@ Fair value at grant date.

| | Consolidated | | Ramsay Health Care Limited | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |

## 24. STATEMENT OF CASH FLOWS

### (a) Reconciliation of the net profit after tax to the net cash flows from operations

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|
| Profit from ordinary activities after tax | 30,071 | 38,353 | 122,418 | 1,367 |
| **Non cash items** | | | | |
| Interest received from related entity | - | - | - | (1) |
| Dividends received from related entity | - | - | - | - |
| Amortisation and depreciation | 56,748 | 28,305 | - | - |
| Net (profit)/loss on sale of non current assets | (169) | 523 | - | - |
| **Changes in assets and liabilities** | | | | |
| Future income tax benefit | (70,492) | (3,086) | (9,618) | 1,405 |
| Receivables | (226,384) | (7,512) | (2,600) | (8) |
| Prepayments | (11,662) | 2,423 | - | - |
| Creditors and provisions | 213,977 | 9,983 | (100,384) | 161 |
| Deferred income tax liability | 32,541 | 307 | 1,310 | (1,367) |
| Provision for employee benefits | 118,714 | 5,616 | - | - |
| Inventory | (35,823) | (1,661) | - | - |
| Tax provisions | 6,387 | 490 | (11,971) | 611 |
| Net cash flow from/(used in) operating activities | 113,908 | 73,741 | (845) | 2,168 |

### (b) Reconciliation of cash

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|
| Cash balances comprise: | | | | |
| Cash on hand | 109 | 43 | - | - |
| Cash at bank and on deposit | 51,325 | 22,445 | 99 | 46 |
| | 51,434 | 22,488 | 99 | 46 |
| Restricted cash balances | (6,996) | - | - | - |
| | 44,438 | 22,488 | 99 | 46 |

### (c) Bank facilities

The economic entity has bank borrowing facilities available to the extent of $1,504,000,000 (2004: $575,000,000). At 30 June 2005 these facilities have been drawn down to $1,376,000,000 (2004: $225,000,000).

### (d) 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 operates and manages 10 hospitals in Victoria and South Australia, comprising 980 hospital beds and 68 aged care beds. The Group has annual revenue of approximately $200 million.

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

The purchase increased the number of facilities in Ramsay Health Care's portfolio to 35 and the number of licensed beds to approximately 4000.

## 24. STATEMENT OF CASH FLOWS (continued)

The components of the acquisition are:

| | Notes | 2005 $000 |
|---|---|---|
| CONSIDERATION | | |
| - cash paid | | 122,334 |
| Net Assets of Benchmark Healthcare Ltd at 1 July 2004 | | |
| CURRENT ASSETS | | |
| Cash assets | | 2,237 |
| Receivables | | 17,154 |
| Inventories | | 4,240 |
| Other | | 8,348 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 10 (c) | 58,634 |
| Deferred tax assets | | 6,671 |
| CURRENT LIABILITIES | | |
| Payables | | (28,485) |
| Interest bearing liabilities | | (2,431) |
| Provisions | | (17,419) |
| NON-CURRENT LIABILITIES | | |
| Payables | | - |
| Interest bearing liabilities | | (4,969) |
| Provisions | | (6,975) |
| Deferred tax liability | | (1,443) |
| FAIR VALUE OF NET TANGIBLE ASSETS | | 35,562 |
| GOODWILL ARISING ON ACQUISITION | | |
| Consideration paid | | 122,334 |
| Less: fair value of net tangible assets | | (35,562) |
| Goodwill arising on acquisition | | 86,772 |
| NET CASH EFFECT | | |
| - cash consideration paid | | 122,334 |
| - cash included in net assets acquired | | (2,237) |
| Cash paid for purchase of controlled entity | | 120,097 |

### (e) 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.

The components of the acquisition are:

| | Notes | 2005 $000 |
|---|---|---|
| CONSIDERATION | | |
| - cash paid | | 9,802 |
| Net Assets of Gracedale Private Nursing Home at 1 March 2005 | | |
| CURRENT ASSETS | | |
| Prepayments | | 6 |
| NON-CURRENT ASSETS | | |
| Property plant and equipment | 10 (c) | 11,878 |
| CURRENT LIABILITIES | | |
| Provisions | | (1,150) |

## 24. STATEMENT OF CASH FLOWS (continued)

| | Notes | 2005 $000 |
|---|---|---|
| NON-CURRENT LIABILITIES | | |
| Provisions | | (168) |
| Accommodation bonds | | (3,680) |
| FAIR VALUE OF NET TANGIBLE ASSETS | | 6,886 |
| GOODWILL ARISING ON ACQUISITION | | |
| Consideration paid | | 9,802 |
| Less: fair value of net tangible assets | | (6,886) |
| Goodwill arising on acquisition | | 2,916 |
| NET CASH EFFECT | | |
| - consideration paid | | 9,802 |





### (f) 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 include Bairnsdale Aged Care Facility, Lakeview Aged Care Facility (Lakes Entrance), Paynesville Aged Care Facility and Sale Aged Care Facility, which together have a total of 331 high care and low care places. The acquisition of these four facilities also includes the acquisition of vacant land adjoining some of the facilities, which provides Ramsay Health Care with expansion opportunities. The Ellis facilities have annual revenue of approximately $15 million.

