

# **Sonic Healthcare Limited**

ABN 24 004 196 909

**Annual report – 30 June 2004**

## **Contents**

|   |    |
|---|----|
| Corporate directory                     | 1  |
| Directors' report                       | 2  |
| Corporate governance statement          | 14 |
| Financial report                        | 23 |
| Directors' declaration                  | 77 |
| Independent audit report to the members | 78 |
| Shareholders' information               | 80 |

## Corporate directory

### Directors

Mr B.S. Patterson *Chairman*  
Dr C.S. Goldschmidt *Managing Director*  
Mr C.D. Wilks *Finance Director*  
Mr R.P. Campbell  
Dr P.J. Dubois  
Mr C.J. Jackson  
Dr H.F. Scotton

### Company secretary

Mr P.J. Alexander

### Principal registered office in Australia

95-99 Epping Road, Macquarie Park,  
New South Wales, 2113, Australia.

Ph: 61 2 9855 5444

Fax: 61 2 9878 5066

Website: [www.sonichealthcare.com.au](http://www.sonichealthcare.com.au)

### Share registry

Computershare Investor Services Pty Limited  
Level 5, 115 Grenfell Street, Adelaide,  
South Australia, 5000, Australia.

Ph: 1300 556 161 (Within Australia)

Ph: 61 3 9415 4000 (Outside Australia)

Fax: 61 8 8236 2305

Website: [www.computershare.com](http://www.computershare.com)

### Auditor

PricewaterhouseCoopers

### Solicitors

Allens Arthur Robinson

### Bankers

Australia and New Zealand Banking Group Limited  
Citibank, N.A  
Commonwealth Bank of Australia  
National Australia Bank Limited  
Westpac Banking Corporation  
Dresdner Bank AG

### Stock exchange listings

Sonic Healthcare Limited shares are listed on the Australian Stock Exchange.

## Directors' report

Your directors present their report on the consolidated entity consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2004.

### Directors

The following persons were directors of Sonic Healthcare Limited during the whole of the financial year and up to the date of this report:

Mr B.S. Patterson - Chairman  
Dr C.S. Goldschmidt - Managing Director  
Mr C.D. Wilks - Finance Director  
Mr R.P. Campbell  
Dr P.J. Dubois  
Mr C.J. Jackson  
Dr H.F. Scotton

Dr M.M. Barratt and Dr M.F. Robinson were directors from the beginning of the financial year until their retirements on 27 November 2003.

### Principal activities

During the year the principal continuing activities of the consolidated entity consisted of the provision of medical diagnostic services.

### Dividends

Details of dividends in respect of the current year and previous financial year are as follows:

|                             | <b>2004</b>   | 2003   |
|-----------------------------|---------------|--------|
|                             | <b>\$'000</b> | \$'000 |
| Interim dividend paid       | <b>26,746</b> | 20,880 |
| Final dividend paid         | <b>54,216</b> | 44,630 |
| Total dividend for the year | <b>80,962</b> | 65,510 |

On 20 August 2004, the Board declared a final dividend in respect of the year ended 30 June 2004 of 20 cents per ordinary share, 100% franked (at 30%) to be paid on 20 September 2004 with a record date of 6 September 2004. An interim dividend of 10 cents per ordinary share 100% franked (at 30%) was paid on 17 March 2004.

A final dividend of 17 cents per ordinary share was paid on 7 October 2003 in respect of the year ended 30 June 2003, out of profits of that year as recommended by the directors in last year's Directors' report. The interim dividend in respect of the year ended 30 June 2003 was 8 cents per ordinary share and was paid on 25 March 2003. The company's dividend reinvestment plan (DRP) was suspended in respect of the interim dividend for 2003, however it was reinstated to apply to the 2003 final dividend offering a discounted subscription price to market of 5%. The Board resolved to suspend the DRP for the 2004 interim and final dividends and until further notice. The standing discount to market price for subscriptions under the DRP is 2.5%.

**Directors' report**

(continued)

**Review of operations**

A summary of consolidated revenue and earnings is set out below:

|   | <b>2004</b>      | 2003     | <b>Movement</b> |
|---|------------------|----------|-----------------|
|   | <b>\$'000</b>    | \$'000   | <b>%</b>        |
| <b>Total Revenue</b>  | <b>1,037,397</b> | 974,783  | <b>6.4%</b>     |
| Earnings before interest, tax, depreciation and amortisation (EBITDA)           | <b>238,240</b>   | 213,929  | 11.4%           |
| Depreciation and lease amortisation   | <b>(41,679)</b>  | (40,817) | 2.1%            |
| Earnings before interest, tax and intangibles amortisation (EBITA)              | <b>196,561</b>   | 173,112  | 13.5%           |
| Net interest expense  | <b>(34,132)</b>  | (36,089) | (5.4%)          |
| Income tax attributable to operating profit                                     | <b>(45,222)</b>  | (38,462) | 17.6%           |
| Net (profit)/loss attributable to outside equity interests                      | <b>(255)</b>     | 913      |                 |
| <b>Core net profit attributable to shareholders of Sonic Healthcare Limited</b> | <b>116,952</b>   | 99,474   | <b>17.6%</b>    |
| Amortisation of intangibles   | <b>(59,324)</b>  | (58,616) | 1.2%            |
| <b>Net profit attributable to shareholders of Sonic Healthcare Limited</b>      | <b>57,628</b>    | 40,858   | <b>41.0%</b>    |

**(a) Revenue**

Revenue for the year increased by 6.4% from the prior year reflecting the following factors:

- Strong organic growth of approximately 6% (excluding acquisitions).
- The acquisition of businesses during the 2004 year, including Omnilabs Pathology (July 2003), the radiology group SDSG (December 2003) and the Schottdorf Group (June 2004).
- A full year of the businesses acquired during the 2003 year, being Rockhampton Pathology (October 2002), Fremantle Radiology (December 2002) and Central Coast Pathology (May 2003).

**(b) Profit**

The net profit (after outside equity interests) for the consolidated entity for the year was \$57,628,000 (2003: \$40,858,000), after deducting income tax expense of \$45,222,000 (2003: \$38,462,000). Net profit after tax and before intangibles amortisation (core net profit) attributable to Sonic shareholders increased by 17.6% to \$116,952,000 (2003: \$99,474,000). Core diluted earnings per share (pre intangibles amortisation) increased 14.8% from 37.8 cents to 43.4 cents.

Operating margins are set out below:

|                          | <b>2004</b>  | 2003  | <b>Movement</b> |
|--------------------------|--------------|-------|-----------------|
| EBITDA as a % of Revenue | <b>23.0%</b> | 21.9% | 110 bsp*        |
| EBITA as a % of Revenue  | <b>18.9%</b> | 17.8% | 110 bsp*        |

\* bps = basis points of margin

Margins improved substantially against the prior year reflecting:

- Revenue growth, extraction of synergies and efficiency improvements.
- Demerger of SciGen in November 2002 (EBITA loss in respect of SciGen included in the comparative period was \$1,936,000).

## **Directors' report**

(continued)

Rationalisation strategies to improve the efficiency of the group have continued throughout the current year. Areas of focus include purchasing, centralisation of testing, I.T. standardisation, equipment standardisation and benchmarking.

Sonic's proprietary laboratory information system Apollo, was implemented into Diagnostic Services (Sonic's Tasmanian subsidiary) in December 2003 and Southern.IML Pathology (based in Wollongong) in August 2004. The Apollo radiology information system was progressively implemented into Queensland X-Ray, Castlereagh Imaging and Illawarra Radiology Group throughout the year.

Diagnostic Medlab (DML), Sonic's Auckland based pathology subsidiary, officially opened the extension to their state-of-the-art laboratory facility during the year. DML's laboratory now ranks as one of the finest in the Sonic group. TDL, Sonic's UK operation, also moved into their new state-of-the-art laboratory facility in central London over December/January 2004. The operations of Omnilabs were fully merged into TDL at the same time. TDL's ground breaking joint venture with the University College London Hospital (UCLH), one of the UK's most prestigious teaching hospitals, to form a high-volume automated laboratory for the routine pathology testing of both entities also commenced during the year and is operating successfully.

Net interest expense has decreased by 5.4% to \$34,132,000 due to a reduction in debt (prior to the Schottdorf Group acquisition on 29 June 2004) as a consequence of the strong cashflows of the business and the operation of the company's dividend reinvestment plan for the 2003 final dividend. Appropriate interest rate hedging arrangements are in place for Sonic's debt facilities.

The relatively high effective tax rate of 43.9% (2003: 49.1%) is essentially a function of the non-deductible intangibles amortisation.

The result for the year was in line with or better than the revenue and EBITA guidance provided in August 2003. A full percent of margin expansion and 15% core (pre-intangibles amortisation) EPS growth were particularly pleasing, demonstrating the success of Sonic's strategies of growth, service enhancement and synergy capture. Sonic has now achieved nine consecutive years of double digit core EPS growth, and with the acquisition of the Schottdorf Group into Sonic, core EPS growth is expected to be even stronger in the 2005 year.

### **Significant changes in the state of affairs**

Significant changes in the state of affairs of the consolidated entity during the course of the financial year included the following:

- Sonic completed the acquisitions of the Omnilabs pathology group on 8 July 2003 and the SDSG radiology group on 1 December 2003, which have been integrated into Sonic's existing medical practices of The Doctors' Laboratory Group and Queensland X-Ray respectively.
- Sonic acquired a majority interest (55.9%) in the Schottdorf Group, one of the largest private pathology operations in Germany, on 29 June 2004. The completion of this acquisition just prior to year end caused no material impact on profit for the 2004 year, however its consolidation into Sonic's 2005 result will significantly increase both revenue and profit.

### **Matters subsequent to the end of the financial year**

Since the end of the financial year, the directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years, other than as follows:

- Pursuant to an obligation arising prior to year end in relation to the Schottdorf Group acquisition, on 1 July 2004 3,000,000 options over unissued ordinary Sonic shares with an exercise price of \$6.75 each were granted to Sonic's partners in the Schottdorf business.
- On 12 July 2004 Sonic made a proportional takeover bid to acquire 2 of every 3 shares in Independent Practitioner Network Limited (IPN). Prior to the bid Sonic held 19.63% of IPN. The bid closed on 16 August 2004 with Sonic having reached 71.1% with acceptances for 500,003,619 shares, requiring total consideration of \$42,500,000 which was paid on 26 August 2004. IPN has therefore become a subsidiary of Sonic and its results will be consolidated into Sonic's from this date.

## **Directors' report**

(continued)

- On 20 August 2004 Sonic's directors declared a final dividend for 2004 of 20 cents per ordinary share payable on 20 September 2004. Sonic's dividend reinvestment plan remains suspended for this dividend and until further notice.
- In the period to the date of this report 331,700 options under the Sonic Healthcare Limited Employee Option Plan and 3,000,000 Executive Director options have been exercised for a total exercise consideration of \$18,021,000 to the consolidated group.

### **Likely developments and expected results of operations**

Sonic's main focus during the 2005 and future financial years will be to continue to grow its margins and profit through both acquisitions and organic growth and by extracting efficiencies from its existing businesses. Small "bolt-on" acquisitions which offer marginal profit contributions will continue to be targeted in Australia.

Sonic's UK pathology practice, TDL, will continue to target expansion opportunities in both the private and NHS pathology markets. The full benefit of the Omnilabs acquisition will impact TDL's result for the 2005 year. The success of the UCLH joint venture has added momentum to TDL's involvement in the NHS market.

The beachhead in continental Europe established by Sonic's recent acquisition of a majority interest in the Schottdorf Group confirms Sonic's commitment to seek opportunities to further expand into European pathology markets. The consolidation and rationalisation of the highly fragmented European pathology markets offers a significant opportunity for Sonic in the medium to long term. This strategy remains dependent on identifying attractive opportunities over time.

The Schottdorf Group is an extremely efficient, high volume operation which offers substantial synergies to Sonic including becoming TDL's main sendaway reference laboratory, purchasing synergies and knowledge exchange with the whole Sonic group.

Sonic has provided guidance ranges to the market in relation to the 2005 financial year as follows:

- Revenue        \$1,290 - \$1,330 Million
- EBITA           \$235 - \$245 Million

This guidance includes the consolidation of IPN from 26 August 2004, but excludes any further acquisitions.

The directors of the company intend for Sonic Healthcare Limited and its wholly owned Australian subsidiaries to form a tax-consolidated group. As at the date of this report, the directors have not made a formal decision as to when the tax consolidation legislation will be implemented.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would prejudice Sonic's competitive position in the market place.

## Directors' report

(continued)

### Share options

#### (a) Shares under option

Unissued ordinary shares of Sonic Healthcare Limited under option at the date of this report are as follows:

(i) *Sonic Healthcare Limited Employee Option Plan Options:*

| Number of options | Issue price of shares | Grant date    | Expiry date      |
|-------------------|-----------------------|---------------|------------------|
| 1,233,250         | \$5.41                | 20 April 2000 | 20 February 2005 |
| 3,063,000         | \$7.38                | 20 June 2001  | 20 April 2006    |
| 1,031,000         | \$4.66                | 16 July 2002  | 16 May 2007      |
| 670,000           | \$6.30                | 15 April 2003 | 15 February 2008 |
| <u>5,997,250</u>  |                       |               |                  |

The above options are exercisable as follows before the expiry date:

- Up to 50% may be exercised after 30 months from the date of grant
- Up to 75% may be exercised after 42 months from the date of grant
- Up to 100% may be exercised after 54 months from the date of grant

(ii) *Executive Director Options:*

No options were granted to executive directors during the year ended 30 June 2004 or in the period to the date of this report. At 30 June 2004, 4,500,000 options were (beneficially) outstanding to two executive directors of Sonic Healthcare Limited having been granted on 20 April 2000, following approval by shareholders at the 1999 Annual General Meeting. At the date of this report 1,500,000 options remain outstanding following the exercise of 3,000,000 options in the period since 30 June 2004. The options were subject to vesting periods of up to 36 months but are currently fully vested and convertible into one ordinary share each on or before 20 April 2010 at a fixed price of \$5.32 per share, subject to continuity of service to Sonic. Following approval by shareholders at the 2003 Annual General Meeting, the expiry date for these options was extended from 20 April 2005 to 20 April 2010.

(iii) *Queensland X-Ray (QXR) Options:*

Pursuant to Sonic's agreement with the vendors of QXR, Sonic is to issue a total of 1,000,000 options to staff of QXR. The vesting and other conditions for these options are the same as those for the Sonic Healthcare Limited Employee Option Plan. At the date of this report the following options are on issue:

| Number of options | Issue price of shares | Grant date       | Expiry date      |
|-------------------|-----------------------|------------------|------------------|
| 490,000           | \$4.66                | 16 July 2002     | 16 May 2007      |
| 80,000            | \$6.01                | 7 April 2003     | 7 February 2008  |
| 175,000           | \$7.57                | 19 February 2004 | 19 December 2008 |
| <u>745,000</u>    |                       |                  |                  |

(iv) *Schottdorf Options:*

On 1 July 2004 3,000,000 options over unissued ordinary Sonic shares were granted to Dr and Mrs Schottdorf (1,500,000 each). Each option is convertible into one ordinary share as set out below on or before 31 August 2009 at an exercise price of \$6.75 per option:

- Up to 20% may be exercised after 12 months from the date of grant
- Up to 40% may be exercised after 24 months from the date of grant
- Up to 60% may be exercised after 36 months from the date of grant
- Up to 80% may be exercised after 48 months from the date of grant
- Up to 100% may be exercised after 60 months from the date of grant

No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

## Directors' report

(continued)

### (b) Shares issued on the exercise of options

A total of 1,356,050 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 2004 on the exercise of options granted under the Sonic Healthcare Limited Employee Option Plan and a further 331,700 shares have been issued since that date, but prior to the date of this report. The amounts paid on issue of those shares were:

| No. of options   | Amounts paid<br>(per share) |
|------------------|-----------------------------|
| 736,500          | \$3.26                      |
| 772,250          | \$5.41                      |
| 179,000          | \$7.38                      |
| <u>1,687,750</u> |                             |

A total of 3,000,000 ordinary shares of Sonic Healthcare Limited were issued in the period post 30 June 2004 but prior to the date of this report on the exercise of Executive Director options. The total amount paid on issue of those shares was \$15,960,000 (\$5.32 per share).

No amounts are unpaid on any of these shares.

### Directors' and executives' emoluments

The Remuneration Committee, consisting of 2 non-executive directors, makes specific recommendations to the Board on remuneration packages and other terms of employment for the Managing Director and Finance Director and advises the Board in relation to equity based incentive schemes for other employees.

Executive remuneration and other terms of employment are reviewed annually by the Managing Director having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance-related bonuses and fringe benefits. Executives are also eligible to participate in the Sonic Healthcare Limited Employee Option Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's operations.

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders from time to time. Options are not issued and bonuses are not payable to non-executive directors.

Details of the nature and amount of each element of the emoluments of each director of Sonic Healthcare Limited and each of the five executive officers of the consolidated entity receiving the highest emoluments are set out below.

### (a) Non-executive directors of Sonic Healthcare Limited

| Name                      | Director's fee<br>\$ |
|---------------------------|----------------------|
| B.S. Patterson (Chairman) | 50,000               |
| R.P. Campbell             | 50,000               |

Superannuation contributions required by the Superannuation Guarantee Charge legislation are deducted from gross Directors' Fees as appropriate.



**Directors' report**

(continued)

**(b) Executive directors of Sonic Healthcare Limited**

| Name  | Base remuneration<br>\$ | Director's fees<br>\$ | Other benefits**<br>\$ | Bonus<br>\$    | Super-annuation<br>\$ |
|---|-------------------------|-----------------------|------------------------|----------------|-----------------------|
| Dr C.S. Goldschmidt<br><i>Managing Director</i> | 583,341                 | -                     | 129,892                | ***<br>876,000 | 19,002                |
| C.D. Wilks<br><i>Finance Director</i>           | 453,465                 | -                     | 1,476                  | ***<br>472,360 | 11,002                |
| Dr M.M. Barratt*<br><i>Director</i>             | 11,433                  | 20,417                | -                      | -              | 1,029                 |
| Dr P.J. Dubois<br><i>Director</i>               | 238,288                 | 50,000                | 3,183                  | -              | -                     |
| C.J. Jackson<br><i>Director</i>                 | 278,582                 | 50,000                | 10,720                 | -              | 11,002                |
| Dr M.F. Robinson*<br><i>Director</i>            | 106,920                 | 20,417                | -                      | -              | -                     |
| Dr H.J. Scotton<br><i>Director</i>              | 178,366                 | 50,000                | -                      | -              | 91,149                |

\* Remuneration disclosed is for the period from the beginning of the financial year until their retirements as directors on 27 November 2003.

\*\* Other benefits include fringe benefits tax.

\*\*\* Bonuses paid to Dr C.S. Goldschmidt and C.D. Wilks are determined by the Remuneration Committee and are dependent upon the performance of the consolidated entity. As a consequence of a restructure of Dr C.S. Goldschmidt's and C.D. Wilks' packages, the bonus payments set out above relate to an 18 month rather than 12 month period.

Information on options, including the number of options granted to directors and other executives, is set out in the following sections of this report.

Part of Dr M.F. Robinson's remuneration was paid for consulting and medical services provided by a partnership in which he is a partner.

**(c) Other executives of the consolidated entity**

"Other executives" are officers who are involved with the management of the affairs of Sonic Healthcare Limited and/or its controlled entities.

| Name  | Base remuneration<br>\$ | Other benefits<br>\$ | Bonus<br>\$ | Super-annuation<br>\$ | Options<br>\$ | Shares<br>\$ |
|---|-------------------------|----------------------|-------------|-----------------------|---------------|--------------|
| Dr R. Prudo<br><i>Executive Chairman<br/>The Doctors Laboratory</i>             | 325,862                 | 74,001               | 121,921     | 219,347               | -             | 121,863      |
| D. Byrne<br><i>CEO<br/>The Doctors Laboratory</i>                               | 414,192                 | 60,948               | 121,921     | 61,487                | -             | 121,863      |
| P.J. Alexander<br><i>Sonic Group Financial<br/>Controller/Company Secretary</i> | 208,432                 | 26,836               | 50,000      | 11,002                | 58,152        | -            |
| Dr A. Lloyd<br><i>Sonic Chief Systems Officer</i>                               | 280,168                 | 19,856               | -           | 75,766                | 21,587        | -            |
| Dr G. Armellin<br><i>Sonic Marketing Director/CEO<br/>Capital Pathology</i>     | 336,845                 | -                    | -           | 11,425                | 12,705        | -            |

## **Directors' report**

(continued)

### **(d) Share options and shares granted to directors and executives**

No options over unissued ordinary shares of Sonic Healthcare Limited were granted during or since the end of the financial year to any of the directors or the five most highly remunerated executives of the consolidated entity.

The amounts disclosed in the tables for remuneration relating to options represent the assessed fair values of options at the date they were granted allocated equally over the period from grant date to vesting date (the vesting period). Fair values have been independently determined using an appropriate option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and risk-free interest rate for the term of the option.