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

The components of the acquisition are:

| | Notes | 2005 $000 |
|---|---|---|
| CONSIDERATION | | |
| - cash paid | | 38,457 |
| Net Assets of four Private Nursing Homes at 1 April 2005 | | |
| CURRENT ASSETS | | |
| Prepayments | | 36 |
| NON-CURRENT ASSETS | | |
| Property, plant, equipment and bed licenses | 10 (c) | 47,000 |
| CURRENT LIABILITIES | | |
| Provisions | | (463) |
| NON-CURRENT LIABILITIES | | |
| Provisions | | (4,159) |
| Accommodation bonds | | (7,310) |
| FAIR VALUE OF NET TANGIBLE ASSETS | | 35,104 |
| GOODWILL ARISING ON ACQUISITION | | |
| Consideration paid | | 38,457 |
| Less: fair value of net tangible assets | | (35,104) |
| Goodwill arising on acquisition | | 3,353 |
| NET CASH EFFECT | | |
| - consideration paid | | 38,457 |
| Cash paid for purchase of 100% of the assets of four Private Nursing Homes as reflected in the consolidated financial report | | 38,457 |

## 24. STATEMENT OF CASH FLOWS (continued)

### (g) 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 is 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 has annual revenue of approximately $5 million.

The components of the acquisition are:

| | Notes | 2005 $000 |
|---|---|---|
| CONSIDERATION | | |
| - cash paid | | 1,926 |
| Net Assets of Murray Valley Private Hospital at 6 February 2005 | | |
| CURRENT ASSETS | | |
| Prepayments | | 20 |
| Inventory | | 20 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 10 (c) | 2,409 |
| CURRENT LIABILITIES | | |
| Provisions | | (197) |
| NON-CURRENT LIABILITIES | | |
| Provisions | | (453) |
| FAIR VALUE OF NET TANGIBLE ASSETS | | 1,799 |
| GOODWILL ARISING ON ACQUISITION | | |
| Consideration paid | | 1,926 |
| Less: fair value of net tangible assets | | (1,799) |
| Goodwill arising on acquisition | | 127 |
| NET CASH EFFECT | | |
| - consideration paid | | 1,926 |
| Cash paid for purchase of 100% of the assets of Murray Valley Private Hospital as reflected in the consolidated financial report | | 1,926 |

### (h) 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 is 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 has annual revenue of approximately $5 million.

The components of the acquisition are:

| | Notes | 2005 $000 |
|---|---|---|
| CONSIDERATION | | |
| - cash paid | | 1,089 |
| - retained in trust account | | 400 |
| | | 1,489 |
| Net Assets of Rockingham Family Hospital at 2 March 2005 | | |
| CURRENT ASSETS | | |
| Prepayments | | 36 |
| Inventory | | 270 |

## 24. STATEMENT OF CASH FLOWS (continued)

| | Notes | 2005 $000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 10 (c) | 1,728 |
| CURRENT LIABILITIES | | |
| Provisions | | (336) |
| Creditors | | (5) |
| NON-CURRENT LIABILITIES | | |
| Provisions | | (204) |
| FAIR VALUE OF NET TANGIBLE ASSETS | | 1,489 |
| NET CASH EFFECT | | |
| - consideration paid | | 1,489 |
| - retained in trust account | | (400) |
| Cash paid for purchase of 100% of the assets of Rockingham Family Hospital as reflected in the consolidated financial report | | 1,089 |



### (i) 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 currently operates 48 hospitals across metropolitan and regional Australia and 3 hospitals in Indonesia. Affinity has annual revenue of approximately $1.3 billion.

Pre-acquisition, Ramsay had 42 facilities throughout Australia including 36 private hospitals, 5 aged care facilities and 1 day surgery. The acquisition of Affinity provides Ramsay with a unique opportunity to expand significantly in its core private hospital business through one transaction and allow Ramsay to apply its successful hospital management expertise across a greater number of facilities for the benefit of its shareholders, doctors, patients and employees. Refer to subsequent event note 33 for further details regarding divestments.

The components of the acquisition are:

| | Notes | 2005 $000 |
|---|---|---|
| CONSIDERATION | | |
| - cash paid | | 805,018 |
| - transaction costs | | 70,614 |
| - cash paid | | 875,632 |
| Net Assets of Affinity Holdings SARL at 14 April 2005 | | |
| CURRENT ASSETS | | |
| Cash assets | | 63,824 |
| Receivables | | 196,502 |
| Inventories | | 29,562 |
| Other | | 8,726 |
| NON-CURRENT ASSETS | | |
| Other financial assets | | 3,277 |
| Property, plant and equipment | 10 (c) | 819,540 |
| Deferred tax assets | | 56,980 |
| Other | | 11 |

## 24. STATEMENT OF CASH FLOWS (continued)

| | Notes | 2005 $000 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Payables | | (170,258) |
| Interest bearing liabilities | | (33,833) |
| Current tax liabilities | | (9,048) |
| Provisions | | (80,204) |
| NON-CURRENT LIABILITIES | | |
| Payables | | - |
| Interest bearing liabilities | | (602,548) |
| Provisions | | (93,567) |
| Deferred tax liabilities | | (31,834) |
| OUTSIDE EQUITY INTEREST | | (462) |
| FAIR VALUE OF NET TANGIBLE ASSETS | | 156,668 |
| GOODWILL ARISING ON ACQUISITION | | |
| Consideration paid | | 875,632 |
| Less: fair value of net tangible assets | | (156,668) |
| Goodwill arising on acquisition | | 718,964 |
| NET CASH EFFECT | | |
| - cash consideration paid | | 875,632 |
| - cash included in net assets acquired | | (63,824) |
| Cash paid for purchase of controlled entity as reflected in the consolidated financial report | | 811,808 |

### (j) 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 it's 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.

The acquisition of HCS will give Ramsay Health Care a significant stake in the South Australian homecare market.

The components of the acquisition are:

| | Notes | 2005 $000 |
|---|---|---|
| CONSIDERATION | | |
| - cash paid | | 1,485 |
| Net Assets of HCS at 22 April 2005 | | |
| CURRENT ASSETS | | |
| Prepayments | | 3 |
| Inventory | | |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 10 (c) | 9 |
| CURRENT LIABILITIES | | |
| Provisions | | (361) |
| NON-CURRENT LIABILITIES | | |
| Provisions | | (89) |
| FAIR VALUE OF NET TANGIBLE ASSETS | | (438) |

## 24. STATEMENT OF CASH FLOWS (continued)

| | Notes | 2005 $000 |
|---|---|---|
| GOODWILL ARISING ON ACQUISITION | | |
| Consideration paid | | 1,485 |
| Add: fair value of net tangible liabilities | | 438 |
| Goodwill arising on acquisition | | 1,923 |
| NET CASH EFFECT | | |
| - consideration paid | | 1,485 |
| Cash paid for purchase of 100% of the assets of HCS as reflected in the consolidated financial report | | 1,485 |





### (k) Acquisition of controlled entity in prior year

On 7 January 2004, Ramsay Health Care Limited through its wholly owned subsidiary Ramsay Aged Care Holdings Pty Limited purchased the remaining 75 percent of Glad Pty Limited trading as Silver Circle for $4,024,000.

Ramsay Health Care Limited through its wholly owned subsidiary Alpha Healthcare Pty Limited has owned 25 percent of Silver Circle for more than two years.

Silver Circle was established in 1991 and has fast become one of the largest home support businesses in Australia. It provides care and support to people with a wide range of needs, including the elderly, people recovering after a hospital stay or ill health, people who have had personal injuries, people with disabilities, carers of family members, parents of children with special needs and others.

Silver Circle has over 1,500 staff, offering a broad range of services to individual and corporate clients. These services include:

- Housekeeping and home care
- Personal care
- Respite care
- Monitoring the well being of at-risk clients
- Mobility assistance
- Home modifications and maintenance to assist independent living.

The components of the acquisition are:

| | Notes | 2004 $000 |
|---|---|---|
| CONSIDERATION | | |
| - cash paid | | 2,891 |
| - deferred contingent purchase consideration | | 1,133 |
| - transaction costs | | 47 |
| | | 4,071 |
| Net Assets of Glad Pty Ltd at 7 January 2004 | | |
| CURRENT ASSETS | | |
| Cash | | 452 |
| Receivables | | 5,939 |
| Prepayments | | 88 |
| Future income tax benefit | | 403 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 10 (c) | 979 |
| CURRENT LIABILITIES | | |
| Trade creditors | | (167) |
| Lease liability | | (18) |
| Provisions | | (5,106) |

## 24. STATEMENT OF CASH FLOWS (continued)

| | Notes | 2004 $000 |
|---|---|---|
| NON-CURRENT LIABILITIES | | |
| Lease liability | | (119) |
| Provisions | | (126) |
| Deferred tax liability | | (26) |
| Fair value of net tangible assets | | 2,299 |
| Goodwill arising on acquisition | | 1,772 |
| | | 4,071 |
| NET CASH EFFECT | | |
| - consideration paid | | 4,071 |
| - deferred contingent purchase considerations | | (1,133) |
| Cash paid for purchase of controlled entity as reflected in the consolidated financial report | | 2,938 |

## 25. EXPENDITURE COMMITMENTS

### (a) Finance leases

| | Notes | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|---|
| - not later than one year | | 1,367 | 562 | - | - |
| - later than one year but not later than five years | | 1,436 | 1,047 | - | - |
| Total minimum lease payments | | 2,803 | 1,609 | - | - |
| - future finance charges | | (266) | (147) | - | - |
| - lease liability | | 2,537 | 1,462 | - | - |
| - current liability | 15 | 1,199 | 506 | - | - |
| - non-current liability | 18 | 1,338 | 956 | - | - |
| | | 2,537 | 1,462 | - | - |
| Total lease liability accrued for: | | | | | |
| *Current* | | | | | |
| - Surplus lease space (operating lease)(i) | | - | 403 | - | - |
| - Finance leases | 15 | 1,199 | 506 | - | - |
| | | 1,199 | 909 | - | - |
| *Non-current* | | | | | |
| - Finance leases | 18 | 1,338 | 956 | - | - |
| | | 1,338 | 956 | - | - |
| | | 2,537 | 1,865 | - | - |

Finance lease liability: The lease liability is accounted for in accordance with AASB 1008. As at balance date, the economic entity had finance leases with an average lease term of 2 years. The average Interest rate implicit in the leases is 10.4% (2004: 8.4%). The security over finance leases is disclosed in note 30.

## 25. EXPENDITURE COMMITMENTS (continued)

### (b) Lease expenditure commitments

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|
| Operating leases (non-cancellable): | | | | |
| Minimum lease payments | | | | |
| - not later than one year | 25,310 | 6,225 | - | - |
| - later than one year but not later than five years | 76,740 | 16,729 | - | - |
| - later than five years | 101,528 | 15,904 | - | - |
| Aggregate lease expenditure contracted for at balance date | 200,578 | 38,858 | - | - |
| Amounts provided for: | | | | |
| - surplus lease space - current | - | 403 | - | - |
| Amounts not provided for: | | | | |
| - rental commitments | 200,578 | 38,455 | - | - |
| Aggregate lease expenditure contracted for at balance date | 200,578 | 38,858 | - | - |

(i) Operating leases have an average lease term of 13 years and an average implicit interest rate of 9% (2004: 9%). Assets which are the subject of operating leases include land and buildings, motor vehicles and items of medical equipment.

### (c) Capital expenditure commitments

| | Consolidated 2005 $000 | Consolidated 2004 $000 | Ramsay Health Care Limited 2005 $000 | Ramsay Health Care Limited 2004 $000 |
|---|---|---|---|---|
| Estimated capital expenditure contracted for at balance date but not provided for, payable: | | | | |
| - not later than one year | 25,941 | 1,966 | - | - |
| - later than one year but not later than two years | 654 | 1,966 | - | - |
| | 26,595 | 1,966 | - | - |

### (d) Commitment to manage & 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.

## 26. SEGMENTAL INFORMATION

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

## 27. SUPERANNUATION COMMITMENTS

The chief entity and controlled entities contribute 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.