During the financial year, following approval by shareholders at the 2004 Annual General Meeting, the expiry date of fully vested pre-existing executive director options held beneficially by Dr C.S. Goldschmidt and C.D. Wilks was extended from 20 April 2005 to 20 April 2010. At 30 June 2004 all 4,500,000 options remained (beneficially) outstanding, however 3,000,000 have since been exercised prior to the date of this report. As required under AASB 1046, valuations of the extensions of the exercise periods as at the date of the extensions have been carried out. The valuation of the extension for Dr Goldschmidt's options was \$1,530,000. The valuation of the extension for Mr Wilks' options was \$765,000. Technically these values form part of Dr Goldschmidt's and Mr Wilks' remuneration. Note however that two thirds of the options have been exercised within the original exercise period and hence no value was received from the extensions in relation to these options.

During the financial year Dr R. Prudo and D. Byrne were each issued 17,687 fully paid ordinary shares as bonuses pursuant to their employment contracts. The values shown in the remuneration tables under the heading "Shares \$" represent the market value of the shares on the date of issue.

## **Directors' report**

(continued)

### **Information on directors**

#### **(a) Directors' profiles**

##### **Barry Sydney Patterson**

*Chairman*

*A.S.M.M., M.I.M.M., F.A.I.C.D.*

Mr Patterson has a corporate mining background, but in more recent years has held directorial positions in a number of both public and private companies. Mr Patterson is the Chairman of the Remuneration Committee and on 3 July 2003 was appointed as a member of the Audit Committee and as Chairman of the Nominations Committee.

##### **Peter Campbell**

*F.C.A., F.T.I.A., M.A.I.C.D.*

Mr Campbell is a Chartered Accountant with his own practice based in Sydney. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Taxation Institute of Australia and is a registered Company Auditor. Mr Campbell is the Chairman of the Audit Committee, a member of the Remuneration Committee, and was appointed to the Nominations Committee on 3 July 2003.

##### **Dr Colin Stephen Goldschmidt**

*Managing Director*

*M.B., B.Ch., F.R.C.P.A., F.A.I.C.D.*

Dr Goldschmidt became the Managing Director of Sonic Healthcare Limited and its subsidiaries in 1993, prior to which he was the Medical Director of Douglass Hanly Moir Pathology. He joined the company after completing his Australian Pathology Fellowship training in Sydney in 1986. Dr Goldschmidt is a member of the Risk Management Committee and was appointed to the Nominations Committee on 3 July 2003.

##### **Christopher David Wilks**

*Finance Director*

*B.Comm. (Univ Melb) A.S.A., F.C.I.S., F.A.I.C.D.*

Mr Wilks has a background in chartered accounting and investment banking. He was previously a partner in a private merchant bank and has held positions on the boards of a number of public companies. Mr Wilks has been a director of Sonic since 1989. Mr Wilks is a member of the Risk Management Committee and was a member of the Audit Committee until resigning on 3 July 2003.

##### **Dr Philip Dubois**

*M.B., B.S., F.R.C.R., F.R.A.N.Z.C.R., F.A.I.C.D.*

Dr Dubois is chairman of the Sonic Imaging Executive Committee and is chairman and CEO of Queensland X-Ray. A neuroradiologist and nuclear imaging specialist, he is currently an Associate Professor of Radiology at University of Queensland Medical School. He has served on numerous government and craft group committees including the Diagnostic Economic Committee and the Council of the Royal Australian and New Zealand College of Radiologists (RANZCR) and the Diagnostic Imaging Management Committee. He is currently Treasurer of the Australian Diagnostic Imaging Association (ADIA), a Councillor and the Radiology Craft Group Representative of the Australian Medical Association (AMA), and member of the Nuclear Imaging Consultative Committee. Dr Dubois is a member of the Risk Management Committee.

**Directors' report**

(continued)

**Colin Jackson***F.C.P.A., F.C.A., F.T.I.A., F.A.I.C.D.*

Mr Jackson's background was in professional accounting practice prior to him becoming the Chief Executive Officer of Diagnostic Services Pty Limited (Sonic's Tasmanian practice) in 1995. He is a Fellow of the Australian Society of Certified Practising Accountants, the Taxation Institute of Australia and the Institute of Chartered Accountants in Australia. Mr Jackson has many years of active involvement at senior levels in the pathology industry including as Vice President of the Australian Association of Pathology Practices. Following Sonic's move to a majority ownership interest in Independent Practitioner Network Limited (IPN), on 27 August 2004 Mr Jackson was appointed as Director and Chairman of IPN. Mr Jackson is a member of the Audit Committee.

**Dr Hugh Scotton***M.B., B.S., F.R.A.N.Z.C.R., D.D.U., F.A.I.C.D.*

Dr Scotton trained in radiology in Adelaide and Brisbane prior to entering private practice in the Hunter Valley in 1972. He was Chairman of Pacific Medical Imaging, incorporating radiology groups in the Hunter Valley, Sydney and Illawarra from 1999 until the acquisition of the group in 2001 by Sonic. Prior to the formation of Pacific Medical Imaging, Dr Scotton was Chairman of the Hunter Imaging Group, the largest imaging practice in the Hunter Valley. He currently retains that position.

**(b) Directors' interests in shares and options as at 23 September 2004**

| Director's name     | Class of shares | Number of shares     | Interest                   | Options      |
|---------------------|-----------------|----------------------|----------------------------|--------------|
| B.S. Patterson      | Ordinary        | 3,816,646            | Beneficially               | -            |
| R.P. Campbell       | Ordinary        | -                    | -                          | -            |
| Dr C.S. Goldschmidt | Ordinary        | 2,000,000            | Beneficially               | 1,000,000    |
| C.D. Wilks          | Ordinary        | 273,000<br>1,000,000 | Personally<br>Beneficially | -<br>500,000 |
| Dr P.J. Dubois      | Ordinary        | 120,000              | Beneficially               | -            |
| C.J. Jackson        | Ordinary        | 517,590              | Personally                 | -            |
| Dr H.F. Scotton     | Ordinary        | 180,634              | Personally                 | -            |

**Directors' report**

(continued)

**Meetings of directors**

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2004, and the numbers of meetings attended by each director were:

|                     | Full meetings of directors  |                           | Meetings of committees      |                           |                             |                         |                             |                         |                             |                         |
|---------------------|-----------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
|                     |                             |                           | Audit                       |                           | Remuneration                |                         | Risk Management             |                         | Nominations                 |                         |
|                     | Number of meetings attended | Number of meetings held * | Number of meetings attended | Number of meetings held * | Number of meetings attended | Number of meetings held | Number of meetings attended | Number of meetings held | Number of meetings attended | Number of meetings held |
| B.S. Patterson      | 11                          | 15                        | 1                           | 2                         | 3                           | 3                       | -                           | -                       | 1                           | 1                       |
| Dr C.S. Goldschmidt | 15                          | 15                        | -                           | -                         | -                           | -                       | 3                           | 3                       | 1                           | 1                       |
| C.D. Wilks          | 15                          | 15                        | 2 by invitation             | -                         | -                           | -                       | 3                           | 3                       | -                           | -                       |
| Dr M.M. Barratt     | 6                           | 6                         | -                           | -                         | -                           | -                       | -                           | -                       | -                           | -                       |
| R.P. Campbell       | 14                          | 15                        | 2                           | 2                         | 3                           | 3                       | -                           | -                       | 1                           | 1                       |
| Dr P.J. Dubois      | 14                          | 15                        | -                           | -                         | -                           | -                       | 3                           | 3                       | -                           | -                       |
| C.J. Jackson        | 13                          | 15                        | 2                           | 2                         | -                           | -                       | -                           | -                       | -                           | -                       |
| Dr M.F. Robinson    | 5                           | 6                         | -                           | -                         | -                           | -                       | -                           | -                       | -                           | -                       |
| Dr H.J. Scotton     | 15                          | 15                        | -                           | -                         | -                           | -                       | -                           | -                       | -                           | -                       |

\* For the period office was held.

**Insurance of officers**

During the financial year, the company entered into agreements to indemnify all directors of the company named above and current and former directors of the company and its controlled entities against all liabilities to persons (other than the company or related entity) which arise out of the performance of their normal duties as director or executive officer unless the liability relates to conduct involving lack of good faith. The company has agreed to indemnify the directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

The directors' and officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the company or related entity) incurred in their position as a director or executive officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage. The insurance policy does not allow disclosure of the nature of the liabilities insured against or the premium paid under the policy.

**Environmental regulation**

The consolidated entity is subject to environmental regulation in respect of the transport and disposal of medical waste. The consolidated entity contracts with reputable, licensed businesses to dispose of waste and there have been no investigations or claims during the financial year. The directors believe that the consolidated entity has complied with all environmental regulations.

**Rounding of amounts**

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Sonic Healthcare Limited and controlled entities

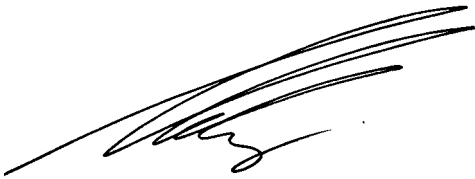
**Directors' report**

(continued)

This report is made in accordance with a resolution of the directors.



Dr C.S. Goldschmidt  
Director



C.D. Wilks  
Director

Sydney  
30 September 2004

## Corporate governance statement

The board of Sonic Healthcare continues to place great importance on the governance of the company, which it believes is vital to its well being and success. There are two elements to the governance of companies: performance and conformance. Both are important but it is critical that focus on conformance does not detract from the principal function of a business, which is to undertake prudent activities to:

- generate rewards for shareholders who invest their capital,
- provide services of value to customers, and
- provide meaningful employment for employees,

and to do so in a way that contributes positively to the community.

In this framework it is crucial that shareholders have clear visibility of the actions of the company and that they can rely on reported financial information. The Sonic board has committed itself to provide relevant, accurate information to shareholders on a timely basis and has adopted policies and procedures designed to ensure that the group's financial reports are true and fair, meet high standards of disclosure integrity and provide all material information necessary to understand the group's financial performance.

Sonic's board and management are committed to governance which recognises that all aspects of the group's operations are conducted ethically, responsibly and with the highest standards of integrity. The board has adopted practices and policies designed to achieve these aims. In March 2003, the ASX Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations (Recommendations). Sonic supports the Recommendations in advancing good corporate governance. Sonic's board has completed its review of compliance with the Recommendations, and in areas where Sonic's existing practices and policies were not in accord with the Recommendations, Sonic has and continues to implement change in a prudent manner. During the 2004 year Sonic established a Corporate Governance section for its website ([www.sonichealthcare.com.au](http://www.sonichealthcare.com.au)), which sets out the information required by the Recommendations plus other relevant information, including copies of all Policies, Charters and Codes referred to herein.

Sonic's Code of Ethics (discussed below) and Core Values set out the fundamental principles that govern the way that all Sonic people conduct themselves. Sonic's Core Values apply equally to every employee of Sonic and were formulated with significant input from Sonic's staff. They have been embraced throughout the group. Sonic's Core Values are:

- Commit to Service Excellence  
To willingly serve all those with whom we deal with unsurpassed excellence.
- Treat each other with Respect & Honesty  
To grow a workplace where trust, team spirit and equity are an integral part of everything we do.
- Demonstrate Responsibility & Accountability  
To set an example, to take ownership of each situation to the best of our ability and to seek help when needed.
- Be Enthusiastic about Continuous Improvement  
To never be complacent, to recognise limitations and opportunities for ourselves and processes and to learn through these.
- Maintain Confidentiality  
With regard to patient records and all information pertaining to patients as well as other professional and commercial issues.

A description of the company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place throughout the year.

### 1. Board of directors

#### (a) Role of the board

The board of directors is accountable to shareholders for the performance of the parent entity and the consolidated group and is responsible for the corporate governance practices of the group.

## Corporate governance statement

(continued)

The board's principal objective is to maintain and increase shareholder value while ensuring that the group's overall activities are properly managed.

Sonic's corporate governance practices provide the structure which enables the board's principal objective to be achieved, whilst ensuring that the business and affairs of the group are conducted ethically and in accordance with the law.

The board's overall responsibilities include:

- providing strategic direction and approving corporate strategies;
- monitoring management and financial performance and reporting;
- monitoring and ensuring the maintenance of adequate risk management controls and reporting mechanisms, and
- ensuring the business is conducted ethically and transparently.

The board delegates responsibility for day-to-day management of the business to the Managing Director and senior executives. The Managing Director also oversees the implementation of strategies approved by the board. The board uses a number of committees to support it in matters that require more intensive review and involvement. Details of the board committees are provided below.

As part of its commitment to good corporate governance, the board regularly reviews the practices and standards governing the board's composition, independence and effectiveness, the accountability and compensation of directors (and senior executives) and the board's responsibility for the stewardship of the group.

The role and responsibilities of the board, the functions reserved to the board and those delegated to management have been formalised in the Sonic Board Charter.

### (b) Composition of the board

The directors of the company in office at the date of this statement are:

| <i>Name</i>          | <i>Age</i> | <i>Term of Office (Years)</i> | <i>Position</i>                                    | <i>Expertise</i>   | <i>Committees</i>  |
|----------------------|------------|-------------------------------|--|--|--|
| Mr Barry Patterson   | 63         | 11                            | Chairman<br>Non-Executive,<br>independent Director | Company Management   | Chairman of Remuneration and Nominations Committees, member of Audit Committee |
| Dr Colin Goldschmidt | 50         | 11                            | Managing Director                                  | Healthcare Industry and Company Management                       | Chairman of Risk Management Committee  |
| Mr Chris Wilks       | 46         | 14                            | Finance Director                                   | Finance, Accounting, Banking, Secretarial and Company Management | Member of Risk Management Committee  |
| Mr Peter Campbell    | 59         | 11                            | Non-Executive,<br>independent Director             | Finance and Accounting, Computing and Company Management         | Chairman of Audit Committee, member of Remuneration and Nominations Committees |
| Dr Philip Dubois     | 58         | 3                             | Executive Director                                 | Radiology Industry and Company Management                        | Member of Risk Management Committee  |
| Mr Colin Jackson     | 56         | 4                             | Executive Director                                 | Finance, Pathology Industry and Company Management               | Member of Audit Committee  |
| Dr Hugh Scotton      | 62         | 3                             | Executive Director                                 | Radiology Industry and Company Management                        |  |



## **Corporate governance statement**

(continued)

The composition of Sonic's board is consistent with the principle of medical management and leadership which has been a core strategy of Sonic's since 1992. Sonic's Managing Director is a qualified pathologist, and the board also includes two radiologists, ensuring that it has the capacity to understand complex medical issues and be in close touch with the medical marketplace. The presence of medical practitioners on Sonic's board also gives comfort both to referring doctors (Sonic's customers) and to owners of diagnostic practices which Sonic seeks to acquire. This strategy has resulted in a board which has a relatively high proportion of executive directors.

Dr Dubois, Mr Jackson and Dr Scotton were appointed to the board following acquisitions of practices in which they held leadership positions. Their presence on the board has played an important role in consolidating several of the larger independent practices acquired by Sonic into a cohesive group.

Sonic's non-executive directors, including the Chairman, are considered independent and perform major roles in the board committees.

For the reasons described above, Sonic currently does not comply with ASX Corporate Governance Council Recommendation 2.1: "A majority of the board should be independent directors". The board is addressing this, having appointed a Nominations Committee whose role includes reviewing the board structure and recruiting an additional independent director by 30 June 2005. Due to the importance to Sonic of medical leadership and representation of major medical practice subsidiaries on the board, it is envisaged that Sonic will not fully comply with Recommendation 2.1 in the short to medium term, however, the retirements of two executive directors, Dr M. Barratt and Dr M. Robinson at the 2003 Annual General Meeting were significant steps towards compliance.

The board has resolved that the position of Chairman of the board be held by an independent director, and the position of Chairman and Managing Director will be held by different persons. The board has also resolved that the mere fact that a director has been in office for a period greater than 10 years does not change that director's status as an independent. The board has specifically considered the position of Mr Barry Patterson and has determined that he is independent.

The size and composition of the board is determined by the full board acting on recommendations of the Nominations Committee. Sonic's constitution requires that the board comprise no more than 12 and no less than 3 directors at any time. Sonic's constitution also requires all directors other than the Managing Director to offer themselves for re-election at an Annual General Meeting, such that they do not hold office without re-election for longer than three years.

### (c) Board meetings

The board meets formally at least 10 times a year to consider a broad range of matters, including strategy, financial performance reviews, capital management and acquisitions. Details of meetings (both full board and committees) and attendances are set out in the Directors' report.

### (d) Independent professional advice and access to information

Each director has the right to seek independent professional advice at the company's expense. However, prior approval of the Chairman is required, which is not unreasonably withheld.

All directors have unrestricted access to company records and information and receive detailed financial and operational reports from senior management during the year to enable them to carry out their duties. Directors also liaise with senior management as required, and may consult with other employees and seek additional information on request.

### (e) Conflicts of interest of directors

The board has guidelines dealing with disclosure of interests by directors and participation and voting at board meetings where any such interests are discussed. In accordance with the Corporations Act, any director with a material personal interest in a matter being considered by the board does not receive the relevant board papers, must not be present when the matter is being considered, and may not vote on the matter.

## Corporate governance statement

(continued)

### (f) Share trading

A new Share Trading Policy was implemented in August 2003, under which all Sonic employees are prohibited from buying or selling Sonic shares at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against “insider trading”. Certain “Designated Officers”, including all directors and senior executives, are also prohibited from trading in periods other than in 8 week windows following the release of half year and full year results, and 2 week periods following the provision to the market at any time by Sonic of definitive guidance regarding the next result to be released. Exceptions to this prohibition can be approved by the Chairman (for other directors) or the Managing Director (for all other employees) in circumstances of financial hardship. Prohibitions also apply to financial instruments related to Sonic’s shares and to trading in the shares of other entities using information obtained through employment with Sonic. In addition, the Managing Director and Finance Director are required to obtain approval from the Chairman of the Remuneration Committee before selling any shares. All Sonic share dealings by directors are promptly notified to the Australian Stock Exchange (ASX).

## 2. Board committees

To assist the board in fulfilling its duties there are currently four board committees whose terms of reference and powers are determined by the board.

### (a) Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the board on remuneration packages and policies applicable to the Managing Director and Finance Director and to advise the board in relation to equity based incentive schemes for other employees. In addition, the Committee ensures appropriate disclosure is provided to shareholders in relation to remuneration policies and that equity based remuneration is within plans approved by shareholders. The Remuneration Committee, when deemed necessary, obtains independent advice on the appropriateness of remuneration packages.

The members of the Remuneration Committee during the year were:

Mr B.S. Patterson (Chairman)  
Mr R.P. Campbell

A formal Charter for the Remuneration Committee has been adopted by the board. The Remuneration Committee meets on an as required basis.

The current remuneration for directors is \$50,000 per annum. Further details of Sonic’s remuneration policies of non-executive directors, the Managing Director and senior executives of the company and the relationship between such policy and the company’s performance is provided in the Directors’ report and Note 32 to the financial statements.

### (b) Audit Committee

The principal role of the Audit Committee is to provide the board, investors, owners and stakeholders with confidence that the financial reports for the company represent a true and fair view of the company’s financial condition and operational results in all material respects, and are in accordance with relevant accounting standards.

The members of the Audit Committee are:

Mr R.P. Campbell (Chairman)  
Mr C.J. Jackson  
Mr B.S. Patterson (appointed 3 July 2003)

Mr C.D. Wilks resigned from the Committee on 3 July 2003.

The composition of the Audit Committee does not fully comply with the ASX Corporate Governance Council Recommendation 4.3 as one of its members, Mr Jackson, is an executive director. As there are only two non-executive directors on the board, Sonic will be unable to fully comply with Recommendation 4.3 until an additional independent director is recruited.

The external auditors, the Managing Director and the Finance Director are invited to Audit Committee meetings at the discretion of the Committee.

## Corporate governance statement

(continued)

The main responsibilities of the Audit Committee are to:

- Assist the board in its oversight responsibilities by monitoring and advising on:
  - the integrity of the financial statements of the company
  - the company's accounting policies and practices accordance with current and emerging accounting standards
  - the external auditors' independence and performance
  - compliance with legal and regulatory requirements and policies in this regard
  - compliance with the policy framework in place from time to time
  - internal controls, and the overall efficiency and effectiveness of financial operations
- Provide a forum for communication between the board, executive leadership and external auditors.
- Provide a conduit to the board for external advice on audit and financial risk management.

In fulfilling its responsibilities, the Audit Committee receives regular reports from management and the external auditors. It also meets with the external auditors at least twice a year – more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

A formal Charter for the Audit Committee was adopted by the board in August 2003.

### (c) Risk Management Committee

The members of the Risk Management Committee are:

Dr C.S. Goldschmidt (Chairman)  
Mr C.D. Wilks  
Dr P. Dubois

The Risk Management Committee's charter is to:

- Assist the board in its oversight responsibilities by monitoring and advising on:
  - the management of operational risks, including but not limited to:
    - the company's insurance program
    - environmental policy and issues
    - occupational health and safety
    - disaster recovery strategy
    - litigation against the company
    - industry related regulatory compliance
  - compliance with the policy framework in place from time to time.
  - internal controls over operational risks.
  - the company's overall operational risk management program.
- Provide a forum for communication between the board, management and external risk management advisors.
- Provide a conduit to the board for external advice on operational risk management.

The Risk Management Committee does not have any responsibility in relation to strategic and financial risk management, which is the responsibility of the company's Audit Committee.

A major focus of the Committee since its inception has been ongoing review of the group's and employed doctors medical indemnity insurance.