## 28. COMMITMENTS

During April 2005 the Consolidated entity signed a new 5 year bank facility for $1.49 billion to replace and expand the existing banking facility. Under this facility the Consolidated entity is subject to a negative pledge and the facility is partially secured. There is also a bank facility in relation to the Indonesian operations. The total facility limit is IDR 107,596,500,000 (AUD 14,471,776). The termination date of the loan is 2 November 2009. Refer to note 30 for further details.

## 29. AUDITORS' REMUNERATION

| | Consolidated | | Ramsay Health Care Limited | |
|---|---|---|---|---|
| | 2005 $ | 2004 $ | 2005 $ | 2004 $ |
| Amounts received or due and receivable by the Auditors for: | | | | |
| Audit of financial statements | 1,016,415 | 493,106 | - | - |
| Other audit related services | 10,350 | 21,600 | - | - |
| Total audit | 1,026,765 | 514,706 | - | - |
| Other services | | | | |
| Taxation | 161,860 | 121,835 | - | - |
| Other | 394,152 | 298,039 | - | - |
| Total Other Services | 556,012 | 419,874 | - | - |
| | 1,582,777 | 934,580 | - | - |

In addition to the above fees, Ernst & Young Transaction Advisory Services Limited (EYTA), a company controlled by Ernst & Young, provided advice to the company during the year 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 the year 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. Further costs have been incurred by EYTA subsequent to 30 June 2005 in relation to that transaction.

All amounts included in the auditors remuneration note above are inclusive of GST.

## 30. 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) Note Sale and Purchase 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 SSPA was jointly arranged on a fully underwritten basis by Australia and New Zealand Banking Group Limited ("ANZ") and National Australia Bank Limited ("NAB").

The proceeds of the initial issue and sale of notes under the SSPA documents were used to:

- repay the senior debt facility entered into on 13 April 2005 with ANZ and NAB, the proceeds of which were used to acquire the Affinity Group; and
- replace, refinance and expand existing banking facilities and financing arrangements of the Ramsay Group (including the Affinity Group).

The SSPA was syndicated on 29 June, 2005. The aggregate amount outstanding under the SSPA on 30 June 2005 was $ 1,362,000,000.

## 30. BORROWINGS (continued)

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 2005.

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).

### *(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; 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; 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.

Under these facilities as at 30 June 2005 bank guarantees totalling $32,236,195 had been issued.

### *(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 (AUD 14,471,776). At 30 June 2005 the drawn amount is IDR 107,596,500,000 (AUD 14,471,776).

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.

## 31. RELATED PARTY TRANSACTIONS

### *Directors*

Specified Directors of Ramsay Health Care Limited at 30 June 2005 were:

P.J. Ramsay
M.S. Siddle
M.L. Brislee
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 2005 were:

C Rex – Chief Operating Officer
C Bromwich – NSW State Operations Manager
K Cass-Ryall – CEO Hollywood Private Hospital
C McNally – Business Development Manager
A Kinkade – CEO Greenslopes Private Hospital

***Ultimate Parent***

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

***Equity Instruments of Directors***

## 31. RELATED PARTY TRANSACTIONS (continued)

The beneficial and direct interest of each director in the equity of the Company as at the date of this report (2004: 30 September 2004) was as follows:

| Director | Ordinary Shares | | | | Rights | |
|---|---|---|---|---|---|---|
| | 2005 | | 2004 | | 2005 | 2004 |
| | Direct | Indirect [(1)] | Direct | Indirect [(1)] | | |
| P.J. Ramsay | - | 72,688,571 | - | 66,334,939 | - | - |
| M.S. Siddle | 26,667 | - | 25,000 | - | - | - |
| M.L. Brislee | 24,089 | - | 21,000 | - | - | - |
| A.J. Clark | 85,000 | - | 85,000 | - | - | - |
| P.J. Evans | 6,312 | - | 5,000 | - | - | - |
| I.P.S. Grier | 85,740 | - | 194,600 | - | 214,286 | 107,143 |
| R.H. McGeoch | - | 133,334 | - | 120,000 | - | - |
| K.C.D. Roxburgh | 72,223 | - | 75,000 | - | - | - |
| B.R. Soden | 2,824 | 3,163 | 2,541 | 2,846 | 107,142 | 53,571 |

[(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 23.

Mr Ramsay has a relevant interest in 72,688,571 (2004: 66,334,939) 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.

### *Movements in Directors' equity holdings*

During the year:

- Mr P J Ramsay acquired indirectly through Paul Ramsay Holdings Pty Limited, 5,442,177 ordinary shares in a share issue approved by shareholders on 8 February 2005 and 911,455 ordinary shares in the 1 for 9 Rights issue.
- Mr M S Siddle acquired 1,667 ordinary shares in the 1 for 9 Rights issue.
- Mrs M L Brislee acquired 680 ordinary shares through the Share Purchase Plan and 2,409 ordinary shares in the 1 for 9 Rights issue.
- Mr A J Clark acquired 9,000 ordinary shares through the 1 for 9 Rights issue and sold 9,000 shares.
- Mr P J Evans acquired 680 ordinary shares through the Share Purchase Plan and 632 ordinary shares in the 1 for 9 Rights issue.
- Mr I P S Grier acquired 680 ordinary shares through the Share Purchase Plan and 8,575 ordinary shares in the 1 for 9 Rights issue, and sold 118,115 shares.
- Mr R H McGeoch acquired, indirectly through the McGeoch Superannuation Fund, 13,334 ordinary shares in the 1 for 9 Rights issue.
- Mr K C D Roxburgh acquired 7,223 ordinary shares through the 1 for 9 Rights issue and sold 10,000 shares.
- Mr B R Soden acquired 283 ordinary shares in the 1 for 9 Rights issue and acquired indirectly through the Soden Superannuation Fund, 317 ordinary shares in the 1 for 9 Rights issue.