A formal Charter for the Risk Management Committee was adopted by the board in August 2003. The Committee meets at least once per quarter.

## Corporate governance statement

(continued)

### (d) Nominations Committee

The Nominations Committee was formed on 3 July 2003, as part of Sonic's review of compliance with the ASX Corporate Governance Council Recommendations. Members of the Nominations Committee are:

Mr B.S. Patterson (Chairman)  
Mr R.P. Campbell  
Dr C.S. Goldschmidt

The Nominations Committee's charter is to:

- Review the board structure regularly.
- Advise the board on the recruitment, appointment and removal of directors.
- Recruit an additional independent director by 30 June 2005.
- Assess and promote the enhancement of competencies of directors.
- Review board succession plans.
- Make recommendations on remuneration of non-executive directors.

### 3. Identifying and managing business risks

Sonic recognises that risk management is an integral part of good management and corporate governance practice and is fundamental to driving shareholder value across the business.

Sonic views the management of risk as a core managerial capability. Risk management is strongly promoted internally and forms part of the performance evaluation of key executives.

#### (a) Responsibilities

The board determines the overall risk profile of the business and is responsible for monitoring and ensuring the maintenance of adequate risk management controls and reporting mechanisms.

To assist the board in fulfilling its duties, it is aided by the Audit Committee (in relation to strategic and financial risk management) and the Risk Management Committee (in relation to operational and compliance risk management). The board has delegated to these Committees responsibility for ensuring:

- the principal strategic, financial, operational and compliance risks are identified.
- systems are in place to assess, manage, monitor and report on those risks, and those systems are operating effectively.
- management compliance with board approved policies.
- internal controls are operating effectively across the business.
- all group companies are in compliance with laws and regulations relating to their activities.

The Audit Committee and Risk Management Committee regularly update the board on all relevant matters.

Management is responsible for the identification, assessment and management of business risks and reports on these matters to the Audit Committee or Risk Management Committee through various mechanisms depending on the nature of the risks.

#### (b) Risk management systems and processes

Sonic's activities across all of its operating entities are subject to regular review and continuous oversight by executive management and the board committees. The Chief Executive Officers of the individual operating companies are responsible for the identification and management of risk within their business. To assist in this, executive management has developed an effective control environment to help manage the significant risks to its operations, both locally and overseas. This environment includes the following components:

## **Corporate governance statement**

(continued)

- clearly defined management responsibilities, management accountabilities and organisational structures.
- established policies and procedures that are widely disseminated to, and understood by, employees.
- regular internal review of policy compliance and the effectiveness of systems and controls.
- comprehensive training programs for staff in relation to pathology and radiology operational practices and compliance requirements.
- strong management reporting framework for both financial and operational information.
- creation of an open culture to share risk management information and to continuously improve the effectiveness of Sonic's risk management approach.
- benchmarking across operations to share best practice and further reduce the operational risk profile.
- Sonic Core Values, a unifying code of conduct embraced by Sonic employees.
- centrally administered group insurance program ensuring a consistent and adequate approach across all operating areas.

### (c) Regulatory compliance

Sonic's pathology and radiology activities are subject to Commonwealth and State law in Australia, and similar regulatory control in offshore locations. These laws cover such areas as laboratory and collection centre operations, workplace health and safety, radiation safety, privacy of information and waste management.

Sonic's network of pathology laboratories, collection centres and radiology centres are required to meet and stay compliant with set performance criteria determined by government and industry bodies.

To support this, Sonic's operating policies and procedures are overseen by internal quality assurance and workplace health and safety managers who review operational compliance.

In addition, practicing pathologists and radiologists are required to be registered and licensed in accordance with Medical Board and Government regulations. The accreditation and licensing of locations, equipment and personnel is subject to regular, random audits by Government experts and medical peer groups. Sonic also undertakes internal reviews to ensure continued best practice and compliance.

Sonic's established procedures, focus on best practice, structured staff training and the external review activities serve to mitigate operational risk and support regulatory compliance.

### (d) Managing Director and Finance Director sign-off

Sonic has adopted a policy requiring the Managing Director and the Finance Director to state to the board in writing to the best of their knowledge that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board, and which operates efficiently and effectively in all material respects.

## **4. Ethical standards**

The company has adopted a Code of Ethics policy that outlines the standards required so that the directors and management conduct themselves with the highest ethical standards. All employees of the company and its controlled entities are informed of the Code. The directors regularly review this code to ensure it reflects best practice in corporate governance. The Code is further supported by the Sonic Core Values.

## **5. Continuous disclosure**

The company secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

## **Corporate governance statement**

(continued)

During the 2004 financial year the company formalised its existing policies and procedures on information disclosure in a Policy on Continuous Disclosure. The Policy focuses on continuous disclosure of any information concerning the company and its controlled entities that a reasonable person would expect to have a material effect on the price of the company's securities, and sets out management's responsibilities and reporting procedures in this regard.

All information disclosed to the ASX is posted on the company's web site as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the company's operations, the material used in the presentation is released to the ASX and posted on the company's web site.

### **6. The role of shareholders**

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the group's state of affairs. Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). The board ensures that the annual report includes relevant information about the operations of the group during the year, changes in the state of affairs of the group and details of likely future developments, in addition to the other disclosures required by law;
- Proposed major changes in the group which may impact on share ownership rights are submitted to a vote of shareholders.

To further facilitate communication with shareholders the company has established electronic shareholder communication processes via its share registry. Shareholders are able to access annual reports, notices of meetings, proxy forms and voting, and electronic statements (e.g. holding statements) by email. The company has an arrangement with eTree by which it donates up to \$2 to Landcare Australia for each shareholder email address recorded.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting on the appointment of directors.

### **7. External auditors**

The company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. Sonic requires its external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the auditor's report. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee. Sonic's external audit signing partner was changed for the 2003 financial year, under the audit firm's 5 year rotation policy. During the 2004 financial year Sonic put its external audit for 2004, 2005 and 2006 to competitive tender. Each of the four largest Chartered Accounting firms in Australia (including the incumbent) were invited to submit proposals. After consideration of tenders, the Audit Committee and board resolved to recommend the reappointment of the incumbent auditors, PricewaterhouseCoopers. Their appointment was considered and approved by shareholders at Sonic's 2003 Annual General Meeting.

### **8. Performance evaluation of the board, its committees and directors, and key executive officers**

#### **(a) The board and its committees**

The board has resolved to carry out an annual evaluation of its own performance in meeting its key responsibilities in accordance with the Board Charter, by undertaking the following activities:

- the Chairman will meet with each director separately to discuss individual performance and ideas for improvement, and
- the board as a whole will discuss and analyse its own performance including suggestions for change or improvement. This will include an assessment of the extent to which the board has discharged its responsibilities as set out in the Board Charter.

## **Corporate governance statement**

(continued)

The performance review covers matters such as contribution to strategy development, interaction with management, operation and conduct of meetings, and specific performance objectives for the year ahead.

The inaugural performance evaluation of the board and its members is currently under way.

The board also obtains feedback on their performance and operations from key people such as the external auditors.

Each committee of the board is required to undertake an annual performance evaluation and report the results of this review to the board.

Performance evaluation results will be discussed by the board, and initiatives undertaken, where appropriate, to strengthen the effectiveness of the board's operation and that of its committees. The board periodically reviews the skills, experience and expertise of its directors and its practices and procedures for both the present and future needs of the company.

### (b) The Managing Director and Finance Director

The performances of the Managing Director and Finance Director are formally reviewed by the board. The performance criteria include:

- economic results of the consolidated group.
- fulfilment of objectives and duties.
- personnel and resource management.
- personal conduct and Sonic Core Values.
- corporate governance and compliance.
- risk management.
- feedback from clients and investors.

Performance evaluation results are considered by the Remunerations Committee in determining the level and structure of remuneration for the Managing Director and Finance Director.

### (c) Key executives

The Managing Director evaluates key executives at least annually with qualitative and quantitative measures against agreed business and personal objectives. These business and personal objectives are consistent with those used in the performance reviews for the Managing Director and Finance Director.

**Sonic Healthcare Limited** ABN 24 004 196 909

**Financial report**

30 June 2004

**Contents**

|   |    |
|---|----|
| Statements of financial performance     | 24 |
| Statements of financial position        | 25 |
| Statements of cash flows                | 26 |
| Notes to the financial statements       | 27 |
| Directors' declaration                  | 77 |
| Independent audit report to the members | 78 |



**Statements of financial performance**

For the year ended 30 June 2004

|   | Notes | Consolidated     |                | Parent entity  |                |
|---|-------|------------------|----------------|----------------|----------------|
|   |       | 2004<br>\$'000   | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>Revenue from ordinary activities</b>   | 3     | <b>1,037,397</b> | 974,783        | <b>90,927</b>  | 43,006         |
| Labour and related costs  |       | <b>(503,309)</b> | (476,485)      | <b>(325)</b>   | (551)          |
| Consumables used  |       | <b>(130,300)</b> | (125,386)      | -              | (47)           |
| Amortisation of intangibles   | 4     | <b>(59,324)</b>  | (58,616)       | -              | -              |
| Depreciation and amortisation of physical assets  | 4     | <b>(41,679)</b>  | (40,817)       | <b>(834)</b>   | (837)          |
| Operating lease rental expense  |       | <b>(41,073)</b>  | (39,073)       | <b>(18)</b>    | -              |
| Borrowing costs expense   | 4     | <b>(35,250)</b>  | (37,540)       | <b>(8,648)</b> | (3,795)        |
| Repairs and maintenance   |       | <b>(27,028)</b>  | (26,565)       | -              | -              |
| Write off on restructure of investment in controlled entity   |       | -                | -              | -              | (4,146)        |
| Other expenses from ordinary activities   |       | <b>(96,329)</b>  | (91,894)       | <b>(1,824)</b> | (3,678)        |
| <b>Profit from ordinary activities before income tax expense</b>  |       | <b>103,105</b>   | 78,407         | <b>79,278</b>  | 29,952         |
| Income tax expense  | 5     | <b>(45,222)</b>  | (38,462)       | <b>(4,509)</b> | (6,344)        |
| <b>Profit from ordinary activities after income tax expense</b>   |       | <b>57,883</b>    | 39,945         | <b>74,769</b>  | 23,608         |
| Net profit/(loss) attributable to outside equity interests  |       | <b>255</b>       | (913)          | -              | -              |
| <b>Net profit attributable to members of Sonic Healthcare Limited</b>   | 25(b) | <b>57,628</b>    | 40,858         | <b>74,769</b>  | 23,608         |
| Net exchange differences on translation of financial report of foreign controlled entities  | 25(a) | <b>4,433</b>     | 360            | -              | -              |
| Gain on deconsolidation of SciGen Limited   | 25(b) | -                | 8,549          | -              | -              |
| <b>Total revenues, expenses and valuation adjustments attributable to members of Sonic Healthcare Limited recognised directly in equity</b> |       | <b>4,433</b>     | 8,909          | <b>74,769</b>  | -              |
| <b>Total changes in equity other than those resulting from transactions with owners as owners</b>   |       | <b>62,061</b>    | 49,767         | <b>74,769</b>  | 23,608         |
|   |       | <b>Cents</b>     | Cents          |                |                |
| <b>Basic earnings per share</b>   | 36    | <b>21.7</b>      | <b>15.7</b>    |                |                |
| <b>Diluted earnings per share</b>   | 36    | <b>21.4</b>      | <b>15.5</b>    |                |                |
| Core (pre intangibles amortisation) diluted earnings per share  | 36    | <b>43.4</b>      | <b>37.8</b>    |                |                |

*The above statements of financial performance should be read in conjunction with the accompanying notes.*

**Statements of financial position**

As at 30 June 2004

|  | Notes | Consolidated     |                | Parent entity    |                |
|--|-------|------------------|----------------|------------------|----------------|
|  |       | 2004<br>\$'000   | 2003<br>\$'000 | 2004<br>\$'000   | 2003<br>\$'000 |
| <b>Current assets</b>                          |       |                  |                |                  |                |
| Cash assets                                    | 37(a) | 17,343           | 26,489         | 3                | 146            |
| Receivables                                    | 7     | 145,596          | 104,745        | 5,075            | 2,217          |
| Inventories                                    | 8     | 22,903           | 17,435         | -                | -              |
| Other  | 9     | 10,258           | 6,654          | 158              | 189            |
| <b>Total current assets</b>                    |       | <b>196,100</b>   | 155,323        | <b>5,236</b>     | 2,552          |
| <b>Non-current assets</b>                      |       |                  |                |                  |                |
| Receivables                                    | 10    | 4,499            | 2,695          | 143,952          | 389,820        |
| Other financial assets                         | 11    | 45,763           | 40,185         | 1,035,782        | 472,450        |
| Property, plant and equipment                  | 12    | 240,712          | 217,763        | 25,200           | 25,711         |
| Intangible assets                              | 13    | 1,162,162        | 1,111,063      | -                | -              |
| Deferred tax assets                            | 14    | 43,526           | 16,360         | -                | -              |
| Other  | 15    | 1,371            | -              | -                | -              |
| <b>Total non-current assets</b>                |       | <b>1,498,033</b> | 1,388,066      | <b>1,204,934</b> | 887,981        |
| <b>Total assets</b>                            |       | <b>1,694,133</b> | 1,543,389      | <b>1,210,170</b> | 890,533        |
| <b>Current liabilities</b>                     |       |                  |                |                  |                |
| Payables                                       | 16    | 99,973           | 65,404         | 1,864            | 698            |
| Interest bearing liabilities                   | 17    | 34,746           | 67,728         | -                | -              |
| Current tax liabilities                        | 18    | 11,800           | 7,683          | -                | -              |
| Provisions                                     | 19    | 55,036           | 53,803         | -                | -              |
| Other  | 20    | 21,919           | 5,086          | -                | -              |
| <b>Total current liabilities</b>               |       | <b>223,474</b>   | 199,704        | <b>1,864</b>     | 698            |
| <b>Non-current liabilities</b>                 |       |                  |                |                  |                |
| Interest bearing liabilities                   | 21    | 606,536          | 493,567        | 334,518          | 58,215         |
| Deferred tax liabilities                       | 22    | 998              | 2,990          | 107              | 569            |
| Provisions                                     | 23    | 15,338           | 15,836         | -                | -              |
| <b>Total non-current liabilities</b>           |       | <b>622,872</b>   | 512,393        | <b>334,625</b>   | 58,784         |
| <b>Total liabilities</b>                       |       | <b>846,346</b>   | 712,097        | <b>336,489</b>   | 59,482         |
| <b>Net assets</b>                              |       | <b>847,787</b>   | 831,292        | <b>873,681</b>   | 831,051        |
| <b>Equity</b>                                  |       |                  |                |                  |                |
| Parent entity interest                         |       |                  |                |                  |                |
| Contributed equity                             | 24    | 875,248          | 837,032        | 876,268          | 837,032        |
| Reserves                                       | 25(a) | 10,504           | 6,071          | 982              | 982            |
| Accumulated losses                             | 25(b) | (25,725)         | (11,978)       | (3,569)          | (6,963)        |
| <b>Total parent entity interest</b>            |       | <b>860,027</b>   | 831,125        | <b>873,681</b>   | 831,051        |
| Outside equity interest in controlled entities | 26    | (12,240)         | 167            | -                | -              |
| <b>Total equity</b>                            |       | <b>847,787</b>   | 831,292        | <b>873,681</b>   | 831,051        |

The above statements of financial position should be read in conjunction with the accompanying notes.

**Statements of cash flows**

For the year ended 30 June 2004

|   | Notes  | Consolidated    |                | Parent entity   |                |
|---|--------|-----------------|----------------|-----------------|----------------|
|   |        | 2004<br>\$'000  | 2003<br>\$'000 | 2004<br>\$'000  | 2003<br>\$'000 |
| <b>Cash flows from operating activities</b>                               |        |                 |                |                 |                |
| Receipts from customers (inclusive of goods and services tax)             |        | 1,073,155       | 1,013,436      | 37              | 24             |
| Payments to suppliers and employees (inclusive of goods and services tax) |        | (835,552)       | (800,412)      | (1,229)         | (3,819)        |
|   |        | <b>237,603</b>  | 213,024        | <b>(1,192)</b>  | (3,795)        |
| Dividends received from controlled entities                               |        | -               | -              | 63,070          | 47,300         |
| Interest received   |        | 1,118           | 1,450          | 22,280          | 22,477         |
| Other revenue from controlled entities                                    |        | -               | -              | 5,431           | 5,376          |
| Borrowing costs   |        | (36,079)        | (36,523)       | (8,648)         | (3,795)        |
| Income taxes paid   |        | (46,311)        | (40,599)       | (7,939)         | (7,846)        |
| <b>Net cash inflow from operating activities</b>                          | 37(b)  | <b>156,331</b>  | 137,352        | <b>73,002</b>   | 59,717         |
| <b>Cash flows from investing activities</b>                               |        |                 |                |                 |                |
| Payment for purchase of controlled entity, net of cash acquired           | 28     | (55,688)        | (59,854)       | -               | -              |
| Payments for property, plant and equipment                                |        | (38,568)        | (36,634)       | (1,220)         | (1,855)        |
| Proceeds from sale of non-current assets                                  |        | 5,022           | 2,646          | 1,320           | 2,831          |
| Payments for investments  |        | (5,497)         | (7,816)        | (24,185)        | (7,336)        |
| Loans to controlled entities  |        | -               | -              | (90,791)        | (31,077)       |
| Repayment of loans by other entities                                      |        | 5,723           | 9,922          | -               | 7,573          |
| Repayment of loans by controlled entities                                 |        | -               | -              | 40,355          | -              |
| Capital injection on demerger of SciGen Limited                           |        | -               | (30,000)       | -               | (30,000)       |
| Loans to other entities   |        | (3,625)         | (3,135)        | -               | -              |
| Payment for restructuring activities                                      |        | (5,611)         | (3,546)        | -               | -              |
| <b>Net cash (outflow) from investing activities</b>                       |        | <b>(98,244)</b> | (128,417)      | <b>(74,521)</b> | (59,864)       |
| <b>Cash flows from financing activities</b>                               |        |                 |                |                 |                |
| Proceeds from issues of shares and other equity securities                |        | 5,839           | 1,416          | 6,859           | 1,416          |
| Proceeds from borrowings  |        | 297,755         | 207,685        | -               | -              |
| Loans from controlled entities  |        | -               | -              | 40,205          | 61,102         |
| Repayment of borrowings   |        | (326,202)       | (151,967)      | -               | -              |
| Dividends paid  |        | (45,688)        | (62,322)       | (45,688)        | (62,322)       |
| <b>Net cash (outflow)/inflow from financing activities</b>                |        | <b>(68,296)</b> | (5,188)        | <b>1,376</b>    | 196            |
| <b>Net (decrease)/increase in cash held</b>                               |        | <b>(10,209)</b> | 3,747          | <b>(143)</b>    | 49             |
| Cash at the beginning of the financial year                               |        | 26,489          | 22,939         | 146             | 97             |
| Effects of exchange rate changes on cash                                  |        | 1,063           | (197)          | -               | -              |
| <b>Cash at the end of the financial year</b>                              | 37(a)  | <b>17,343</b>   | 26,489         | <b>3</b>        | 146            |
| Financing arrangements  | 17, 21 |                 |                |                 |                |
| Non-cash financing and investing activities                               | 37(c)  |                 |                |                 |                |

*The above statements of cash flows should be read in conjunction with the accompanying notes.*

## Notes to the financial statements

30 June 2004

### Contents

|                |  |           |
|----------------|--|-----------|
| <b>Note 1</b>  | <b>Summary of significant accounting policies</b>      | <b>28</b> |
| <b>Note 2</b>  | <b>Segment information</b>                             | <b>33</b> |
| <b>Note 3</b>  | <b>Revenue</b>   | <b>36</b> |
| <b>Note 4</b>  | <b>Profit from ordinary activities</b>                 | <b>36</b> |
| <b>Note 5</b>  | <b>Income tax</b>                                      | <b>37</b> |
| <b>Note 6</b>  | <b>Dividends</b>                                       | <b>38</b> |
| <b>Note 7</b>  | <b>Receivables – current</b>                           | <b>39</b> |
| <b>Note 8</b>  | <b>Inventories – current</b>                           | <b>39</b> |
| <b>Note 9</b>  | <b>Other – current</b>                                 | <b>39</b> |
| <b>Note 10</b> | <b>Receivables – non-current</b>                       | <b>39</b> |
| <b>Note 11</b> | <b>Other financial assets – non-current</b>            | <b>40</b> |
| <b>Note 12</b> | <b>Property, plant and equipment – non-current</b>     | <b>41</b> |
| <b>Note 13</b> | <b>Intangible assets – non-current</b>                 | <b>42</b> |
| <b>Note 14</b> | <b>Deferred tax assets – non-current</b>               | <b>42</b> |
| <b>Note 15</b> | <b>Other – non-current</b>                             | <b>42</b> |
| <b>Note 16</b> | <b>Payables – current</b>                              | <b>42</b> |
| <b>Note 17</b> | <b>Interest bearing liabilities – current</b>          | <b>42</b> |
| <b>Note 18</b> | <b>Tax liabilities – current</b>                       | <b>43</b> |
| <b>Note 19</b> | <b>Provisions – current</b>                            | <b>43</b> |
| <b>Note 20</b> | <b>Other – current</b>                                 | <b>43</b> |
| <b>Note 21</b> | <b>Interest bearing liabilities – non-current</b>      | <b>44</b> |
| <b>Note 22</b> | <b>Deferred tax liabilities – non-current</b>          | <b>44</b> |
| <b>Note 23</b> | <b>Provisions – non-current</b>                        | <b>44</b> |
| <b>Note 24</b> | <b>Contributed equity</b>                              | <b>45</b> |
| <b>Note 25</b> | <b>Reserves and accumulated losses</b>                 | <b>47</b> |
| <b>Note 26</b> | <b>Outside equity interests in controlled entities</b> | <b>47</b> |
| <b>Note 27</b> | <b>Deed of cross guarantee</b>                         | <b>48</b> |
| <b>Note 28</b> | <b>Investments in controlled entities</b>              | <b>50</b> |
| <b>Note 29</b> | <b>Commitments for expenditure</b>                     | <b>54</b> |
| <b>Note 30</b> | <b>Contingent liabilities</b>                          | <b>55</b> |
| <b>Note 31</b> | <b>Secured borrowings</b>                              | <b>55</b> |
| <b>Note 32</b> | <b>Director and executive disclosures</b>              | <b>56</b> |
| <b>Note 33</b> | <b>Remuneration of auditors</b>                        | <b>64</b> |
| <b>Note 34</b> | <b>Employee benefits</b>                               | <b>65</b> |
| <b>Note 35</b> | <b>Related parties</b>                                 | <b>68</b> |
| <b>Note 36</b> | <b>Earnings per share</b>                              | <b>70</b> |
| <b>Note 37</b> | <b>Statements of cash flows</b>                        | <b>71</b> |
| <b>Note 38</b> | <b>Financial instruments</b>                           | <b>72</b> |
| <b>Note 39</b> | <b>Events occurring after reporting date</b>           | <b>75</b> |
| <b>Note 40</b> | <b>International financial reporting standards</b>     | <b>76</b> |

## Notes to the financial statements

30 June 2004

### Note 1 Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

#### (a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Sonic Healthcare Limited ("company" or "parent entity") as at 30 June 2004 and the results of all controlled entities for the year then ended. Sonic Healthcare Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

#### (b) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. Any future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

#### (c) Foreign currency translation

##### (i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.

##### (ii) Foreign controlled entity

As all of the foreign controlled entities are self-sustaining, their assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while their revenues and expenses are translated at the average of rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve.

Upon disposal or partial disposal of a self-sustaining foreign operation, the balance of the foreign currency translation reserve relating to the operation, or to the part disposed of, is transferred to retained profits.

## Notes to the financial statements

30 June 2004

### Note 1 Summary of significant accounting policies (continued)

#### (d) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Provisions for restructuring costs are recognised as at the date of acquisition of an entity or part thereof on the basis described in the accounting policy notes for restructuring costs (Note 1(w)).

Goodwill is brought to account on the basis described in Note 1(m)(i).

Where an entity or operation is acquired and the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated. Where, after reducing to zero the recorded amounts of the non-monetary assets acquired, a discount balance remains, it is recognised as revenue in the statement of financial performance.

#### (e) Revenue recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Medical services revenue is recognised on a completed test basis.

#### (f) Receivables

All trade debtors are recognised at the amounts receivable as they are generally settled within 40 days.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the period in which they are identified. A provision for doubtful debts is raised during the year and adjusted following a review of all outstanding amounts at balance date.

#### (g) Inventories

Inventories, comprising consumable stores stock, are valued at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the first in, first out (FIFO) basis.

#### (h) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using market-determined, risk-adjusted discount rates in the range of 9-10%.

#### (i) Revaluations of non-current assets

The carrying amount of land and buildings and leasehold improvements is deemed to be the assets' cost for the purpose of reverting to the cost basis of recognition as at 1 July 2000. The gross amount (deemed cost of acquisition) and any related accumulated depreciation and accumulated recoverable amount write-downs in respect of those assets as at 1 July 2000 are used as the basis for disclosing the gross amount and any related accumulated depreciation separately in accordance with Accounting Standard AASB 1021 "Depreciation".

Owned and leased property, plant and equipment is recorded in the financial statements at cost.

## Notes to the financial statements

30 June 2004

### Note 1 Summary of significant accounting policies (continued)

#### (j) Investments

##### (i) *Controlled entities*

Controlled entities are accounted for in the consolidated financial statements as set out in Note 1(a).

##### (ii) *Listed and unlisted securities*

Interests in listed and unlisted securities (other than controlled entities) in the consolidated financial statements are brought to account at cost and dividend income is recognised in the statement of financial performance when receivable.

#### (k) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

|                            |              |
|----------------------------|--------------|
| Buildings and improvements | 40 years     |
| Plant and equipment        | 3 - 15 years |

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter (generally 7- 40 years).

#### (l) Leased plant and equipment

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset (generally 2-10 years).

Other operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

#### (m) Intangible assets and expenditure carried forward

##### (i) *Goodwill*

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over 20 years, being the maximum period allowable under AASB 1013, as Sonic believes the value of its goodwill is increasing over time, as evidenced by organic revenue and profit growth. The cost of acquisition is discounted as described in Note 1(d) where settlement of any part of cash consideration is deferred.

##### (ii) *Brand Names, Licences and Authorities*

Included in Intangibles is the value of certain brand names, licences and authorities acquired as part of the purchase of certain pathology businesses and controlled entities.

The value of these intangible assets is amortised on a straight line basis over the period based on the directors' assessment of the expected benefit which does not exceed 50 years. The recoverable amount is reviewed annually by the directors and, where necessary, provision is made for any permanent diminution in value.

#### (n) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

## Notes to the financial statements

30 June 2004

### Note 1 Summary of significant accounting policies (continued)

(o) **Interest bearing liabilities**

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(p) **Derivative financial instruments**

The consolidated entity enters into interest rate swap agreements.

The net amount receivable or payable under interest rate swap agreements is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in sundry debtors or sundry creditors and accruals at each reporting date.

(q) **Employee benefits**

(i) *Wages and salaries, annual leave*

Liabilities for wages and salaries and annual leave are recognised, and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) *Long service leave*

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) *Profit sharing and bonus plans*

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report, or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iv) *Employee benefit on-costs*

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(v) *Equity-based compensation benefits*

Equity-based compensation benefits are provided to employees via the Sonic Healthcare Limited Employee Option Plan. Information relating to this scheme is set out in Note 34. No accounting entries are made in relation to the Sonic Healthcare Limited Employee Option Plan until options are exercised, at which time the amounts received are recognised in the statement of financial position as share capital. The amounts disclosed for remuneration of directors and executives in Note 32 include the imputed values of options at the date they were granted.

(r) **Borrowing costs**

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdrafts, short-term and long-term borrowings, including amounts paid or received on interest rate swaps
- amortisation of discounts or premiums relating to borrowings
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- finance lease charges



## Notes to the financial statements

30 June 2004

### Note 1 Summary of significant accounting policies (continued)

(s) **Share issue expenses**

Share issue expenses are written off directly against the equity instruments to which the costs relate.

(t) **Cash**

For purposes of the statement of cash flows, cash includes deposits at call with financial institutions which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(u) **Earnings per share**

(i) *Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account the after income tax effect of the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(iii) *Core basic earnings per share*

Core basic earnings per share adjusts the figures used in the determination of basic earnings per share by adding back to net profit the amount of intangibles amortisation expense for the year.

(iv) *Core diluted earnings per share*

Core diluted earnings per share adjusts the figures used in the determination of diluted earnings per share by adding back to net profit the amount of intangibles amortisation expense for the year.

(v) **Segment information**

Segment information is prepared in conformity with Accounting Standard, AASB 1005 "Segment Reporting".

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. The carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage.

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's-length" basis and are eliminated on consolidation.

(w) **Restructuring costs**

Liabilities for the cost of restructuring entities or operations acquired are recognised as at the date of acquisition of an entity, or part thereof, if the main features of the restructuring were planned and there was a demonstrable commitment to the restructuring of the acquisition date and this is supported by a detailed plan developed with three months of the acquisition.

The cost of restructurings provided for, is the estimated cash flows, having regard to the risks of the restructuring activities, discounted using market yields at balance date on national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payments, where the effect of discounting is material.

Reversals of part or all of a provision for restructuring relating to an acquisition because the costs are no longer expected to be incurred as planned, are adjusted against goodwill. The adjusted carrying amounts of goodwill are amortised from the date of the reversal.

(x) **Dividends**

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date.

## Notes to the financial statements

30 June 2004

### Note 1 Summary of significant accounting policies (continued)

(y) **Repairs and maintenance**

Plant and equipment and premises occupied require repairs and maintenance from time to time in the course of operations. The costs associated with repairs and maintenance are charged as expenses as incurred, except where they relate to an improvement in the useful life of an asset, in which case the costs are capitalised and depreciated in accordance with Note 1(k).

(z) **Rounding of amounts**

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### Note 2 Segment information

#### Business segments

The consolidated entity delivers medical diagnostic services in the following segments:

(i) **Pathology**

Pathology services provided across Australia, New Zealand, the United Kingdom and in Germany.

(ii) **Radiology**

Radiology and diagnostic imaging services provided across Australia, New Zealand and in Hong Kong.

(iii) **SciGen**

The Singapore based bio-pharmaceutical group was demerged during the previous financial year. The demerger was completed on 27 November 2002, therefore the results of this business segment are relevant to the prior year comparative only.

(iv) **Other**

Includes the corporate office function and other minor operations. None of these activities constitutes a separately reportable segment.

#### Geographical segments

The consolidated entity operates predominantly in two geographical areas:

(i) **Australia**

The home country of the parent entity incorporating both pathology and radiology activities.

(ii) **New Zealand**

Includes both pathology and radiology activities.

(iii) **Other**

Includes results from radiology in Hong Kong, contributions from The Doctors Laboratory group in the United Kingdom and the Schottdorf Group in Germany (acquired 29 June 2004), and the results of SciGen up to the date of the demerger (therefore included in the prior year comparative only). None of these constitutes a separately reportable segment.

**Notes to the financial statements**

30 June 2004

**Note 2 Segment information (continued)****Primary Reporting – Business Segments**

| <b>2004</b>  | <b>Pathology<br/>\$'000</b> | <b>Radiology<br/>\$'000</b> | <b>Other<br/>\$'000</b> | <b>Eliminations<br/>\$'000</b> | <b>Consolidated<br/>\$'000</b> |
|--|-----------------------------|-----------------------------|-------------------------|--------------------------------|--------------------------------|
| <b>Revenue</b>   |                             |                             |                         |                                |                                |
| External sales   | 755,405                     | 270,490                     | -                       | -                              | 1,025,895                      |
| Inter segment sales                                    | 130                         | 296                         | -                       | (426)                          | -                              |
| Other revenue  | 7,478                       | 1,551                       | 1,355                   | -                              | 10,384                         |
| Total segment revenue                                  | 763,013                     | 272,337                     | 1,355                   | (426)                          | 1,036,279                      |
| Interest income  |                             |                             |                         |                                | 1,118                          |
| Total revenue  |                             |                             |                         |                                | 1,037,397                      |
| <b>Result</b>  |                             |                             |                         |                                |                                |
| Segment result before interest and tax                 | 124,317                     | 25,716                      | (12,796)                | -                              | 137,237                        |
| Unallocated net interest expense                       |                             |                             |                         |                                | (34,132)                       |
| Profit before tax                                      |                             |                             |                         |                                | 103,105                        |
| Income tax expense                                     |                             |                             |                         |                                | (45,222)                       |
| Profit after income tax expense                        |                             |                             |                         |                                | 57,883                         |
| <b>Segment assets</b>                                  | 1,517,143                   | 516,686                     | 896,827                 | (1,236,523)                    | 1,694,133                      |
| <b>Segment liabilities</b>                             | 201,322                     | 393,401                     | 75,083                  | (367,970)                      | 301,836                        |
| Unallocated liabilities                                |                             |                             |                         |                                | 544,510                        |
| Total liabilities                                      |                             |                             |                         |                                | 846,346                        |
| <b>Acquisition of property, plant &amp; equipment*</b> | 36,244                      | 26,239                      | 4,642                   | -                              | 67,125                         |
| <b>Depreciation and amortisation expense</b>           | 55,123                      | 43,993                      | 1,887                   | -                              | 101,003                        |
| <b>Other non cash expenses</b>                         | 8,625                       | 466                         | 639                     | -                              | 9,730                          |

\*Note that this includes property, plant and equipment acquired as part of business acquisitions.

**Notes to the financial statements**

30 June 2004

**Note 2 Segment information (continued)****Primary Reporting – Business Segments**

| <b>2003</b>  | <b>Pathology<br/>\$'000</b> | <b>Radiology<br/>\$'000</b> | <b>SciGen<br/>\$'000</b> | <b>Other<br/>\$'000</b> | <b>Eliminations<br/>\$'000</b> | <b>Consolidated<br/>\$'000</b> |
|--|-----------------------------|-----------------------------|--------------------------|-------------------------|--------------------------------|--------------------------------|
| <b>Revenue</b>   |                             |                             |                          |                         |                                |                                |
| External sales   | 705,504                     | 258,107                     | 987                      | -                       | -                              | 964,598                        |
| Inter segment sales                                    | 129                         | 157                         | -                        | -                       | (286)                          | -                              |
| Other revenue  | 6,137                       | 2,331                       | 246                      | 21                      | -                              | 8,735                          |
| Total segment revenue                                  | 711,770                     | 260,595                     | 1,233                    | 21                      | (286)                          | 973,333                        |
| Interest income  |                             |                             |                          |                         |                                | 1,450                          |
| Total revenue  |                             |                             |                          |                         |                                | 974,783                        |
| <b>Result</b>  |                             |                             |                          |                         |                                |                                |
| Segment result before interest and tax                 | 102,595                     | 23,572                      | (2,317)                  | (9,354)                 | -                              | 114,496                        |
| Unallocated net interest expense                       |                             |                             |                          |                         |                                | (36,089)                       |
| Profit before tax                                      |                             |                             |                          |                         |                                | 78,407                         |
| Income tax expense                                     |                             |                             |                          |                         |                                | (38,462)                       |
| Profit after income tax expense                        |                             |                             |                          |                         |                                | 39,945                         |
| <b>Segment assets</b>                                  | 952,151                     | 525,598                     | -                        | 1,265,763               | (1,200,123)                    | 1,543,389                      |
| <b>Segment liabilities</b>                             | 704,633                     | 412,166                     | -                        | 5,334                   | (867,101)                      | 255,032                        |
| Unallocated liabilities                                |                             |                             |                          |                         |                                | 457,065                        |
| Total liabilities                                      |                             |                             |                          |                         |                                | 712,097                        |
| <b>Acquisition of property, plant &amp; equipment*</b> | 21,889                      | 23,906                      | 46                       | 6,274                   | -                              | 52,115                         |
| <b>Depreciation and amortisation expense</b>           | 54,935                      | 43,288                      | 406                      | 804                     | -                              | 99,433                         |
| <b>Other non-cash expenses</b>                         | 2,111                       | 1,734                       | -                        | 86                      | -                              | 3,931                          |

\*Note that this includes property, plant and equipment acquired as part of business acquisitions.

**Secondary Reporting – Geographic Segments**

|               | <b>Segment revenues from sales to external customers</b> |                        | <b>Segment assets</b>  |                        | <b>Acquisition of property, plant &amp; equipment</b> |                        |
|---------------|--|------------------------|------------------------|------------------------|---|------------------------|
|               | <b>2004<br/>\$'000</b>                                   | <b>2003<br/>\$'000</b> | <b>2004<br/>\$'000</b> | <b>2003<br/>\$'000</b> | <b>2004<br/>\$'000</b>                                | <b>2003<br/>\$'000</b> |
| Australia     | 834,232  | 780,094                | 1,144,246              | 1,166,796              | 45,038  | 38,122                 |
| New Zealand** | 128,994  | 128,032                | 199,211                | 198,391                | 5,295   | 13,129                 |
| Other**       | 62,669   | 56,472                 | 350,676                | 178,202                | 16,792  | 864                    |
| Total         | 1,025,895  | 964,598                | 1,694,133              | 1,543,389              | 67,125  | 52,115                 |

\*\* Revenue of the New Zealand and Other segments are impacted by exchange rate movements.

**Notes to the financial statements**

30 June 2004

|   | <b>Consolidated</b> |         | <b>Parent entity</b> |        |
|---|---------------------|---------|----------------------|--------|
|   | <b>2004</b>         | 2003    | <b>2004</b>          | 2003   |
|   | <b>\$'000</b>       | \$'000  | <b>\$'000</b>        | \$'000 |
| <b>Note 3 Revenue</b>   |                     |         |                      |        |
| <b>Revenue from operating activities</b>                                |                     |         |                      |        |
| Medical services revenue  | <b>1,025,895</b>    | 964,598 | -                    | -      |
| <b>Revenue from outside the operating activities</b>                    |                     |         |                      |        |
| Management fees received or due and receivable from controlled entities | -                   | -       | <b>972</b>           | 1,407  |
| Dividends from controlled entities                                      | -                   | -       | <b>63,070</b>        | 12,300 |
| Interest received or due and receivable from:                           |                     |         |                      |        |
| Controlled entities   | -                   | -       | <b>21,033</b>        | 22,415 |
| Other entities  | <b>1,118</b>        | 1,450   | <b>38</b>            | 62     |
| Proceeds on sale of non-current assets                                  | <b>5,022</b>        | 2,646   | <b>1,320</b>         | 2,831  |
| Net foreign exchange gains  | <b>12</b>           | 238     | -                    | -      |
| Rental income:  |                     |         |                      |        |
| Controlled entities   | -                   | -       | <b>2,893</b>         | 2,770  |
| Other entities  | <b>2,401</b>        | 2,323   | <b>20</b>            | 20     |
| Other income:   |                     |         |                      |        |
| Controlled entities   | -                   | -       | <b>1,566</b>         | 1,199  |
| Other entities  | <b>2,949</b>        | 3,528   | <b>15</b>            | 2      |
|   | <b>11,502</b>       | 10,185  | <b>90,927</b>        | 43,006 |
| Revenue from ordinary activities  | <b>1,037,397</b>    | 974,783 | <b>90,927</b>        | 43,006 |

**Note 4 Profit from ordinary activities****Net gains and expenses**

The profit from ordinary activities before income tax expense includes the following specific net gains and expenses:

**Net gains**

|   |              |     |            |   |
|---|--------------|-----|------------|---|
| Foreign exchange gains                                | <b>12</b>    | 238 | -          | - |
| Net gain on disposal of property, plant and equipment | -            | -   | <b>422</b> | - |
| Net gain on disposal of other non-current assets      | <b>1,512</b> | -   | -          | - |

**Expenses**

|  |               |        |              |       |
|--|---------------|--------|--------------|-------|
| <b>Borrowing costs</b>   |               |        |              |       |
| Finance charges on capitalised leases and hire purchase agreements | <b>4,745</b>  | 5,474  | -            | -     |
| Controlled entities  | -             | -      | <b>8,648</b> | 3,795 |
| Other entities   | <b>30,505</b> | 32,066 | -            | -     |
| Total borrowing costs  | <b>35,250</b> | 37,540 | <b>8,648</b> | 3,795 |
| <b>Bad and doubtful debts:</b>                                     |               |        |              |       |
| Trade debtors  | <b>4,555</b>  | 3,774  | -            | -     |
| <b>Amortisation of:</b>  |               |        |              |       |
| Goodwill   | <b>55,466</b> | 54,329 | -            | -     |
| Brand names, licences and authorities                              | <b>3,858</b>  | 4,287  | -            | -     |
| Leased plant and equipment   | <b>14,208</b> | 16,256 | -            | -     |
| Total amortisation   | <b>73,532</b> | 74,872 | -            | -     |
| <b>Depreciation of:</b>  |               |        |              |       |
| Plant and equipment  | <b>26,093</b> | 22,644 | -            | -     |
| Buildings  | <b>1,378</b>  | 1,917  | <b>834</b>   | 837   |
| Total depreciation   | <b>27,471</b> | 24,561 | <b>834</b>   | 837   |
| Net amount provided for employee entitlements                      | <b>40,128</b> | 35,226 | -            | -     |
| Net loss on disposal of property, plant and equipment              | <b>267</b>    | 903    | -            | -     |

**Notes to the financial statements**

30 June 2004

|   | <b>Consolidated</b> |         | <b>Parent entity</b> |         |
|---|---------------------|---------|----------------------|---------|
|   | <b>2004</b>         | 2003    | <b>2004</b>          | 2003    |
|   | <b>\$'000</b>       | \$'000  | <b>\$'000</b>        | \$'000  |
| <b>Note 5      Income tax</b>   |                     |         |                      |         |
| The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:<br>Profit from ordinary activities before income tax expense | <b>103,105</b>      | 78,407  | <b>79,277</b>        | 29,952  |
| Income tax calculated @ 30%   | <b>30,931</b>       | 23,522  | <b>23,783</b>        | 8,986   |
| Tax effect of permanent differences:  |                     |         |                      |         |
| Amortisation of intangibles   | <b>17,657</b>       | 17,585  | -                    | -       |
| Deductible expenditure capitalised  | <b>(2,927)</b>      | (2,219) | <b>(196)</b>         | (230)   |
| Quarantined losses of foreign subsidiary  | -                   | 761     | -                    | -       |
| Fully franked/rebateable dividends  | -                   | -       | <b>(18,921)</b>      | (3,690) |
| Non-deductible loss attributable to the restructure of a controlled entity  | -                   | -       | -                    | 1,244   |
| Tax losses utilised, not previously booked  | <b>(430)</b>        | -       | -                    | -       |
| Other items (net)   | <b>413</b>          | 82      | <b>(104)</b>         | 52      |
| Income tax adjusted for permanent differences   | <b>45,644</b>       | 39,731  | <b>4,562</b>         | 6,362   |
| Effect of higher tax rates on overseas income   | <b>203</b>          | 315     | -                    | -       |
| (Over) / under provision in prior year  | <b>(625)</b>        | (1,584) | <b>(53)</b>          | (18)    |
| Income tax expense  | <b>45,222</b>       | 38,462  | <b>4,509</b>         | 6,344   |

**Tax losses**

Part of the future income tax benefit asset shown in Note 14 is attributable to tax losses. The future income tax benefit brought to account in respect of tax losses at 30 June 2004 is \$23,885,000 (2003: Nil). These tax losses were acquired as part of the acquisition of the Schottdorf Group (refer Note 28).