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. Total amount outstanding at 30 June 2005 is nil (2004: $503).

During the year costs charged by Paul Ramsay Holdings Pty Limited, for services rendered to the Group amounted to $120,000 (2004: $120,000).

## 31. RELATED PARTY TRANSACTIONS (continued)

### *Other related party transactions within the wholly owned group*

| | 2005 $000 | 2004 $000 |
|---|---|---|
| Loans from Subsidiaries - non current | | |
| - Interest free | 3,146 | 15,498 |
| Loans to Subsidiaries - non current | | |
| - Interest free | 607,212 | 18,235 |
| Loans to Subsidiaries - current | | |
| - Interest free | 2,525 | - |

## 32. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

| | 2005 $000 | 2004 $000 |
|---|---|---|
| Net profit | 30,071 | 38,353 |
| Earnings used in calculating basic and diluted earnings per share | 30,071 | 38,353 |
| | **Number of shares** | **Number of shares** |
| Weighted average number of ordinary shares used in calculating basic earnings per share: | 138,826,061 | 128,808,131 |
| Effect of dilutive securities: | | |
| Share options | - | - |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share | 138,826,061 | 128,808,131 |
| Basic earnings per share | 21.7c | 29.8c |
| Diluted earnings per share | 21.7c | 29.8c |

### Effect of CARES dividend on earnings per share

Subject to certain conditions, Holders of CARES will be entitled to Dividends that are due to be paid half-yearly in arrears on 20 April and 20 October each year, or if that day is not a business day, then the next Business Day. The first Dividend will be paid in respect of the period from the date on which CARES are first allotted to 20 October 2005.

For the year ending 30 June 2006, the CARES Dividend paid should be factored into the 'Earnings used in calculating basic and diluted earnings per share' ie:

Earnings used in calculating basic
and diluted earnings per share = (Net profit less CARES dividend paid)

## 33. EVENTS AFTER THE BALANCE SHEET DATE

### Agreement to sell 14 hospitals to Healthscope for $490 million

On 5 September 2005, Ramsay Health Care Limited announced it had entered an agreement with Healthscope Limited under which Healthscope will acquire 14 Affinity hospitals for total proceeds of $490 million, conditional on the approval of the Australian Competition and Consumer Commission (ACCC).

Ramsay had previously given an undertaking to the ACCC to sell 14 hospitals to partially address competition issues associated with the $1.4 billion acquisition of Affinity in April 2005.

The total purchase price includes a $13.5 million payment for Transitional Services. In addition, Healthscope will reimburse Ramsay for development capital expenditure paid by Ramsay since the hospitals were purchased in April.

As part of the agreement, Healthscope has paid Ramsay a deposit of $20 million which is only refundable in limited circumstances.

Any sale will also be subject to ACCC consent.

## 34. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity has established a project team to manage the transition to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team has engaged expert consultants to assist in managing the transition to AIFRS. The project team report to an AIFRS Steering Committee which is chaired by a Non Executive Director and reports quarterly to the audit committee. The project team has prepared a detailed timetable for managing the transition and is currently on schedule.

The project team has analysed AIFRS and has identified the accounting policy changes that will be required. In some cases there is a choice of accounting policy available, including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

### (a) Income Tax

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

If the policy required by AASB 112 had been applied during the year ended 30 June 2005 it would have resulted in the recognition of an additional deferred tax asset of $12,650,727 and a further deferred tax liability of $20,954,721. The impact of these adjustments would have been reflected in a reduction in goodwill of $3,219,486, a reduction in retained earnings of $16,582,607 and an increase in the equity balance of $5,059,127. There would have been an increase of $389,198 in the tax expense for the year ended 30 June 2005. These adjustments mainly relate to temporary differences arising from property, plant and equipment, intangible assets and the tax effect of various AFIRS adjustments noted below.

For Capital Gains Tax purposes, Ramsay will allocate the Affinity acquisition cost to the Affinity assets. In determining the amounts disclosed in relation to the AIFRS note above, the cost base of the acquired Affinity assets has not been finalised and once complete, will result in changes to those amounts as disclosed above.

### (b) Property, Plant and Equipment, including Licenses

***(i) Amortisation***

Under AASB 138 Intangible Assets, amortisation of goodwill will be prohibited, and will be replaced by annual impairment testing focusing on the cash flows of the related cash generating unit.

This will result in a change to the current accounting policy, under which goodwill is amortised on a straight line basis over the period during which the benefits are expected to arise and not exceeding 20 years.

If the policy required by AASB 138 had been applied during the year ended 30 June 2005, consolidated goodwill at 30 June 2005 would have been $13,003,184 higher and consolidated amortisation expense for the year ended 30 June 2005 would have been $13,003,184 lower.

There would have been no impact on the parent entity's financial statements.

## 34. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

***(ii) Measurement***

***Licenses***

Under AASB 138 Intangible Assets, the group is required to measure a finite life intangible asset after initial recognition as follows:

(i) at its cost less any accumulated amortisation and any accumulated impairment losses (cost model); or

(ii) at a re-valued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses, but only where fair value can be determined by reference to an active market (revaluation model).

Previously the group had re-valued hospital bed licenses, as part of licensed private hospitals, by reference to exiting Australian generally accepted accounting principles (Australian GAAP). This re-valuation is no longer appropriate as the recognition criteria have not been met under AIFRS and this will result in a change to the current accounting policy with licenses being written down to cost at 1 July 2004 and then carried under the cost model.



***Property, Plant & Equipment***

Under AASB 116 Property, Plant & Equipment, the group is required to measure a tangible fixed asset after initial recognition under either of the models listed below:

***(i) Cost model***

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

***(ii) Revaluation model***

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a re-valued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations should be carried out with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value.

The group have elected to utilise the cost model from 1 July 2004. This is a change from the current accounting policy whereby a component of property, plant and equipment (Licensed Private Hospitals) are periodically re-valued.