This benefit of tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- (ii) the losses are transferred to an eligible entity in the consolidated entity, and
- (iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

**Tax consolidation legislation**

The directors of the company intend for Sonic Healthcare Limited and its wholly owned Australian subsidiaries to form a tax-consolidated group. As at the date of this report, the directors have not made a formal decision as to when the tax consolidation legislation will be implemented. The company's assessment of the impact of this legislation on its financial performance and position at 30 June 2004 is that it would not be material.

**Note 6 Dividends**

|   | <b>Parent entity</b> |               |
|---|----------------------|---------------|
|   | <b>2004</b>          | <b>2003</b>   |
|   | <b>\$'000</b>        | <b>\$'000</b> |
| <b>Ordinary Shares</b>  |                      |               |
| Final dividend for the year ended 30 June 2003 of 17 cents (2002:16 cents) per fully paid share paid on 7 October 2003 (2002: 19 September 2002), fully franked (2002: 100% franked) based on tax paid at 30% | <b>44,629</b>        | 41,987        |
| Interim dividend for the year ended 30 June 2004 of 10 cents (2003: 8 cents) per fully paid share paid 17 March 2004 (2003: 25 March 2003), fully franked based on tax paid @ 30%                             | <b>26,746</b>        | 20,880        |
| Total dividends provided for or paid  | <b>71,375</b>        | 62,867        |

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2004 and 30 June 2003 were as follows:

|  |               |        |
|--|---------------|--------|
| Paid in cash (excludes payment of dividends accruing on Other equity (Note 24(d))) | <b>45,143</b> | 62,322 |
| Satisfied by issue of shares   | <b>26,223</b> | -      |
| Dividends accruing on Other equity (Note 24(d))                                    | -             | 545    |
| DRP residual balance   | <b>9</b>      | -      |
|  | <b>71,375</b> | 62,867 |

**Dividends not recognised at year end**

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 20 cents (2003: 17 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. Aggregate amount of the proposed dividend paid on 20 September 2004 out of profits, but not recognised as a liability at year end

|               |        |
|---------------|--------|
| <b>54,216</b> | 44,629 |
|---------------|--------|

**Franked dividends**

The franked portions of the final dividends recommended after 30 June 2004 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2005.

|  | <b>Consolidated</b> |        | <b>Parent entity</b> |        |
|--|---------------------|--------|----------------------|--------|
|  | <b>2004</b>         | 2003   | <b>2004</b>          | 2003   |
|  | <b>\$'000</b>       | \$'000 | <b>\$'000</b>        | \$'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2003: 30%) | <b>76,927</b>       | 62,940 | <b>6,352</b>         | 5,092  |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and
- (c) franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends.

Sonic Healthcare Limited and controlled entities  
**Notes to the financial statements**  
30 June 2004

|  | Consolidated   |                | Parent entity  |                |
|--|----------------|----------------|----------------|----------------|
|  | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>Note 7 Receivables – current</b>                      |                |                |                |                |
| Trade debtors  | 115,053        | 85,933         | -              | -              |
| Less: Provision for doubtful debts                       | (9,683)        | (5,632)        | -              | -              |
|  | <b>105,370</b> | 80,301         | -              | -              |
| Accrued revenue  | 9,706          | 10,487         | -              | -              |
| Amounts receivable from controlled entities<br>(Note 35) | -              | -              | 1,258          | 1,314          |
| Amounts owing from other entities                        | -              | 3,332          | -              | -              |
| Sundry debtors   | 30,520         | 10,625         | 8              | 63             |
| Income tax receivable                                    | -              | -              | 3,809          | 840            |
|  | <b>145,596</b> | 104,745        | <b>5,075</b>   | 2,217          |

**Significant terms and conditions**

General trade debtors are required to be settled within 30 days.

Sundry debtors generally arise from transactions outside the usual trading activities of the consolidated entity. Collateral is not normally obtained. The significant increase in sundry debtors is mainly due to balances acquired as part of the acquisition of the Schottdorf Group.

**Amounts owing from other entities**

Transactions outside the usual operating activities of the consolidated entity give rise to these amounts receivable. Interest is charged at commercial rates and repayments are specified by agreements.

**Note 8 Inventories – current**

|                           |               |        |   |   |
|---------------------------|---------------|--------|---|---|
| Consumable stores at cost | <b>22,903</b> | 17,435 | - | - |
|---------------------------|---------------|--------|---|---|

**Note 9 Other – current**

|             |               |       |            |     |
|-------------|---------------|-------|------------|-----|
| Prepayments | <b>10,258</b> | 6,654 | <b>158</b> | 189 |
|-------------|---------------|-------|------------|-----|

**Note 10 Receivables – non-current**

|   |              |       |                |         |
|---|--------------|-------|----------------|---------|
| Amounts owing from other entities                           | 4,581        | 2,777 | 82             | 82      |
| Less: Provision for doubtful debts                          | (82)         | (82)  | (82)           | (82)    |
|   | <b>4,499</b> | 2,695 | -              | -       |
| Amounts receivable from controlled entities<br>(Note 35(c)) | -            | -     | 143,952        | 389,820 |
|   | <b>4,499</b> | 2,695 | <b>143,952</b> | 389,820 |

**Amounts owing from other entities**

Transactions outside the usual operating activities of the consolidated entity give rise to these amounts receivable. Interest is charged at commercial rates and repayments are specified by agreements.

**Amounts receivable from controlled entities**

The terms and conditions of amounts advanced by the ultimate parent entity during the year are detailed in Note 35.



**Notes to the financial statements**

30 June 2004

|   | <b>Consolidated</b> |        | <b>Parent entity</b> |          |
|---|---------------------|--------|----------------------|----------|
|   | <b>2004</b>         | 2003   | <b>2004</b>          | 2003     |
|   | <b>\$'000</b>       | \$'000 | <b>\$'000</b>        | \$'000   |
| <b>Note 11 Other financial assets – non-current</b>   |                     |        |                      |          |
| <b>Investments traded on organised markets</b>        |                     |        |                      |          |
| Shares in other corporations – at cost                | <b>39,179</b>       | 37,165 | <b>39,179</b>        | 37,165   |
| <b>Other (non-traded) investments</b>                 |                     |        |                      |          |
| Investments in other entities – at cost               | <b>6,627</b>        | 3,063  | <b>143</b>           | 102      |
| Less: Provision for write down to recoverable amount  | <b>(43)</b>         | (43)   | <b>(43)</b>          | (43)     |
| Investments in other entities – at recoverable amount | <b>6,584</b>        | 3,020  | <b>100</b>           | 59       |
| Shares in controlled entities – at cost (Note 28)     | -                   | -      | <b>1,008,203</b>     | 446,926  |
| Less: Provision for diminution in value               | -                   | -      | <b>(11,700)</b>      | (11,700) |
| Shares in controlled entities – at recoverable amount | -                   | -      | <b>996,503</b>       | 435,226  |
|   | <b>45,763</b>       | 40,185 | <b>1,035,782</b>     | 472,450  |

**Traded shares in other corporations**

The investment represents Sonic Healthcare's interests in Independent Practitioner Network Limited ("IPN") and SciGen Limited ("SciGen").

**Carrying value of traded shares in other corporations**

The directors have assessed the carrying value of the investment in IPN at 30 June 2004 as represented by its share price and discounted net cashflows arising from the Alliance Agreement ("the Alliance") entered into with IPN. The Alliance grants Sonic the right to require IPN to lease part of the premises of any medical centres owned or managed by IPN to Sonic for the purpose of installing a Sonic Healthcare pathology collection centre and or diagnostic imaging facility in each of those centres. The rental of these premises is at market rates.

The directors believe the investment in IPN is fully recoverable as the discounted net cashflows arising from the Alliance exceed the carrying value of the investment at balance date. In determining the net cashflows a tax effected discount rate of 10% (2003: 10%) has been applied.

The directors have assessed the carrying value of the investment in SciGen at 30 June 2004 as represented by its share price. The directors believe that the investment in SciGen is fully recoverable. The market value at 30 June 2004 is \$2,742,000 (2003: \$3,752,000).

**Investments in other entities**

Investments in other entities have been written down to their assessed recoverable amount.

**Non-current assets pledged as security**

Refer to Note 31 for information on non-current assets pledged as security by the parent entity or its controlled entities.

**Notes to the financial statements**

30 June 2004

|  | Consolidated   |                | Parent entity |               |
|--|----------------|----------------|---------------|---------------|
|  | 2004           | 2003           | 2004          | 2003          |
|  | \$'000         | \$'000         | \$'000        | \$'000        |
| <b>Note 12 Property, plant and equipment – non-current</b> |                |                |               |               |
| Freehold land and buildings - at cost                      | 67,334         | 66,214         | 30,437        | 30,115        |
| Less: Accumulated depreciation                             | (9,787)        | (8,337)        | (5,237)       | (4,404)       |
|  | <b>57,547</b>  | <b>57,877</b>  | <b>25,200</b> | <b>25,711</b> |
| Plant and equipment - at cost                              | 321,358        | 251,910        | -             | -             |
| Less: Accumulated depreciation                             | (209,245)      | (160,132)      | -             | -             |
|  | <b>112,113</b> | <b>91,778</b>  | <b>-</b>      | <b>-</b>      |
| Leased plant and equipment                                 | 112,702        | 106,588        | -             | -             |
| Less: Accumulated amortisation                             | (41,650)       | (38,480)       | -             | -             |
|  | <b>71,052</b>  | <b>68,108</b>  | <b>-</b>      | <b>-</b>      |
| Total property, plant and equipment at written down value  | <b>240,712</b> | <b>217,763</b> | <b>25,200</b> | <b>25,711</b> |

**Recent valuations of land and buildings**

Aggregate recent valuations of freehold land and buildings based on:

|                                   |               |               |               |               |
|-----------------------------------|---------------|---------------|---------------|---------------|
| Independent valuation - June 2003 | 46,360        | 47,655        | 32,000        | 33,295        |
| Directors' valuation - June 2003  | 14,600        | 14,600        | -             | -             |
| Carried at recent values          | 18,487        | 15,346        | 4,994         | 3,909         |
|                                   | <b>79,447</b> | <b>77,601</b> | <b>36,994</b> | <b>37,204</b> |

The independent and directors' valuations above have not been recognised in the financial statements. The independent valuation was carried out by International Valuation Consultants, a division of Aon Risk Services Australia Limited (June 2003). The basis of valuation was fair market value based on existing use.

**Reconciliations**

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

|  | Land & buildings | Plant & equipment | Leased plant & equipment | Total          |
|--|------------------|-------------------|--------------------------|----------------|
|  | \$'000           | \$'000            | \$'000                   | \$'000         |
| <b>Consolidated - 2004</b>                                       |                  |                   |                          |                |
| Carrying amount at 1 July 2003                                   | 57,877           | 91,778            | 68,108                   | 217,763        |
| Additions  | 1,344            | 38,317            | 17,921                   | 57,582         |
| Disposals  | (898)            | (2,690)           | (43)                     | (3,631)        |
| Additions through acquisition of entity (Note 28)                | -                | 5,253             | 4,290                    | 9,543          |
| Depreciation/amortisation expense (Note 4)                       | (1,378)          | (26,093)          | (14,208)                 | (41,679)       |
| Transfers from leased plant and equipment to plant and equipment | -                | 4,923             | (4,923)                  | -              |
| Fair value adjustments to asset carrying values                  | -                | (957)             | (121)                    | (1,078)        |
| Foreign currency exchange differences                            | 602              | 1,582             | 28                       | 2,212          |
| <b>Carrying amount at 30 June 2004</b>                           | <b>57,547</b>    | <b>112,113</b>    | <b>71,052</b>            | <b>240,712</b> |
| <b>Parent - 2004</b>   |                  |                   |                          |                |
| Carrying amount at 1 July 2003                                   | 25,711           | -                 | -                        | 25,711         |
| Additions  | 1,110            | -                 | -                        | 1,110          |
| Additions from controlled entities                               | 111              | -                 | -                        | 111            |
| Disposals  | (898)            | -                 | -                        | (898)          |
| Depreciation expense (Note 4)                                    | (834)            | -                 | -                        | (834)          |
| <b>Carrying amount at 30 June 2004</b>                           | <b>25,200</b>    | <b>-</b>          | <b>-</b>                 | <b>25,200</b>  |

**Notes to the financial statements**

30 June 2004

|   | Consolidated     |                | Parent entity  |                |
|---|------------------|----------------|----------------|----------------|
|   | 2004<br>\$'000   | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>Note 13 Intangible assets – non-current</b>  |                  |                |                |                |
| Goodwill - at cost                              | 1,196,555        | 1,085,315      | -              | -              |
| Less: Accumulated amortisation                  | (213,707)        | (155,903)      | -              | -              |
|   | <b>982,848</b>   | 929,412        | -              | -              |
| Brand names, licences and authorities - at cost | 197,465          | 195,806        | -              | -              |
| Less: Accumulated amortisation                  | (18,151)         | (14,155)       | -              | -              |
|   | <b>179,314</b>   | 181,651        | -              | -              |
|   | <b>1,162,162</b> | 1,111,063      | -              | -              |

In attributing the purchase price for the SGS Medical group between goodwill and brand names, licences and authorities, the directors relied upon an independent valuation of the brand names, licences and authorities carried out by Deloitte Corporate Finance Pty Limited in March 2000. The valuation was based on the “relief from royalty” method of valuation.

The recoverable amounts of Sonic’s intangible assets significantly exceed their carrying values and at cost values. In assessing recoverable amounts, expected net cash flows are discounted to their present values using market-determined, risk-adjusted discount rates in the range of 9-10%. Sonic is of the opinion that the value of its existing intangibles is increasing over time, as evidenced by organic revenue and profit growth. However, under existing accounting standards goodwill must be amortised over a period no greater than 20 years, and for conservatism, brand names, licences and authorities are also amortised (over 50 years). Under the Australian equivalents of the new International Financial Reporting Standards (IFRS), Sonic will cease amortising goodwill from 1 July 2005, but instead will be subject to impairment testing at each reporting date or where there is an indication of impairment.

**Note 14 Deferred tax assets – non-current**

|                           |               |        |   |   |
|---------------------------|---------------|--------|---|---|
| Future income tax benefit | <b>43,526</b> | 16,360 | - | - |
|---------------------------|---------------|--------|---|---|

The future income tax benefit recognised includes benefits of \$23,885,000 (2003: Nil) relating to tax losses (refer Note 5).

**Note 15 Other – non-current**

|             |              |   |   |   |
|-------------|--------------|---|---|---|
| Prepayments | <b>1,371</b> | - | - | - |
|-------------|--------------|---|---|---|

**Note 16 Payables – current**

|                               |               |        |       |     |
|-------------------------------|---------------|--------|-------|-----|
| Trade creditors               | 52,757        | 30,861 | -     | -   |
| Sundry creditors and accruals | 47,216        | 34,543 | 1,864 | 698 |
|                               | <b>99,973</b> | 65,404 | 1,864 | 698 |

**Note 17 Interest bearing liabilities – current****Secured**

|                                     |               |        |   |   |
|-------------------------------------|---------------|--------|---|---|
| Bank loans                          | 10,515        | 45,598 | - | - |
| Lease liabilities (Note 29)         | 22,926        | 20,325 | - | - |
| Hire purchase liabilities (Note 29) | 1,305         | 1,805  | - | - |
|                                     | <b>34,746</b> | 67,728 | - | - |

Details of the security relating to each of the secured liabilities are set out in Note 31.

Sonic Healthcare Limited and controlled entities  
**Notes to the financial statements**  
30 June 2004

|  | <b>Consolidated</b> |               | <b>Parent entity</b> |               |
|--|---------------------|---------------|----------------------|---------------|
|  | <b>2004</b>         | <b>2003</b>   | <b>2004</b>          | <b>2003</b>   |
|  | <b>\$'000</b>       | <b>\$'000</b> | <b>\$'000</b>        | <b>\$'000</b> |
| <b>Note 18 Tax liabilities – current</b> |                     |               |                      |               |
| Income tax                               | <b>11,800</b>       | 7,683         | -                    | -             |
| <b>Note 19 Provisions – current</b>      |                     |               |                      |               |
| Restructuring                            | <b>3,803</b>        | 6,314         | -                    | -             |
| Employee benefits (Note 34)              | <b>51,233</b>       | 47,489        | -                    | -             |
|  | <b>55,036</b>       | 53,803        | -                    | -             |

The restructuring provisions relate to acquisitions of pathology and radiology entities and businesses. The provisions are for costs to be incurred in the rationalisation of the acquired entities and businesses to achieve targeted synergies, plus surplus rental premises. The rationalisation strategies are in place and will continue to yield benefits in 2005 and later years.

**Movements in current provisions**

Movements in the current restructuring provision during the financial year are set out below:

|  | <b>Restructuring</b> |
|--|----------------------|
|  | <b>\$'000</b>        |
| <b>Consolidated – 2004</b>                                     |                      |
| <b>Current</b>   |                      |
| Carrying amount at 1 July 2003                                 | 6,314                |
| Additional provisions recognised (Note 28)                     | 1,731                |
| Reclassification of non-current provision to current (Note 23) | 2,637                |
| Payments   | (5,611)              |
| Costs applied – non-cash                                       | (1,441)              |
| Foreign currency exchange differences                          | 173                  |
| <b>Carrying amount at 30 June 2004</b>                         | <b>3,803</b>         |

|                                | <b>Consolidated</b> |               | <b>Parent entity</b> |               |
|--------------------------------|---------------------|---------------|----------------------|---------------|
|                                | <b>2004</b>         | <b>2003</b>   | <b>2004</b>          | <b>2003</b>   |
|                                | <b>\$'000</b>       | <b>\$'000</b> | <b>\$'000</b>        | <b>\$'000</b> |
| <b>Note 20 Other – current</b> |                     |               |                      |               |
| Amounts owing to vendors       | <b>21,587</b>       | 4,728         | -                    | -             |
| Other loans                    | <b>332</b>          | 358           | -                    | -             |
|                                | <b>21,919</b>       | 5,086         | -                    | -             |

Amounts owing to vendors includes the maximum value of \$14,250,000 (€8,131,000) payable to the vendors of Sonic's interest in the Schotttdorf Group, which is contingent on the earnings of the business for the year ending 31 December 2004. Based on the year to date trading, Sonic expects the maximum value to be payable.

**Notes to the financial statements**

30 June 2004

|   | <b>Consolidated</b> |               | <b>Parent entity</b> |               |
|---|---------------------|---------------|----------------------|---------------|
|   | <b>2004</b>         | <b>2003</b>   | <b>2004</b>          | <b>2003</b>   |
|   | <b>\$'000</b>       | <b>\$'000</b> | <b>\$'000</b>        | <b>\$'000</b> |
| <b>Note 21 Interest bearing liabilities – non-current</b> |                     |               |                      |               |
| <b>Secured</b>  |                     |               |                      |               |
| Bank loans  | <b>533,994</b>      | 411,467       | -                    | -             |
| Lease liabilities (Note 29)                               | <b>41,750</b>       | 43,842        | -                    | -             |
| Hire purchase liabilities (Note 29)                       | <b>2,260</b>        | 1,726         | -                    | -             |
| Amounts owing to vendors                                  | <b>28,532</b>       | 36,532        | -                    | -             |
| <b>Unsecured</b>  |                     |               |                      |               |
| Amounts owing to controlled entities<br>(Note 35)         | -                   | -             | <b>334,518</b>       | 58,215        |
|   | <b>606,536</b>      | 493,567       | <b>334,518</b>       | 58,215        |

Details of the security relating to each of the secured liabilities are set out in Note 31.

**Note 22 Deferred tax liabilities – non-current**

|                                   |            |       |            |     |
|-----------------------------------|------------|-------|------------|-----|
| Provision for deferred income tax | <b>998</b> | 2,990 | <b>107</b> | 569 |
|-----------------------------------|------------|-------|------------|-----|

**Note 23 Provisions – non-current**

|                             |               |        |   |   |
|-----------------------------|---------------|--------|---|---|
| Restructuring               | <b>1,012</b>  | 3,445  | - | - |
| Employee benefits (Note 34) | <b>14,326</b> | 12,391 | - | - |
|                             | <b>15,338</b> | 15,836 | - | - |

**Movements in non-current provisions**

Movements in the non-current restructuring provision during the financial year are set out below:

|  | <b>Restructuring</b> |
|--|----------------------|
|  | <b>\$'000</b>        |
| <b>Consolidated – 2004</b>                                     |                      |
| <b>Non-Current</b>   |                      |
| Carrying amount at 1 July 2003                                 | 3,445                |
| Reclassification of non-current provision to current (Note 19) | (2,637)              |
| Foreign currency exchange differences                          | 204                  |
| <b>Carrying amount at 30 June 2004</b>                         | <b>1,012</b>         |

Sonic Healthcare Limited and controlled entities  
**Notes to the financial statements**  
30 June 2004

**Note 24 Contributed equity**

|   | Notes | Consolidated       |                | Parent entity      |                |
|---|-------|--------------------|----------------|--------------------|----------------|
|   |       | 2004<br>Shares     | 2003<br>Shares | 2004<br>Shares     | 2003<br>Shares |
| <b>(a) Share capital</b>  |       |                    |                |                    |                |
| Fully paid ordinary shares                                      |       | <b>267,749,480</b> | 259,763,911    | <b>267,749,480</b> | 259,763,911    |
|   |       |                    |                |                    |                |
|   |       | Consolidated       |                | Parent entity      |                |
|   |       | 2004<br>\$'000     | 2003<br>\$'000 | 2004<br>\$'000     | 2003<br>\$'000 |
| Fully paid ordinary shares                                      | (b)   | <b>870,838</b>     | 823,386        | <b>871,858</b>     | 823,386        |
| Other equity  | (d)   | -                  | 13,646         | -                  | 13,646         |
| Share option reserve  | (h)   | <b>4,410</b>       | -              | <b>4,410</b>       | -              |
|   |       | <b>875,248</b>     | 837,032        | <b>876,268</b>     | 837,032        |
| Former share option reserve included in ordinary share capital  |       | <b>195</b>         | 195            | <b>195</b>         | 195            |
| Former share premium account included in ordinary share capital |       | <b>33,667</b>      | 33,667         | <b>33,667</b>      | 33,667         |
|   |       | <b>33,862</b>      | 33,862         | <b>33,862</b>      | 33,862         |

**(b) Movements in ordinary share capital:**

| Date     | Details   | Notes | Number of shares | Issue price | \$'000   |
|----------|---|-------|------------------|-------------|----------|
| 1/7/02   | Opening balance of the consolidated and parent entity   |       | 257,529,679      |             | 852,204  |
| 30/7/02  | Shares issued as deferred consideration for the acquisition of The Doctors Laboratory group   | (d)   | 217,323          | 6.01        | 1,306    |
| 12/8/02  | Shares issued as deferred consideration for the acquisition of the SKG Radiology group  |       | 1,507,409        | 4.8172      | 7,262    |
| 27/11/02 | Reduction of capital upon demerger of SciGen  | (g)   | -                |             | (38,802) |
| Various  | Shares issued under the Sonic Healthcare Limited Employee Option Plan   | (e)   | 509,500          |             | 1,416    |
| 30/6/03  | Balance of the consolidated and parent entity   |       | 259,763,911      |             | 823,386  |
| 7/10/03  | Shares issued under the Dividend Reinvestment Plan – 2003 final dividend  | (f)   | 4,065,583        | 6.45        | 26,223   |
| 14/10/03 | Shares issued as deferred consideration for The Doctors Laboratory group acquisition (previously recorded as “Other Equity”)                  | (d)   | 2,270,385        | 6.01        | 13,646   |
| 14/10/03 | Shares issued to vendors of The Doctors Laboratory group  |       | 35,374           | 6.89        | 244      |
| 5/12/03  | Shares issued as partial consideration for the acquisition of the Southside Diagnostic Services Group   |       | 258,177          | 5.81        | 1,500    |
| Various  | Shares issued under the Sonic Healthcare Limited Employee Option Plan   | (e)   | 1,356,050        |             | 5,839    |
| 30/6/04  | Closing balance of the consolidated entity  |       | 267,749,480      |             | 870,838  |
| Various  | Payments made by subsidiary entities to the parent entity in respect of shares issued under the Sonic Healthcare Limited Employee Option Plan |       | -                |             | 1,020    |
| 30/6/04  | Closing balance of the parent entity  |       | 267,749,480      |             | 871,858  |

## Notes to the financial statements

30 June 2004

### Note 24 Contributed equity (continued)

#### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

#### (d) Other equity

The amount shown at 30 June 2003 was the remaining value of shares to be issued as deferred consideration for The Doctors Laboratory group acquisition. The maximum value of the shares to be issued was fixed and the purchase agreement specified that the deferred issue of shares carried with it the right to participate in future dividends from the date of acquisition (April 2002). During the 2004 financial year, Sonic issued 2,270,385 fully paid ordinary shares at an issue price of \$6.01 resulting in a decrease of Other equity of \$13,646,000 to Nil. Subsequent to this transaction the dividends accruing (including \$545,000 accrued at 30 June 2003) from the date of acquisition to 14 October 2003 were paid on 3 November 2003.

#### (e) Options

Information relating to the Sonic Healthcare Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 34(c).

Information relating to Executive Director options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 32(d).

Information relating to the issue of Queensland X-Ray options during the financial year and options outstanding at the end of the financial year are set out in Note 34(d).

#### (f) Dividend reinvestment plan

The company operates a Dividend Reinvestment Plan (DRP) under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than being paid in cash. The Board of Sonic suspended the operation of the company's DRP in relation to the 2003 interim dividend, however, following a Board resolution on 22 August 2003 it was reactivated and applied to the final dividend for the year ended 30 June 2003. Shares issued under the plan were at a 5% discount to the weighted average market price of all Sonic's ordinary shares sold on the Australian Stock Exchange during the five trading days following the record date. In respect of the interim and final dividends for the year ended 30 June 2004, the Board resolved to suspend the operation of the company's DRP. The DRP remains suspended until further notice. The standing discount to market price for subscriptions under the DRP is 2.5%.

#### (g) Demerger of SciGen

In November 2002, via a scheme of arrangement following approval by Sonic shareholders, Sonic optionholders and the Federal Court of Australia, Sonic completed the demerger of its majority shareholding in SciGen Limited ("SciGen"), a Singapore based bio-pharmaceutical company. The demerger involved a \$30,000,000 injection of equity into SciGen, increasing Sonic's ownership interest to 74% immediately prior to the "spin-out". A capital reduction of \$38,802,000 representing the issue of SciGen shares to all Sonic shareholders at the Record Date was then undertaken. Following the demerger, Sonic has retained an approximate 11.5% interest in SciGen, classified as an investment traded on an organised market, refer Note 11. A gain of \$8,549,000 arising on the deconsolidation of SciGen was taken directly to accumulated losses in the previous financial year. Refer Note 25(b).

#### (h) Share option reserve

The share option reserve reflects the value of the options issued on 1 July 2004 to Sonic's partners in the Schottdorf business (Dr and Mrs Schottdorf) pursuant to an obligation arising prior to year end in relation to the acquisition of the Schottdorf Group. The corresponding entry is an increase in the carrying value of goodwill in relation to the Schottdorf business. The value of the options represents the assessed fair value at the date they were granted and has been independently determined using an appropriate option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

|   | Consolidated   |                | Parent entity  |                |
|---|----------------|----------------|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>Note 25 Reserves and accumulated losses</b>                              |                |                |                |                |
| <b>(a) Reserves</b>   |                |                |                |                |
| Asset revaluation reserve   | 982            | 982            | 982            | 982            |
| Foreign currency translation reserve  | 9,522          | 5,089          | -              | -              |
|   | <b>10,504</b>  | 6,071          | <b>982</b>     | 982            |
| <b>Movements</b>  |                |                |                |                |
| Foreign currency translation reserve at the beginning of the financial year | 5,089          | 4,729          | -              | -              |
| Movement on demerger of SciGen Limited                                      | -              | (2,567)        | -              | -              |
| Net exchange difference on translation of foreign controlled entities       | 4,433          | 2,927          | -              | -              |
| Foreign currency translation reserve at the end of the financial year       | <b>9,522</b>   | 5,089          | -              | -              |

**Nature and purpose of reserves**

*(i) Asset revaluation reserve*

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in accounting policy Note 1(i). The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of cash dividends in limited circumstances as permitted by law.

*(ii) Foreign currency translation reserve*

Exchange differences arising on translation of the foreign controlled entities, Sonic Healthcare (New Zealand) Limited, Sonic Healthcare Asia Limited, Sonic Healthcare Holdings Limited, Sonic Finance Holdings Limited and Sonic Healthcare Germany GmbH and their respective subsidiaries, are taken to the foreign currency translation reserve as described in accounting policy Note 1(c)(ii). On the demerger of SciGen Limited to Sonic's shareholders in November 2002 the balance of the foreign currency translation reserve associated with SciGen was removed.

**(b) Accumulated losses**

|   |                 |          |                |          |
|---|-----------------|----------|----------------|----------|
| Accumulated losses the beginning of the financial year                            | (11,978)        | (40,505) | (6,963)        | (9,691)  |
| Adjustment resulting from change in accounting policy for providing for dividends | -               | 41,987   | -              | 41,987   |
| Net profit attributable to members of Sonic Healthcare Limited                    | 57,628          | 40,858   | 74,769         | 23,608   |
| Gain on deconsolidation of SciGen Limited (Note 24(g))                            | -               | 8,549    | -              | -        |
| Dividends provided for or paid (Note 6)   | (71,375)        | (62,867) | (71,375)       | (62,867) |
| Accumulated losses at the end of the financial year                               | <b>(25,725)</b> | (11,978) | <b>(3,569)</b> | (6,963)  |

**Note 26 Outside equity interests in controlled entities**

|                    | Consolidated    |                |
|--------------------|-----------------|----------------|
|                    | 2004<br>\$'000  | 2003<br>\$'000 |
| Interest in:       |                 |                |
| Share capital      | 210             | 12             |
| Reserves           | 17,022          | -              |
| Accumulated losses | (29,472)        | 155            |
|                    | <b>(12,240)</b> | 167            |



**Notes to the financial statements**

30 June 2004

**Note 27 Deed of cross guarantee**

The “Closed Group” (refer Note 28) are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors’ report under Class Order 98/1418 (as amended by Class Order 98/2017, 00/0321 and 01/1087) issued by the Australian Securities and Investments Commission.

The companies represent a “Closed Group” for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Sonic Healthcare Limited, they also represent the “Extended Closed Group”

**(a) Consolidated statement of financial performance of the extended closed group**

|  | 2004<br>\$'000 | 2003<br>\$'000 |
|--|----------------|----------------|
| <b>Revenue from ordinary activities</b>  | <b>795,716</b> | 743,273        |
| Labour and related costs   | (379,289)      | (346,792)      |
| Consumables used   | (92,525)       | (90,171)       |
| Amortisation of intangibles  | (33,214)       | (32,106)       |
| Operating lease rental expense   | (33,285)       | (31,809)       |
| Depreciation and amortisation of physical assets   | (32,203)       | (30,067)       |
| Borrowing costs  | (23,674)       | (24,860)       |
| Other operating expenses from ordinary activities  | (95,245)       | (112,875)      |
| <b>Profit from ordinary activities before income tax expense</b>   | <b>106,281</b> | 74,593         |
| Income tax expense   | (37,155)       | (32,059)       |
| <b>Profit from ordinary activities after income tax expense</b>  | <b>69,126</b>  | 42,534         |
| Outside equity interests in operating profit after income tax  | -              | -              |
| <b>Net profit attributable to members of the extended closed group</b>   | <b>69,126</b>  | 42,534         |
| <b>Total revenues, expenses and valuation adjustments attributable to members of the extended closed group recognised directly in equity</b> | <b>-</b>       | -              |
| <b>Total changes in equity other than those resulting from transactions with owners as owners</b>  | <b>69,126</b>  | 42,534         |

**(b) Reconciliation of accumulated losses**

|   |          |          |
|---|----------|----------|
| Accumulated losses at the beginning of the financial year                         | (15,242) | (36,896) |
| Adjustment resulting from change in accounting policy for providing for dividends | -        | 41,987   |
| Profit from ordinary activities after income tax expense                          | 69,126   | 42,534   |
| Dividends provided for or paid  | (71,375) | (62,867) |
| Accumulated losses at the end of the financial year                               | (17,491) | (15,242) |

**Note 27 Deed of cross guarantee (continued)**

**(c) Consolidated statement of financial position of the extended closed group**

|                                | 2004<br>\$'000   | 2003<br>\$'000   |
|--------------------------------|------------------|------------------|
| <b>Current assets</b>          |                  |                  |
| Cash assets                    | 4,361            | 6,483            |
| Receivables                    | 64,178           | 67,896           |
| Inventories                    | 13,132           | 13,099           |
| Other                          | 5,548            | 4,238            |
| Total current assets           | <u>87,219</u>    | <u>91,716</u>    |
| <b>Non-current Assets</b>      |                  |                  |
| Receivables                    | 22,644           | 66,287           |
| Other financial assets         | 377,954          | 340,425          |
| Property, plant and equipment  | 179,540          | 163,281          |
| Intangible assets              | 600,790          | 628,862          |
| Deferred tax assets            | 14,119           | 12,859           |
| Other                          | 1,371            | -                |
| Total non-current assets       | <u>1,196,418</u> | <u>1,211,714</u> |
| <b>Total assets</b>            | <u>1,283,637</u> | <u>1,303,430</u> |
| <b>Current liabilities</b>     |                  |                  |
| Payables                       | 47,603           | 42,610           |
| Interest bearing liabilities   | 18,736           | 62,127           |
| Provisions                     | 45,200           | 44,242           |
| Current tax liabilities        | 11,174           | 8,663            |
| Other current liabilities      | 1,701            | 1,746            |
| Total current liabilities      | <u>124,414</u>   | <u>159,388</u>   |
| <b>Non-current liabilities</b> |                  |                  |
| Interest bearing liabilities   | 284,744          | 308,537          |
| Provisions                     | 13,523           | 11,144           |
| Deferred tax liabilities       | 1,255            | 1,589            |
| Total non-current liabilities  | <u>299,522</u>   | <u>321,270</u>   |
| <b>Total liabilities</b>       | <u>423,936</u>   | <u>480,658</u>   |
| <b>Net assets</b>              | <u>859,701</u>   | <u>822,772</u>   |
| <b>Equity</b>                  |                  |                  |
| Contributed equity             | 876,210          | 837,032          |
| Reserves                       | 982              | 982              |
| Accumulated losses             | (17,491)         | (15,242)         |
| <b>Total equity</b>            | <u>859,701</u>   | <u>822,772</u>   |

**Notes to the financial statements**

30 June 2004

**Note 28 Investments in controlled entities**

| <b>Details of controlled entities</b>                       | <b>Country of<br/>incorporation</b> | <b>Class of<br/>share</b> | <b>Beneficial<br/>interest<br/>%<br/>2004</b> | <b>Beneficial<br/>interest<br/>%<br/>2003</b> |
|---|-------------------------------------|---------------------------|---|---|
| Controlled entities of:                                     |                                     |                           |   |   |
| <b>(a) Sonic Healthcare Limited</b>                         |                                     |                           |   |   |
| Douglass Hanly Moir Pathology Pty Limited (i) (iv)          | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Southern Pathology Services Pty Limited (i) (iv)            | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Clinpath Laboratories Pty Limited (i) (iv)                  | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Lifescree Australia Pty Limited (i) (iv)                    | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Sonic Healthcare (New Zealand) Limited (iv)                 | New Zealand                         | Ord                       | <b>100</b>                                    | 100   |
| Sonic Healthcare Asia Limited (iv)                          | Hong Kong                           | Ord                       | <b>100</b>                                    | 100   |
| Sonic Imaging Pty Limited (i) (iv)                          | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Sonic Clinical Institute Pty Limited (iv)                   | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Sonic Healthcare Holdings Limited (iv)                      | United Kingdom                      | Ord                       | <b>100</b>                                    | 100   |
| Sonic Healthcare Services Pty Limited (i) (iv)              | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Sonic Finance Holdings Limited (iv)                         | United Kingdom                      | Ord                       | <b>100</b>                                    | -   |
| <b>(b) Douglass Hanly Moir Pathology Pty Limited (iv)</b>   |                                     |                           |   |   |
| Diagnostic Pathology Pty Limited                            | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Barratt & Smith Pathology Pty Limited (i)                   | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Barratt & Smith Pathology Trust (ii)                        | Australia                           | Units                     | <b>100</b>                                    | 100   |
| Hanly Moir Pathology Pty Limited (i)                        | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Hanly Moir Pathology Trust (ii)                             | Australia                           | Units                     | <b>100</b>                                    | 100   |
| Sonic Medlab Holdings Australia Pty Limited (i)             | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Stat Laboratories Pty Limited                               | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Subilabs Pty Limited  | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Bunbury Pathology Pty Limited                               | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Sonic Investment & Finance Partnership                      | Australia                           |                           | <b>2</b>                                      | -   |
| <b>(c) Sonic Healthcare (New Zealand) Limited (iv)</b>      |                                     |                           |   |   |
| Diagnostic Medlab Limited                                   | New Zealand                         | Ord                       | <b>100</b>                                    | 100   |
| Medlab Central Limited                                      | New Zealand                         | Ord                       | <b>100</b>                                    | 100   |
| Valley Diagnostic Laboratories Limited                      | New Zealand                         | Ord                       | <b>100</b>                                    | 100   |
| Medlab South Limited  | New Zealand                         | Ord                       | <b>100</b>                                    | 100   |
| New Zealand Radiology Group Limited                         | New Zealand                         | Ord                       | <b>100</b>                                    | 100   |
| Canterbury Medical Imaging Limited                          | New Zealand                         | Ord                       | <b>100</b>                                    | 100   |
| Palmerston North X-Ray Partnership                          | New Zealand                         |                           | <b>80</b>                                     | 80  |
| <b>(d) Sonic Medlab Holdings Australia Pty Limited (iv)</b> |                                     |                           |   |   |
| Sonic Pathology (Queensland) Pty Limited (i)                | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Sonic Pathology (Victoria) Pty Limited (i)                  | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| <b>(e) Sonic Pathology (Queensland) Pty Limited (iv)</b>    |                                     |                           |   |   |
| Sullivan Nicolaides Pty Limited (i)                         | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| L & A Services Pty Limited (i)                              | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Bradley Services Unit Trust (ii)                            | Australia                           | Units                     | <b>100</b>                                    | 100   |
| Northern Pathology Pty Limited (i)                          | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Biotech Laboratories Pty Limited                            | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| <b>(f) Sonic Pathology (Victoria) Pty Limited (iv)</b>      |                                     |                           |   |   |
| Consultant Pathology Services Pty Limited (i)               | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Diagnostic Services Pty Limited (i)                         | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Melbourne Pathology Pty Limited (i)                         | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Melbourne Pathology Services Pty Limited                    | Australia                           | Ord                       | <b>100</b>                                    | 100   |
| Melbourne Pathology Services Trust (ii)                     | Australia                           | Units                     | <b>100</b>                                    | 100   |