***Impact of AIFRS on Property, Plant and Equipment, including Licenses***

If the policy required by AASB 138 and AASB 116 had been applied during the year ended 30 June 2005 then the consolidated balances in respect of the following accounts would have been amended as noted: Property, Plant and Equipment, including Licenses would have been $19,145,422 lower, the revaluation reserve would have been $11,053,034 lower and retained earnings would have been $8,092,388 lower.

There would have been no impact on the parent entity's financial statements.

### (c) Share Based Payments

Under AASB 2 Share-based Payment, the group is required to recognise an expense for those options that were issued to employees under the Executive Performance Rights Plan (Equity Settled) and the rights that were issued to employees under the Executive Incentive Rights Plan (Cash Settled) after 7 November 2002 but that had not vested by 1 January 2005.

This will result in a change to the current accounting policy under which no expense is recognised for equity-based compensation which was settled by equity.

If the policy required by AASB 2 had been applied during the year ended 30 June 2005, the following consolidated and parent entity balances would have been different:

- retained earnings at 1 July 2004 would have been $145,000 lower
- and the employee benefit expense for the year ended 30 June 2005 would have been $843,268 higher.
- the share based payment reserve at 30 June 2005 would have been $988,268 higher

### (d) Effects of changes in Foreign Exchange Rates

Under AASB 121 The Effects of Changes in Foreign Exchange Rates, (for the purposes of foreign exchange translation) goodwill and fair value adjustments will be treated as assets and liabilities of the foreign operations and translated at the rate on the closing balance sheet date.

## 34. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Under AASB 121 the financial statements of self-sustaining foreign entities will be translated as follows:

- balance sheet amounts translated at the exchange rate on the balance sheet date;
- income statement amounts translated at the exchange rate on the date of transaction (or an approximation thereof such as an average rate for the year); and
- translation differences are recorded in equity, in the foreign currency translation reserve.

The translation differences accumulated in equity should be recognised in income when the related foreign entity is sold or liquidated.

If the policy required by AASB 121 had been applied during the year ended 30 June 2005 there would have been no impact on either the consolidated or parent financial statements.

### (e) Financial Instruments

The group will be taking advantage of the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the group to apply Australian GAAP to the comparative information presented in the 30 June 2006 financial report. Therefore, the date of transition for AASB 132 and AASB 139 is 1 July 2005.

Under AASB 132, the current classification of financial instruments issued by entities in the consolidated entity would not change.

AASB 139 is likely to have the following impacts:

***(i) Classification and measurement of financial assets and liabilities***

Under AASB 139, financial assets held by entities in the consolidated entity will be classified as either at fair value through profit or loss, held-to-maturity, available for sale or loans and receivables and, depending on the classification, measured at fair value or amortised cost.

Under AASB 139, the following classifications will apply:

- loans and receivables and financial liabilities classifications will remain unchanged. Measurement of these instruments will initially be at fair value with subsequent measurement at amortised cost, using the effective interest method.
- investments will be classified as held-to-maturity investments. Measurement of these financial assets will initially be at fair value with subsequent measurement at amortised cost, using the effective interest method.

As a result of the application of the exemption referred to above, there will be no adjustment to classification or measurement of financial assets or liabilities from the application of AIFRS during the year ended 30 June 2005. Changes in classification and measurement will be recognised from 1 July 2005.

***(ii) Cash flow hedges***

Under AASB 139, interest rate swap contracts held for hedging purposes will be accounted for as cash flow hedges in the financial statements. The contracts will be recognised at fair value and changes in the fair value of those contracts will be recognised directly in equity until the hedged transaction occurs, in which case the amounts recognised in equity will be included in the initial cost of the assets acquired.

This will result in a change to the current accounting policy which currently does not recognise interest rate swaps in the financial statements.

As a result of the application of the exemption referred to above, there will be no adjustment to classification or measurement of cash flow hedges from the application of AIFRS during the year ended 30 June 2005. Changes in classification and measurement will be recognised from 1 July 2005 as a result of the exemption.

The existing hedge positions are expected to qualify as effective hedge relationships under AIFRS at 1 July 2005. Ramsay is currently in the process of quantifying these adjustments, if any.

### (f) Impairment

Under AASB 136 Impairment of Assets, the group is required to assess, at the reporting date, the recoverable amount of an asset and compare with its carrying amount whenever there is an indication that the asset may be impaired. Irrespective of whether there is an impairment indicator present, AASB 136 requires that the recoverable amount of an intangible asset with an indefinite useful life, or an intangible asset not yet available for use, be determined annually at the same time each year and compared with the intangible asset's carrying amount.

AASB 136 defines the recoverable amount as being the higher of fair value less costs to sell and value in use.

This will result in a change to the current accounting policy under which the recoverable amount is determined solely by reference to value in use.

## 34. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

If the policy required by AASB 136 had been applied during the year ended 30 June 2005 then there would have been no impact on the financial statements.

### (g) Investments in associates

The group will be taking advantage of the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards in respect of AASB 128 Investments in Associates. That is, an entity may elect not to apply AASB 128 retrospectively to all past acquisitions of investments in associates. There are no changes in accounting for investments in associates to the consolidated or parent entity from applying AASB 128.

### (h) Non-current assets held for Sale and Discontinued Operations

Under AASB 5 Non-current assets held for Sale and Discontinued Operations, a non-current asset will be classified as held for sale if its carrying amount is to be recovered principally through a sale transaction rather than through continued use. The asset will be measured at the lower of carrying amount and fair value less costs to sell. No depreciation will be charged on the assets classified as held for sale. Under the provisions of AASB 3, Business Combinations, the carrying value of assets and liabilities of newly acquired subsidiaries will be fair value.