**Notes to the financial statements**

30 June 2004

**Note 28 Investments in controlled entities (continued)**

| Details of controlled entities                    | Country of<br>Incorporation | Class of<br>share | Beneficial<br>interest<br>%<br>2004 | Beneficial<br>interest<br>%<br>2003 |
|---|-----------------------------|-------------------|-------------------------------------|-------------------------------------|
| <b>(g) Diagnostic Medlab Limited (iv)</b>         |                             |                   |                                     |                                     |
| Laboratory Data Systems Limited                   | New Zealand                 | Ord               | 100                                 | 100                                 |
| Diagnostic Medlab Services Limited                | New Zealand                 | Ord               | 100                                 | 100                                 |
| <b>(h) Sonic Healthcare Asia Limited (iv)</b>     |                             |                   |                                     |                                     |
| Double Court Company Limited                      | Hong Kong                   | Ord               | 100                                 | 100                                 |
| Dynamic Mate Limited                              | Hong Kong                   | Ord               | 100                                 | 100                                 |
| <b>(i) Sonic Imaging Pty Limited (iv)</b>         |                             |                   |                                     |                                     |
| IRG Co Pty Limited (i)                            | Australia                   | Ord               | 100                                 | 100                                 |
| Hunter Valley X-Ray Pty Limited                   | Australia                   | Ord               | 100                                 | 100                                 |
| Hunter Imaging Services Trust (ii)                | Australia                   | Units             | 100                                 | 100                                 |
| HIG Distributions Pty Limited                     | Australia                   | Ord               | 100                                 | 100                                 |
| Nuclear Medicine Co Pty Limited                   | Australia                   | Ord               | 100                                 | 100                                 |
| Castlereagh Co Pty Limited (i)                    | Australia                   | Ord               | 100                                 | 100                                 |
| Queensland X-Ray Pty Limited (i)                  | Australia                   | Ord               | 100                                 | 100                                 |
| Sonic Nominees Pty Limited (i)                    | Australia                   | Ord               | 100                                 | 100                                 |
| Redlands X-Ray Services Pty Limited               | Australia                   | Ord               | 100                                 | 100                                 |
| SKG Radiology Pty Limited                         | Australia                   | Ord               | 100                                 | 100                                 |
| Maga Pty Limited                                  | Australia                   | Ord               | 100                                 | 100                                 |
| Sprague Kam Trust (ii)                            | Australia                   | Units             | 100                                 | 100                                 |
| <b>(j) Queensland X-Ray Pty Limited (iv)</b>      |                             |                   |                                     |                                     |
| Ultrarad No 2 Trust (ii)                          | Australia                   | Units             | 100                                 | 100                                 |
| Ultrarad Holdings Pty Limited                     | Australia                   | Ord               | 100                                 | 100                                 |
| E. Radiology (Aust) Pty Limited                   | Australia                   | Ord               | 100                                 | 100                                 |
| <b>(k) Sonic Nominees Pty Limited (iv)</b>        |                             |                   |                                     |                                     |
| Pacific Medical Imaging Pty Limited (i)           | Australia                   | Ord               | 100                                 | 100                                 |
| Paedu Pty Limited (i)                             | Australia                   | Ord               | 100                                 | 100                                 |
| Castlereagh Services Pty Limited (i)              | Australia                   | Ord               | 100                                 | 100                                 |
| Sunton Pty Limited (i)                            | Australia                   | Ord               | 100                                 | 100                                 |
| Illawarra X-Ray Pty Limited                       | Australia                   | Ord               | 100                                 | 100                                 |
| <b>(l) Sonic Healthcare Holdings Limited (iv)</b> |                             |                   |                                     |                                     |
| The Doctors Laboratory Limited (iv)               | United Kingdom              | Ord               | 100                                 | 100                                 |
| Cytogenetic DNA Services Limited                  | United Kingdom              | Ord               | 100                                 | 100                                 |
| Roadhaven Limited                                 | United Kingdom              | Ord               | 100                                 | 100                                 |
| Sonic Healthcare Germany GmbH (iv)                | Germany                     | Ord               | 100                                 | -                                   |
| <b>(m) The Doctors Laboratory Limited (iv)</b>    |                             |                   |                                     |                                     |
| Omnilabs Limited                                  | United Kingdom              | Ord               | 100                                 | -                                   |
| Omnilabs (UK) Limited                             | United Kingdom              | Ord               | 100                                 | -                                   |
| Omnilabs Ireland Limited                          | Ireland                     | Ord               | 100                                 | -                                   |
| <b>(n) Sonic Finance Holdings Limited (iv)</b>    |                             |                   |                                     |                                     |
| Sonic Finance Limited                             | United Kingdom              | Ord               | 100                                 | -                                   |
| Sonic Finance & Investments Limited               | United Kingdom              | Ord               | 100                                 | -                                   |
| Sonic Investment & Finance Partnership            | Australia                   |                   | 98                                  | -                                   |
| <b>(o) Sonic Healthcare Germany GmbH (iv)</b>     |                             |                   |                                     |                                     |
| Alpha Vermögensverwaltung GmbH                    | Germany                     | Ord               | 55.9                                | -                                   |
| Syscomp Biochemische Dienstleistungen GmbH        | Germany                     | Ord               | 55.9                                | -                                   |

## Notes to the financial statements

30 June 2004

### Note 28 Investments in controlled entities (continued)

- (i) These controlled entities (the "Closed Group") have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investment Commission. For further information see Note 27.
- (ii) Trust deeds do not require preparation of audited financial statements.
- (iii) There is no requirement under the law of the entity's place of incorporation to prepare audited financial statements.
- (iv) These entities and the entities they control (as described in the table above) comprise the wholly owned group of which Sonic Healthcare Limited is the ultimate parent entity.

As a result of the demerger of SciGen Limited during the financial year ended 30 June 2003, SciGen Limited and the entities it controlled (SciGen Pty Limited and SciGen Korea Limited) are no longer controlled entities of Sonic Healthcare Limited.

### Acquisitions of entities

The consolidated entity acquired business assets and entities during the year for a total consideration of \$65,995,000 (2003: \$8,540,000). In summary, the acquisitions during the financial year were:

|  | <u>Acquisition date</u> |
|--|-------------------------|
| Omnilabs Pathology group                   | July 2003               |
| Southside Diagnostic Services Group (SDSG) | December 2003           |
| Schottdorf Group                           | June 2004               |

The assets of the following businesses were acquired during the 2003 financial year:

|                         |               |
|-------------------------|---------------|
| Rockhampton Pathology   | October 2002  |
| Fremantle Radiology     | December 2002 |
| Central Coast Pathology | May 2003      |

**Notes to the financial statements**

30 June 2004

**Note 28 Investments in controlled entities (continued)**

|   | <b>Consolidated</b> |        |
|---|---------------------|--------|
|   | <b>2004</b>         | 2003   |
|   | <b>\$'000</b>       | \$'000 |
| Consideration – cash paid in current year   | <b>55,038</b>       | 8,540  |
| Less: Cash of entities acquired   | <b>(9,671)</b>      | -      |
| Total cash consideration  | <b>45,367</b>       | 8,540  |
| Deferred consideration – recognised as Amounts owing to vendors (Notes 20 & 21)     | <b>14,158</b>       | -      |
| Consideration – shares in the company (Note 24(b))                                  | <b>1,500</b>        | -      |
| Consideration – transaction costs not settled in cash in the current financial year | <b>560</b>          | -      |
| Value of options issued to Sonic's partners in the Schottdorf business              | <b>4,410</b>        | -      |
| Total consideration   | <b>65,995</b>       | 8,540  |
| Fair value of identifiable net assets of controlled entities acquired:              |                     |        |
| Property, plant and equipment   | <b>9,543</b>        | 781    |
| Debtors   | <b>38,080</b>       | 824    |
| Inventory   | <b>5,009</b>        | 82     |
| Prepayments   | <b>419</b>          | -      |
| Future income tax benefits  | <b>25,237</b>       | 53     |
| Trade creditors   | <b>(26,495)</b>     | (6)    |
| Provision for tax   | <b>(1,285)</b>      | -      |
| Borrowings  | <b>(76,047)</b>     | -      |
| Lease and hire purchase liabilities   | <b>(4,287)</b>      | (179)  |
| Other liabilities   | <b>(5,987)</b>      | -      |
| Employee provisions   | <b>(2,360)</b>      | (177)  |
|   | <b>(38,173)</b>     | 1,378  |
| Add: Minority interests share   | <b>12,117</b>       | -      |
| Less: Provision for restructuring   | <b>(1,731)</b>      | (178)  |
|   | <b>(27,787)</b>     | 1,200  |
| Goodwill  | <b>93,782</b>       | 7,340  |
| <b>Reconciliation of cash paid to Statements of cash flows</b>                      |                     |        |
| Consideration – cash paid for acquisitions in the financial year                    | <b>55,038</b>       | 8,540  |
| Consideration – cash paid to vendors for acquisitions in previous financial years   | <b>10,321</b>       | 51,314 |
| Less: Cash of entity acquired   | <b>(9,671)</b>      | -      |
| Payment for purchase of controlled entities net of cash acquired                    | <b>55,688</b>       | 59,854 |

**Notes to the financial statements**

30 June 2004

| <b>Consolidated</b> |               | <b>Parent entity</b> |               |
|---------------------|---------------|----------------------|---------------|
| <b>2004</b>         | <b>2003</b>   | <b>2004</b>          | <b>2003</b>   |
| <b>\$'000</b>       | <b>\$'000</b> | <b>\$'000</b>        | <b>\$'000</b> |

**Note 29 Commitments for expenditure****(a) Capital Commitments**

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

|  |              |       |   |   |
|--|--------------|-------|---|---|
| Within one year                                | <b>7,992</b> | 3,477 | - | - |
| Later than one year but not later than 5 years | <b>105</b>   | -     | - | - |
|  | <b>8,097</b> | 3,477 | - | - |

**(b) Lease Commitments**

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

|  |                |         |   |   |
|--|----------------|---------|---|---|
| Within one year                                | <b>49,897</b>  | 40,303  | - | 1 |
| Later than one year but not later than 5 years | <b>92,569</b>  | 68,470  | - | - |
| Later than 5 years                             | <b>20,839</b>  | 15,748  | - | - |
|  | <b>163,305</b> | 124,521 | - | 1 |

Representing:

|  |                |         |   |   |
|--|----------------|---------|---|---|
| Cancellable operating leases             | <b>285</b>     | 143     | - | - |
| Non-cancellable operating leases         | <b>154,293</b> | 115,152 | - | 1 |
| Future finance charges on finance leases | <b>8,727</b>   | 9,226   | - | - |
|  | <b>163,305</b> | 124,521 | - | 1 |

**(i) Operating Leases**

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

|  |                |         |   |   |
|--|----------------|---------|---|---|
| Within one year                                | <b>46,074</b>  | 36,393  | - | 1 |
| Later than one year but not later than 5 years | <b>87,380</b>  | 63,065  | - | - |
| Later than 5 years                             | <b>20,839</b>  | 15,694  | - | - |
|  | <b>154,293</b> | 115,152 | - | 1 |

Commitments not recognised in the financial statements

Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases not recognised in the financial statements

|  |              |       |   |   |
|--|--------------|-------|---|---|
|  | <b>9,387</b> | 7,375 | - | - |
|--|--------------|-------|---|---|

**(ii) Finance Leases**

Commitments in relation to finance lease and hire purchase agreements are payable as follows:

|  |                |         |   |   |
|--|----------------|---------|---|---|
| Within one year                                | <b>27,939</b>  | 26,286  | - | - |
| Later than one year but not later than 5 years | <b>49,029</b>  | 50,638  | - | - |
| Minimum lease payments                         | <b>76,968</b>  | 76,924  | - | - |
| Less: Future finance charges                   | <b>(8,727)</b> | (9,226) | - | - |
|  | <b>68,241</b>  | 67,698  | - | - |

Total lease and hire purchase liabilities

Representing lease and hire purchase liabilities:

|                       |               |        |   |   |
|-----------------------|---------------|--------|---|---|
| Current (Note 17)     | <b>24,231</b> | 22,130 | - | - |
| Non-current (Note 21) | <b>44,010</b> | 45,568 | - | - |
|                       | <b>68,241</b> | 67,698 | - | - |

The weighted average interest rate implicit in the leases is 6.80% (2003: 7.02%)

**Notes to the financial statements**

30 June 2004

| <b>Consolidated</b> |               | <b>Parent entity</b> |               |
|---------------------|---------------|----------------------|---------------|
| <b>2004</b>         | <b>2003</b>   | <b>2004</b>          | <b>2003</b>   |
| <b>\$'000</b>       | <b>\$'000</b> | <b>\$'000</b>        | <b>\$'000</b> |

**Note 29 Commitments for expenditure (continued)****(c) Remuneration commitments**

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

|  |               |         |   |   |
|--|---------------|---------|---|---|
| Within one year                                | <b>41,888</b> | 49,292  | - | - |
| Later than one year but not later than 5 years | <b>46,956</b> | 72,155  | - | - |
| Later than 5 years                             | <b>438</b>    | 1,637   | - | - |
|  | <b>89,282</b> | 123,084 | - | - |

**Note 30 Contingent liabilities**

Sonic Healthcare Limited and certain controlled entities, as disclosed in Note 27, are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

**Note 31 Secured borrowings**

Secured bank loans to companies within the consolidated entity of \$465,470,000 (2003: \$457,065,000) are secured by fixed and floating charges over the assets and undertakings of the company and its wholly owned subsidiaries (other than interests in any contracts the charging of which is prohibited by their terms), and also by registered mortgages over all real property of the company and those subsidiaries.

The non-current amounts owing to the vendors of The Doctors Laboratory group of \$28,532,000 (2003: \$36,532,000) are secured by a Bank Guarantee issued under Sonic's senior debt facility, drawings under which are secured as detailed above.

Lease and hire purchase liabilities are effectively secured as the rights to the relevant assets revert to the lessor/lender in the event of default.

The carrying value of non-current assets pledged as security are:

|  |                |         |                  |         |
|--|----------------|---------|------------------|---------|
| Receivables – non-current                    | <b>4,499</b>   | 2,695   | <b>143,952</b>   | 389,820 |
| Other financial assets – investments         | <b>45,763</b>  | 40,185  | <b>1,037,040</b> | 472,450 |
| Property, plant and equipment                | <b>238,711</b> | 215,621 | <b>25,200</b>    | 25,711  |
| Total non-current assets pledged as security | <b>288,973</b> | 258,501 | <b>1,206,192</b> | 887,981 |

The Schottdorf Group (which is non-wholly owned) has other secured bank loans of \$79,039,000 (€45,100,000) outstanding at 30 June 2004. The security provided in respect of these loans is comprised of fixed charges over the assets and undertakings of the Schottdorf Group. In addition, Sonic Healthcare Limited has guaranteed \$17,525,000 (€10,000,000) of this debt.



## Notes to the financial statements

30 June 2004

### Note 32 Director and executive disclosures

#### (a) Directors

The following persons were directors of Sonic Healthcare Limited during the financial year:

##### *Chairman – non-executive*

B.S. Patterson

##### *Executive directors*

Dr C. S. Goldschmidt

C.D. Wilks

Dr M.M. Barratt (retired 27 November 2003)

Dr P.J. Dubois

C.J. Jackson

Dr M.F. Robinson (retired 27 November 2003)

Dr H.F. Scotton

##### *Non-executive directors*

R.P. Campbell

#### (b) Executives (other than directors) with the greatest authority for strategic direction and management

The following persons were the five executives with the greatest authority for the strategic direction and management of the consolidated entity (“specified executives”) during the financial year:

| <b>Name</b>    | <b>Position</b>   |
|----------------|---|
| P.J. Alexander | Sonic Group Financial Controller/Company Secretary                  |
| Dr G. Armellin | Sonic Marketing Director/Chief Executive Officer, Capital Pathology |
| D. Byrne       | Chief Executive Officer, The Doctors Laboratory                     |
| Dr A. Lloyd    | Sonic Chief Systems Officer   |
| F. Tuck        | Chief Executive Officer, Diagnostic Medlab                          |

#### (c) Remuneration of directors and executives

##### *(i) Principles used to determine the nature and amount of remuneration*

The Remuneration Committee, consisting of 2 non-executive directors makes specific recommendations to the Board on remuneration packages and other terms of employment for the Managing Director and Finance Director and advises the Board in relation to equity based incentive schemes for other employees. Bonuses paid to Dr C.S. Goldschmidt and Mr C.D. Wilks are determined by the Remuneration Committee and are dependent upon the performance of the consolidated entity.

Executive remuneration and other terms of employment are reviewed annually by the Managing Director having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance-related bonuses and fringe benefits. Executives are also eligible to participate in the Sonic Healthcare Limited Employee Option Plan. Further information on this is set out in Note 34.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity’s operations.

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders from time to time. Options are not issued and bonuses are not payable to non-executive directors.

## Notes to the financial statements

30 June 2004

### Note 32 Director and executive disclosures (continued)

#### (ii) Details of remuneration

Details of the remuneration of each director of Sonic Healthcare Limited and each of the five specified executives of the consolidated entity, including their personally-related entities, are set out below:

#### *Directors of Sonic Healthcare Limited*

##### **B.S. Patterson**

*Chairman, Non-executive Director*

Remuneration for the year to 30 June 2004 was \$50,000 of Director fees. Superannuation contributions required by the Superannuation Guarantee Charge legislation are directed from gross director's fees as appropriate.

##### **R.P. Campbell**

*Non-executive Director*

Remuneration for the year to 30 June 2004 was \$50,000 of Director fees. Superannuation contributions required by the Superannuation Guarantee Charge legislation are directed from gross director's fees as appropriate.

##### **Dr C.S. Goldschmidt**

*Managing Director*

Remuneration for the year to 30 June 2004 included cash salary of \$583,341, cash bonus of \$876,000, non-monetary benefits of \$129,892 and superannuation contributions of \$19,002. The total of these components of remuneration was \$1,608,235. As a consequence of a restructure of Dr C.S. Goldschmidt's package the bonus figure disclosed relates to an 18 month rather than 12 month period. Cash bonuses are granted at the time of half year and full year results announcements based on the reported core earnings per share figure. Non-monetary benefits reflect packaged motor vehicle costs and associated FBT. During the financial year, following approval by shareholders at the 2003 Annual General Meeting, the expiry date of 3,000,000 fully vested pre-existing executive director options held beneficially by Dr C.S. Goldschmidt were extended (further details are set out in section (d)(i)). This extension has been valued at \$1,530,000 and technically forms part of Dr C.S. Goldschmidt's remuneration. However, 2,000,000 of these options were subsequently exercised within the original exercise period, and hence no value was received by Dr C.S. Goldschmidt from the extension in relation to those options.

##### **C.D. Wilks**

*Finance Director*

Remuneration for the year to 30 June 2004 included cash salary of \$453,465, cash bonus of \$472,360, non-monetary benefits of \$1,476 and superannuation contributions of \$11,002. The total of these components of remuneration was \$938,303. As a consequence of a restructure of C.D. Wilks' package the bonus figure disclosed relates to an 18 month rather than 12 month period. Cash bonuses are granted at the time of half year and full year results announcements based on the reported core earnings per share figure. During the financial year, following approval by shareholders at the 2003 Annual General Meeting, the expiry date of 1,500,000 fully vested pre-existing executive director options held beneficially by C.D. Wilks were extended (further details are set out in section (d)(i)). This extension has been valued at \$765,000 and technically forms part of C.D. Wilks' remuneration. However, 1,000,000 of these options were subsequently exercised within the original exercise period, and hence no value was received by C.D. Wilks from the extension in relation to those options.

##### **Dr M.M. Barratt**

*Director*

Remuneration for the period from the beginning of the financial year until the date of retirement as a director on 27 November 2003 included cash salary and fees of \$31,850 and superannuation contributions of \$1,029. Total remuneration was \$32,879.

##### **Dr P.J. Dubois**

*Director*

Remuneration for the year to 30 June 2004 included cash salary and fees of \$288,288 and non-monetary benefits of \$3,183. Total remuneration was \$291,471.

##### **C.J. Jackson**

*Director*

Remuneration for the year to 30 June 2004 included cash salary and fees of \$328,582, non-monetary benefits of \$10,720 and superannuation contributions of \$11,002. Total remuneration was \$350,304.

## Notes to the financial statements

30 June 2004

### Note 32 Director and executive disclosures (continued)

#### Dr M.F. Robinson

*Director*

Remuneration for the period from the beginning of the financial year until the date of retirement as a director on 27 November 2003 comprised cash salary and fees of \$127,337. Part of Dr M.F. Robinson's remuneration is paid for consulting and medical services provided by a partnership in which he is a partner.

#### Dr H.F. Scotton

*Director*

Remuneration for the year to 30 June 2004 included cash salary and fees of \$228,366 and superannuation contributions of \$91,149. Total remuneration was \$319,515.

Total remuneration for directors of Sonic Healthcare Limited for the year to 30 June 2004 is analysed below:

|                       | <b>2004</b>      |
|-----------------------|------------------|
|                       | \$               |
| Cash salary and fees  | 2,141,229        |
| Cash bonuses          | 1,348,360        |
| Non-monetary benefits | 145,271          |
| Superannuation        | 133,184          |
|                       | <u>3,768,044</u> |

The total of these components excludes the value of the extensions to the executive director options (\$2,295,000 in aggregate).

*Specified executives of the consolidated entity*

#### P.J. Alexander

*Sonic Group Financial Controller/Company Secretary*

Remuneration for the year to 30 June 2004 included cash salary of \$208,432, cash bonus of \$50,000 (granted June 2004 by the Managing Director based on personal and consolidated entity financial performance), non-monetary benefits of \$26,836, superannuation contributions of \$11,002 and options (granted in previous years) of \$58,152. Total remuneration was \$354,422. Further details regarding the values disclosed for options, and details of options vested and exercised during the financial year, are set out in subsequent sections of this note.

#### Dr G. Armellin

*Sonic Marketing Director/Chief Executive Officer, Capital Pathology*

Remuneration for the year to 30 June 2004 included cash salary of \$336,845, superannuation contributions of \$11,425 and options (granted in previous years) of \$12,705. Total remuneration was \$360,975. Further details regarding the values disclosed for options, and details of options vested and exercised during the financial year, are set out in subsequent sections of this note.

#### D. Byrne

*Chief Executive Officer, The Doctors Laboratory*

Remuneration for the year to 30 June 2004 included cash salary of \$414,192, cash bonus of \$121,921 (granted December 2003 based on entity performance pursuant to a contract of employment), non-monetary benefits of \$60,949, superannuation contributions of \$61,487 and shares of \$121,863. Total remuneration was \$780,412. The shares were issued as a bonus pursuant to a contract of employment. Further details regarding the valuation of shares issued and details of the contract are set out in subsequent sections of this note.

#### Dr A. Lloyd

*Sonic Chief Systems Officer*

Remuneration for the year to 30 June 2004 included cash salary of \$280,168, non-monetary benefits of \$19,856, superannuation contributions of \$75,766 and options (granted in previous years) of \$21,587. Total remuneration was \$397,377. Further details regarding the values disclosed for options, and details of options vested and exercised in the financial year, are set out in the subsequent sections of this note.

## Notes to the financial statements

30 June 2004

### Note 32 Director and executive disclosures (continued)

#### F. Tuck

*Chief Executive Officer, Diagnostic Medlab*

Remuneration for the year to 30 June 2004 included cash salary of \$204,708, cash bonus of \$11,009 (granted March 2004 by the Managing Director based on personal and entity performance), non-monetary benefits of \$66,888 and superannuation contributions of \$19,474. Total remuneration was \$302,079.