This will result in a change to the current accounting policy, under which disposal groups that are newly acquired subsidiaries are consolidated in the statement of financial position within non-current assets and are not separately disclosed as being held for sale on acquisition. Depreciation is currently charged on these assets.

A further change to accounting policy will be that for assets within newly acquired subsidiaries, which are to be classified as held for sale, will have goodwill allocated to them to the extent that this value will be recovered by the estimated sale proceeds less costs to sell.

During the year ended 30 June 2005, fourteen hospitals were acquired from Affinity Holdings SARL on 15 April 2005 and, as at 30 June 2005, these entities are intended to be sold to non-group entities.

If the policy required by AASB 5 had been applied during the year ended 30 June 2005, then the depreciation charge would have been $1,931,492 lower. A proportion of Property, Plant & Equipment and goodwill relating to the fourteen divestment hospitals would have been re-classified to “Current assets - Assets of disposal group classified as held for sale”.

### (i) Business Combinations

AASB 1 First time adoption of Australian Equivalents to International Financial Reporting Standards permits an entity to not elect to apply AASB 3 Business Combinations retrospectively to past business combinations (being business combinations that occurred before the date of transition to Australian equivalents to IFRS, 1 July 2004). Ramsay has elected to apply this exemption.

The parent entity acquired 100% of the share capital of Benchmark Healthcare Ltd and Affinity Holdings SARL on 1 July 2004 and 14 April 2005 respectively. The parent entity also acquired 100% of the net assets of Gracedale Nursing Home and four aged care facilities from Ellis Residential Care on 1 March 2005 and 1 April 2005 respectively. These acquisitions have resulted in the following differences under AASB 3 when compared to current accounting policy.

***(i) Provision for restructuring costs***

Under AASB 3, provisions for restructuring costs can only be recognised as part of the acquisition accounting if the acquired entity had, at the acquisition date, recognised an existing liability for restructuring. This is different to the current accounting policy under which a provision is recognised provided the acquirer had developed the main features of the restructuring plan at the date of the acquisition and developed a detailed plan within three months after the date of the acquisition.

Had the policy required by AASB 3 been applied to the acquisitions, no provision for restructuring would have been recognised in the consolidated statement of financial position at the date of acquisition totalling $7,757,880 and goodwill would have decreased by the corresponding amount. Restructuring costs of $6,014,420 would then have been charged to the profit and loss account in the year ended 30 June 2005.

***(ii) Purchased goodwill***

Under AASB 3, goodwill acquired in a business combination shall not be amortised. Instead, the acquirer tests it for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with AASB 136 Impairment of Assets. The impairment of goodwill is recognised as an expense to the extent that future benefits are no longer probable.

This is different to the current accounting policy under which purchased goodwill is amortised (using the straight-line method) over twenty years.

Refer to section (bii) of this note above for the impact of this change in accounting policy.

## 35. FINANCIAL INSTRUMENTS

### (a) Interest rate risk

The economic entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

| 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 | Over 1 to 5 years | More than 5 years | | |
| | $000 | $000 | $000 | $000 | $000 | % |
| (i) Financial Assets: | | | | | | |
| Cash at bank and on deposit | | | | | | |
| - 2005 | 51,434 | - | - | - | 51,434 | 5.67% |
| - 2004 | 22,488 | - | - | - | 22,488 | 4.45% |
| Total Financial Assets | | | | | | |
| - 2005 | 51,434 | - | - | - | 51,434 | 5.67% |
| - 2004 | 22,488 | - | - | - | 22,488 | 4.45% |
| (ii) Financial Liabilities: | | | | | | |
| Overdrafts | | | | | | |
| Bank loans - Australia | | | | | | |
| - 2005 | 1,362,000 | - | - | - | 1,362,000 | 7.78%* |
| - 2004 | 225,000 | - | - | - | 225,000 | 6.75%* |
| Bank loans - Indonesia | | | | | | |
| - 2005 | 14,472 | - | - | - | 14,472 | 9.5% |
| - 2004 | - | - | - | - | - | |
| Loans - Insurance Funding | | | | | | |
| - 2005 | - | 9,454 | - | - | 9,454 | 4.12% |
| - 2004 | - | 7,039 | - | - | 7,039 | 3.52% |
| Finance lease liability | | | | | | |
| - 2005 | - | 1,199 | 1,338 | - | 2,537 | 8.35% |
| - 2004 | - | 506 | 956 | - | 1,462 | 8.35% |
| Interest Rate Swaps | | | | | | |
| - 2005 | (761,570) | 30,801 | 730,769 | - | - | ^ |
| - 2004 | (150,248) | - | 150,248 | - | - | ^ |
| Total Financial Liabilities | | | | | | |
| - 2005 | 614,902 | 41,454 | 732,107 | - | 1,388,463 | 7.77% |
| - 2004 | 74,752 | 7,545 | 151,204 | - | 233,501 | 6.66% |

All other financial instruments are non interest bearing.

* The weighted average interest rate is arrived at after taking account of the interest rate swaps.

^ The disclosure of effective interest rates is not applicable to derivative financial instruments.

## 35. FINANCIAL INSTRUMENTS (continued)

### (b) Net Fair Values

All financial assets and liabilities have been recognised at the balance date at their net fair values, except for:

| | Total carrying amount as per the statement of financial position | | Aggregate net fair value | |
|---|---|---|---|---|
| | 2005 $'000 | 2004 $'000 | 2005 $'000 | 2004 $'000 |
| *Financial liabilities* | | | | |
| Interest rate swaps | # | # | 14,815 | 916 |
| *Equity instruments* | | | | |
| Options over ordinary shares | # | # | - | - |

Note:

# Not applicable as these financial instruments are not recognised in the financial statements.

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.

*Dividends payable:* The carrying amount approximates fair value.

*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 & CONTROLLED ENTITIES
# SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED 30 JUNE 2005

## SHAREHOLDER INFORMATION

The following additional information required by the Australian Stock Exchange Limited, was applicable as at 31 August 2005:

### (a) Distribution of Shareholders

| Size of Holding | Number of Shareholders | Ordinary Shares | % of Issued Capital |
|---|---|---|---|
| 1 - 1,000 | 2,892 | 1,711,359 | 1.00 |
| 1,001 - 5,000 | 4,635 | 10,333,255 | 6.06 |
| 5,001 - 10,000 | 691 | 4,663,676 | 2.74 |
| 10,001 - 100,000 | 324 | 7,539,365 | 4.43 |
| 100,001 and over. | 45 | 146,130,813 | 85.77 |
| **Totals** | **8,587** | **170,378,468** | **100.00** |

### (b) The number of shareholdings held in less than marketable parcels is 47 for a total of 1,053 ordinary shares.

### (c) 20 Largest Shareholders - Ordinary Capital.

| Name | Number of fully paid Ordinary Shares | % of Issued Capital |
|---|---|---|
| 1. Paul Ramsay Holding Pty Limited | 72,688,571 | 42.66 |
| 2. J P Morgan Nominees Australia Limited | 15,870,126 | 9.31 |
| 3. National Nominees Limited | 11,833,193 | 6.95 |
| 4. Westpac Custodian Nominees | 11,538,658 | 6.77 |
| 5. ANZ Nominees Limited | 72,56,048 | 4.26 |
| 6. AMP Life Limited | 4,605,722 | 2.70 |
| 7. Cogent Nominees Pty Limited | 2,850,809 | 1.67 |
| 8. Citicorp Nominees Pty Limited | 2,173,125 | 1.28 |
| 9. Queensland Investment Corporation | 2,172,289 | 1.27 |
| 10. Cogent Nominees Pty Limited | 1,995,373 | 1.17 |
| 11. Government Superannuation Office (State Super Fund A/c) | 1,629,580 | 0.96 |
| 12. Victorian Workcover Authority | 1,168,351 | 0.69 |
| 13. Citicorp Nominees Pty Limited (CFSIL C'wlth Boff Super A/c) | 1,136,972 | 0.67 |
| 14. Citicorp Nominees Pty Limited (CFSIL CFS SW Small Comp A/c) | 1,058,324 | 0.62 |
| 15. Citicorp Nominees Pty Limited (CFS Future Leaders Fund A/c) | 849,322 | 0.50 |
| 16. Transport Accident Commission | 743,278 | 0.44 |
| 17. Bond Street Custodians Limited (Macq Aust Mkt Neutral Fund) | 644,581 | 0.38 |
| 18. Health Super Pty Ltd | 497,227 | 0.29 |
| 19. PSS Board | 404,895 | 0.24 |
| 20. Citicorp Nominees Pty Limited (CFSIL CFS WS Aust Share A/c) | 380,682 | 0.22 |
| **Totals** | **141,497,118** | **83.05** |

### (d) Substantial Shareholders

The names of the Substantial Shareholders listed in the Company's Register as at 31 August 2005 are:

| Shareholder | Number of fully paid Ordinary Shares |
|---|---|
| Paul Ramsay Holdings Pty Limited | 72,688,571 |
| AMP Capital Investors | 8,939,309 |
| JP Morgan Fleming Asset Management Group | 8,708,924 |

### (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.

The following additional information required by the Australian Stock Exchange Limited, was applicable as at 31 August 2005:

## (f) Distribution of CARES Holders

| Size of Holding | Number of Shareholders | Preference Shares | % of Issued Capital |
|---|---|---|---|
| 1 - 1,000 | 3,067 | 791,255 | 30.43 |
| 1,001 - 5,000 | 130 | 308,392 | 11.86 |
| 5,001 - 10,000 | 10 | 71,113 | 2.74 |
| 10,001 - 100,000 | 16 | 623,639 | 23.99 |
| 100,001 and over. | 3 | 805,601 | 30.98 |
| **Totals** | **3,226** | **2,600,000** | **100.00** |

## (g) 20 Largest Shareholders - CARES.

| Name | Number of Preference Shares | % of Issued Capital |
|---|---|---|
| 1. JP Morgan Nominees Australia Limited | 577,129 | 22.20 |
| 2. Australian Foundation Investment Company Limited | 115,000 | 4.42 |
| 3. National Nominees Limited | 110,760 | 4.26 |
| 4. Suncorp General Insurance | 83,890 | 3.23 |
| 5. RBC Global Services Australia Nominees Pty Limited (jbenip A/c) | 70,000 | 2.69 |
| 6. Australian Executor Trustees Limited | 68,034 | 2.62 |
| 7. GIO General Limited | 67,721 | 2.60 |
| 8. ANZ Nominees Limited (cash income A/c) | 64,635 | 2.49 |
| 9. Cogent Nominees Pty Limited (smp accounts) | 59,741 | 2.30 |
| 10. Citicorp Nominees Pty Limited (dfsil cwlth spec 5 A/c | 36,550 | 1.41 |
| 11. Goldman Sachs JB Were Capital Markets Ltd | 34,200 | 1.32 |
| 12. Questor Financial Services Limited | 29,636 | 1.14 |
| 13. Argo Investments Limited | 25,000 | 0.96 |
| 14. MF Custodians Ltd | 20,000 | 0.77 |
| 15. Brencorp No 11 Pty Ltd | 14,700 | 0.57 |
| 16. Cogent Nominees Pty Limited | 14,500 | 0.56 |
| 17. Executor Trustee Australia | 12,534 | 0.48 |
| 18. RBC Global Services Australia Nominees Pty Limited | 11,879 | 0.46 |
| 19. Gresham Partners Capital Limited | 11,250 | 0.43 |
| 20. Cambooya Pty Limited (foundation A/c) | 9,500 | 0.37 |
| **Totals** | **1,436,659** | **55.26** |

## (h) On Market Buy Back

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

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