Total remuneration for the specified executives of the consolidated entity for the year to 30 June 2004 is analysed below:

|                                 | <b>2004</b>      |
|---------------------------------|------------------|
|                                 | \$               |
| Cash salary and fees            | 1,444,345        |
| Cash bonuses                    | 182,930          |
| Non-monetary benefits           | 174,529          |
| Superannuation                  | 179,154          |
| Options (issued in prior years) | 92,444           |
| Shares issued as remuneration   | 121,863          |
|                                 | <u>2,195,265</u> |

#### (iii) Service agreements

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks were revised effective 1 July 2003 following a detailed review by the Remuneration Committee with input from external consultants. The key terms of the revised arrangements are set out below:

##### *Dr C.S. Goldschmidt*

- Base salary, inclusive of superannuation of \$750,000.

Short term incentives:

- Cash bonus, payable half yearly based on reported core earnings per share.
- Issue of 20,000 fully paid ordinary shares if core earnings per share are at least 10% higher than the previous year. If core earnings per share growth falls below 10%, no shares will be issued. However, if core earnings per share growth in a subsequent year exceeds 10% and makes up for the previous year's shortfall, then the prior year's shares that were foregone will be released. This arrangement to run for five consecutive years subject to shareholder approval at the upcoming 2004 Annual General Meeting.

Long term incentive:

- Issue of 1,000,000 fully vested options exercisable at \$7.50 (within 5 years) if core earnings per share of \$0.42 are achieved in financial year 2003/04, and similar issues in each of the subsequent four years if core earnings per share are at least 10% higher than the previous year. If this growth is not achieved in one year but is made up in a subsequent year, then the previously forfeited options will be released. This arrangement is subject to shareholder approval at the upcoming 2004 Annual General Meeting.

##### *C.D. Wilks*

- Base salary, inclusive of superannuation of \$460,000.

Short term incentives:

- Cash bonus, payable half yearly based on reported core earnings per share.
- Issue of 10,750 fully paid ordinary shares if core earnings per share are at least 10% higher than the previous year. If core earnings per share growth falls below 10%, no shares will be issued. However, if core earnings per share growth in a subsequent year exceeds 10% and makes up for the previous year's shortfall, then the prior year's shares that were foregone will be released. This arrangement to run for five consecutive years subject to shareholder approval at the upcoming 2004 Annual General Meeting.

Long term incentive:

- Issue of 540,000 fully vested options exercisable at \$7.50 (within 5 years) if core earnings per share of \$0.42 are achieved in financial year 2003/04, and similar issues in each of the subsequent four years if core earnings per share are at least 10% higher than the previous year. If this growth is not achieved in one year but is made up in a subsequent year, then the previously forfeited options will be released. This arrangement is subject to shareholder approval at the upcoming 2004 Annual General Meeting.

## Notes to the financial statements

30 June 2004

### Note 32 Director and executive disclosures (continued)

No other directors or specified executives have service agreements other than those detailed below.

#### *Dr P.J. Dubois*

Following the acquisition of the QXR Group in April 2001, Dr P.J. Dubois was engaged on a 4 year service agreement through a pre-existing partnership structure in which he is a partner.

#### *Dr H. Scotton*

Following the acquisition of the PMI Group in January 2001, Dr H. Scotton was employed on a 4 year service agreement at a total remuneration of \$260,000 increasing by CPI on each anniversary of the agreement.

#### *D. Byrne*

Following the acquisition of The Doctors Laboratory in the UK, a 5 year service contract was established with the following key terms:

- Base salary of £150,000 per annum, plus superannuation and other benefits to be reviewed annually on 1 September each year.
- Performance related cash and equity bonus arrangements.

### (d) Equity instrument disclosures relating to directors and executives

#### *(i) Options provided as remuneration*

##### *Executive Director Options*

During the financial year, following approval by shareholders at the 2003 Annual General Meeting, the expiry date of fully vested pre-existing executive director options held beneficially by Dr C.S. Goldschmidt and C.D. Wilks was extended from 20 April 2005 to 20 April 2010. These options are convertible into one ordinary share at an unchanged price of \$5.32 per share subject to continuity of service to Sonic. Sonic's shares were valued at \$6.95 per ordinary share at the date of the alteration (27 November 2003). The valuation of the extension for Dr C.S. Goldschmidt's options was \$1,530,000. The valuation of the extension for C.D. Wilks' options was \$765,000. Technically these values form part of Dr C.S. Goldschmidt's and C.D. Wilks' remuneration. At 30 June 2004 all 4,500,000 options remained (beneficially) outstanding, however, 3,000,000 have since been exercised prior to the date of this report and within the original exercise period. Hence no value was received from the extensions in relation to these options.

##### *Sonic Healthcare Limited Employee Option Plan*

No new options over unissued ordinary shares of Sonic Healthcare Limited were granted during or since the end of the financial year to any of the directors or the five most highly remunerated executives of the consolidated entity.

The amounts disclosed above for remuneration relating to options represent the assessed fair values of options at the date they were granted allocated equally over the period from grant date to vesting date (the vesting period). Fair values have been independently determined using an appropriate option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and risk-free interest rate for the term of the option.

No options were exercised by any directors during the financial year in respect of the Sonic Healthcare Limited Employee Option Plan. During the financial year ended 30 June 2003, C.D. Wilks exercised 125,000 options with an exercise price of \$1.47 and Dr C.S. Goldschmidt exercised 125,000 options with an exercise price of \$1.47. These options were issued in previous years under the Sonic Healthcare Limited Employee Option Plan.

**Notes to the financial statements**

30 June 2004

**Note 32 Director and executive disclosures (continued)**

Options issued to specified executives in previous reporting periods vested and were exercised during the financial year. Those options affecting executive remuneration disclosure in this or future reporting periods are as follows:

| Grant date        | Expiry date       | Exercise price | Value per option at grant date | Date exercisable  |
|-------------------|-------------------|----------------|--------------------------------|---|
| 15 February, 1999 | 15 December, 2003 | \$3.26         | \$0.71 - \$0.73                | Options issued in three tranches vesting over 30 month, 42 month and 54 month periods |
| 20 April, 2000    | 20 February, 2005 | \$5.41         | \$1.36 - \$1.43                |   |
| 20 June, 2001     | 20 April, 2006    | \$7.38         | \$1.82 - \$1.92                |   |
| 16 July, 2002     | 16 May, 2007      | \$4.66         | \$0.96 - \$1.02                |   |

Further information on options is set out in Note 34.

Details of options granted to the specified executives in prior years that vested during the current financial year are set out below:

| Name           | Exercise Price | Number of options vested during the year |
|----------------|----------------|--|
| P.J. Alexander | \$3.26         | 7,500                                    |
|                | \$7.38         | 50,000                                   |
| Dr G. Armellin | \$3.26         | 10,000                                   |
|                | \$7.38         | 15,000                                   |
| Dr A. Lloyd    | \$3.26         | 37,500                                   |
|                | \$7.38         | 25,000                                   |

**(ii) Shares provided on exercise of employee options**

Shares issued as a result of the exercise of employee options to each of the specified executives of the consolidated entity are set out below:

| Name           | Exercise Price | Number of ordinary shares issued on exercise of options during the year |
|----------------|----------------|---|
| P.J. Alexander | \$3.26         | 7,500   |
| Dr G. Armellin | \$7.38         | 15,000  |
| Dr A. Lloyd    | \$3.26         | 150,000   |

No amounts are unpaid on any shares issued on the exercise of options.

**(iii) Shares provided as remuneration**

During the financial year D. Byrne was issued 17,687 fully paid ordinary shares as a bonus pursuant to his employment contract. The value shown above for these shares represents the market value of the shares on the date of issue.

**Notes to the financial statements**

30 June 2004

**Note 32 Director and executive disclosures (continued)***(iv) Option and share holdings*

The number of options over ordinary shares held beneficially or personally during the financial year by each director of Sonic Healthcare Limited and each of the five specified executives of the consolidated entity are set out below:

| Name                        | Balance at the start of the year | Granted during the year as remuneration | Exercised during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|-----------------------------|----------------------------------|---|---------------------------|--------------------------------|---|
| <i>Directors</i>            |                                  |   |                           |                                |   |
| Dr C.S. Goldschmidt         | 3,000,000                        | -                                       | -                         | 3,000,000                      | 3,000,000                                     |
| C.D. Wilks                  | 1,500,000                        | -                                       | -                         | 1,500,000                      | 1,500,000                                     |
| <i>Specified executives</i> |                                  |   |                           |                                |   |
| P.J. Alexander              | 157,500                          | -                                       | (7,500)                   | 150,000                        | 50,000  |
| Dr G. Armellin              | 30,000                           | -                                       | (15,000)                  | 15,000                         | -   |
| Dr A. Lloyd                 | 200,000                          | -                                       | (150,000)                 | 50,000                         | 25,000  |

No options are vested and unexercisable at the end of the year.

The number of ordinary shares held during the financial year by each director of Sonic Healthcare Limited and each of the five specified executives of the consolidated entity are set out below.

| Name   | Balance at the start of the year | Issued during the year on the exercise of options | Shares provided as remuneration | Other changes during the year | Balance at the end of the year |
|--|----------------------------------|---|---------------------------------|-------------------------------|--------------------------------|
| <i>Directors</i>                             |                                  |   |                                 |                               |                                |
| B.S. Patterson                               | 3,816,646                        | -   | -                               | -                             | 3,816,646                      |
| Dr C.S. Goldschmidt                          | 950,000                          | -   | -                               | -                             | 950,000                        |
| C.D. Wilks                                   | 623,000                          | -   | -                               | -                             | 623,000                        |
| Dr M. M. Barratt (retired 27 November, 2003) | 1,300,000                        | -   | -                               | -                             | N/a                            |
| R.P. Campbell                                | -                                | -   | -                               | -                             | -                              |
| Dr P.J. Dubois                               | 331,540                          | -   | -                               | (211,540)                     | 120,000                        |
| C.J. Jackson                                 | 517,590                          | -   | -                               | -                             | 517,590                        |
| Dr M.F. Robinson (retired 27 November, 2003) | 200,000                          | -   | -                               | -                             | N/a                            |
| Dr H.F. Scotton                              | 175,996                          | -   | -                               | 4,368                         | 180,634                        |
| <i>Specified executives</i>                  |                                  |   |                                 |                               |                                |
| P.J. Alexander                               | 27,500                           | 7,500   | -                               | -                             | 35,000                         |
| Dr G. Armellin                               | 30,145                           | 15,000  | -                               | 1,056                         | 46,201                         |
| D. Byrne                                     | -                                | -   | 17,687                          | 114,773                       | 132,460                        |
| Dr A. Lloyd                                  | -                                | 150,000   | -                               | (150,000)                     | -                              |
| F. Tuck                                      | 74,943                           | -   | -                               | -                             | 74,943                         |

## Notes to the financial statements

30 June 2004

### Note 32 Director and executive disclosures (continued)

#### (e) Other transactions with specified directors and specified executives

##### (i) Directors of Sonic Healthcare Limited (“specified directors”)

During the financial year rental payments have been made by the consolidated entity to director related entities, including unit trusts, private companies and spouses. The rental transactions were based on commercial terms and conditions and at market rates. The aggregate amount recognised in the financial statements was \$1,093,848 (2003: \$1,151,800). The specified directors who had an interest in the rental transactions were:

- C. Jackson
- M. Robinson
- H. Scotton

On 7 February 2003, Sonic acquired 61,427,000 shares in Independent Practitioner Network Limited (IPN) from a common director at the time, Mr M.D. Boyd. The shares in IPN were purchased for a total consideration of \$4,883,447 which was at a 5% discount to market.

##### (ii) Specified executives of the consolidated entity

During the financial year, several entities within The Doctors Laboratory group (part of the consolidated entity) have transacted with Varleigh UK Limited (an entity incorporated in the UK) in which a specified executive, namely D. Byrne, has a significant shareholding. The nature and aggregate amounts of the transactions were:

- Management services income of Nil (2003: \$56,208)
- Purchase of IT support for \$552,148 (2003: \$2,332,878)
- Consultancy services to the value of \$2,334,423 (2003: \$362,528), and
- Expenses paid on behalf of Varleigh UK Limited that were recharged to the value of Nil (2003: \$51,139).

These transactions were based on commercial terms and conditions and at market rates.



**Note 33 Remuneration of auditors**

|   | <b>Consolidated</b> |             | <b>Parent entity</b> |             |
|---|---------------------|-------------|----------------------|-------------|
|   | <b>2004</b>         | <b>2003</b> | <b>2004</b>          | <b>2003</b> |
|   | <b>\$</b>           | <b>\$</b>   | <b>\$</b>            | <b>\$</b>   |
| During the year the auditor of the parent entity and its related practices earned the following remuneration: |                     |             |                      |             |
| <b>PricewaterhouseCoopers – Australian firm</b>   |                     |             |                      |             |
| Audit or review of financial reports of the entity in the consolidated entity                                 | <b>228,527</b>      | 270,000     | <b>80,000</b>        | 90,000      |
| Accounting and advisory services  | <b>38,000</b>       | 75,526      | -                    | 12,268      |
| Total audit and accounting/advisory services  | <b>266,527</b>      | 345,526     | <b>80,000</b>        | 102,268     |
| Taxation compliance services  | <b>34,770</b>       | 48,450      | <b>2,950</b>         | 2,950       |
| Taxation advice associated with the SciGen demerger   | -                   | 167,550     | -                    | 167,550     |
| Taxation advice   | <b>251,824</b>      | 172,523     | <b>132,928</b>       | 39,579      |
| Total taxation advice and compliance services   | <b>286,594</b>      | 388,523     | <b>135,878</b>       | 210,079     |
| Total remuneration  | <b>553,121</b>      | 734,049     | <b>215,878</b>       | 312,347     |

**Related practices of PricewaterhouseCoopers Australian firm (including overseas PricewaterhouseCoopers firms)**

|   |                |         |   |   |
|---|----------------|---------|---|---|
| Audit or review of the financial reports of the entity or any entity in the consolidated entity | <b>189,144</b> | 205,119 | - | - |
| Accounting and advisory services  | <b>213,875</b> | 702     | - | - |
| Total audit and accounting/advisory services  | <b>403,019</b> | 205,821 | - | - |
| Taxation compliance services  | <b>53,468</b>  | 5,704   | - | - |
| Taxation advice   | <b>146,765</b> | 148,074 | - | - |
| Total taxation advice and compliance services   | <b>200,233</b> | 153,778 | - | - |
| Total remuneration  | <b>603,252</b> | 359,599 | - | - |

Statutory audit and tax compliance services are subject to periodic competitive tender processes involving the major Chartered Accounting firms. Accounting and advisory services include due diligence and acquisition related projects, financing advice and services in connection with the liquidation and deregistration of controlled entities as part of restructuring the consolidated entity. Taxation advice is mainly in respect of acquisition and financing related issues. The non-audit services provided are not considered to be of a nature which could give rise to a conflict of interest or loss of independence for the external auditors. In the period post 30 June 2004 Sonic has appointed Ernst & Young as the primary tax advisors for the Sonic group, for both compliance services and tax advice, replacing PricewaterhouseCoopers.

**Notes to the financial statements**

30 June 2004

| <b>Consolidated</b> |               | <b>Parent entity</b> |               |
|---------------------|---------------|----------------------|---------------|
| <b>2004</b>         | <b>2003</b>   | <b>2004</b>          | <b>2003</b>   |
| <b>\$'000</b>       | <b>\$'000</b> | <b>\$'000</b>        | <b>\$'000</b> |

**Note 34 Employee benefits****(a) Employee benefits and related on-costs**

Provision for employee benefits:

|                       |               |        |   |   |
|-----------------------|---------------|--------|---|---|
| Current (Note 19)     | <b>51,233</b> | 47,489 | - | - |
| Non-current (Note 23) | <b>14,326</b> | 12,391 | - | - |
|                       | <b>65,559</b> | 59,880 | - | - |

| <b>Number</b> | <b>Number</b> | <b>Number</b> | <b>Number</b> |
|---------------|---------------|---------------|---------------|
|---------------|---------------|---------------|---------------|

**(b) Employee numbers**

Employees at the end of the financial year measured on a full time equivalent basis

|  |              |       |   |   |
|--|--------------|-------|---|---|
|  | <b>8,625</b> | 7,961 | - | - |
|--|--------------|-------|---|---|

**(c) Sonic Healthcare Limited Employee Option Plan**

Options are granted under the Sonic Healthcare Limited Employee Option Plan for no consideration. Options are granted for a 58 month period and are able to be exercised at the fixed price (subject to certain potential adjustments relating to capital restructures) associated with the tranche, in accordance with the following vesting periods:

- Up to 50% may be exercised after 30 months from the date of grant
- Up to 75% may be exercised after 42 months from the date of grant
- Up to 100% may be exercised after 54 months from the date of grant

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

No accounting entries are made in relation to the value of options granted to eligible employees over unissued shares of Sonic Healthcare Limited until options are exercised, with amounts receivable on the exercise of options recognised as share capital.

Set out below are summaries of options granted under the plan.

| <b>Grant date</b>                            | <b>Expiry date</b> | <b>Exercise* price</b> | <b>Balance at start of the year</b> | <b>Issued during the year</b> | <b>Exercised during the year</b> | <b>Forfeited during the year</b> | <b>Balance at end of the year</b> |
|--|--------------------|------------------------|-------------------------------------|-------------------------------|----------------------------------|----------------------------------|-----------------------------------|
|  |                    |                        | <b>Number</b>                       | <b>Number</b>                 | <b>Number</b>                    | <b>Number</b>                    | <b>Number</b>                     |
| <b>Consolidated and parent entity - 2004</b> |                    |                        |                                     |                               |                                  |                                  |                                   |
| 15/2/99                                      | 15/12/03           | \$3.26                 | 778,000                             | -                             | (736,500)                        | (41,500)                         | -                                 |
| 20/4/00                                      | 20/2/05            | \$5.41                 | 2,065,500                           | -                             | (576,050)                        | (5,000)                          | <b>1,484,450</b>                  |
| 20/6/01                                      | 20/4/06            | \$7.38                 | 3,434,400                           | -                             | (43,500)                         | (7,400)                          | <b>3,383,500</b>                  |
| 16/7/02                                      | 16/5/07            | \$4.66                 | 1,200,000                           | -                             | -                                | (16,000)                         | <b>1,184,000</b>                  |
| 15/4/03                                      | 15/02/08           | \$6.30                 | 695,000                             | -                             | -                                | -                                | <b>695,000</b>                    |
| Total  |                    |                        | <b>8,172,900</b>                    | -                             | <b>(1,356,050)</b>               | <b>(69,900)</b>                  | <b>6,746,950</b>                  |
| <b>Consolidated and parent entity - 2003</b> |                    |                        |                                     |                               |                                  |                                  |                                   |
| 18/11/97                                     | 18/9/02            | \$1.47                 | 265,000                             | -                             | (265,000)                        | -                                | -                                 |
| 15/2/99                                      | 15/12/03           | \$3.26                 | 922,500                             | -                             | (144,500)                        | -                                | 778,000                           |
| 20/4/00                                      | 20/2/05            | \$5.41                 | 2,328,000                           | -                             | (100,000)                        | (162,500)                        | 2,065,500                         |
| 20/6/01                                      | 20/4/06            | \$7.38                 | 3,503,700                           | -                             | -                                | (69,300)                         | 3,434,400                         |
| 16/7/02                                      | 16/5/07            | \$4.66                 | -                                   | 1,300,000                     | -                                | (100,000)                        | 1,200,000                         |
| 15/4/03                                      | 15/2/08            | \$6.30                 | -                                   | 695,000                       | -                                | -                                | 695,000                           |
| Total  |                    |                        | <b>7,019,200</b>                    | <b>1,995,000</b>              | <b>(509,500)</b>                 | <b>(331,800)</b>                 | <b>8,172,900</b>                  |

**Notes to the financial statements**

30 June 2004

**Note 34 Employee benefits (continued)**

\*During the prior period options were repriced as a consequence of the SciGen demerger in November 2002. The repricing was as follows:

| Price pre demerger<br>\$ per option | Price post demerger<br>\$ per option |
|-------------------------------------|--------------------------------------|
| 3.37                                | 3.26                                 |
| 5.59                                | 5.41                                 |
| 7.63                                | 7.38                                 |
| 4.81                                | 4.66                                 |

Options exercised during the current and previous financial year and number of shares issued to employees on the exercise of options:

| Current Year – 2004 |                |                                    |                                     | Previous Year – 2003 |                |                                    |                                     |
|---------------------|----------------|------------------------------------|-------------------------------------|----------------------|----------------|------------------------------------|-------------------------------------|
| Exercise date       | Exercise price | Fair value per share at issue date | Consolidated & Parent entity Number | Exercise date        | Exercise price | Fair value per share at issue date | Consolidated & Parent entity Number |
| 18/7/03             | \$5.41         | \$6.80                             | <b>7,000</b>                        | 11/7/02              | \$1.47         | \$5.00                             | 5,000                               |
| 25/7/03             | \$5.41         | \$6.70                             | <b>2,500</b>                        | 16/8/02              | \$3.37         | \$4.83                             | 10,000                              |
| 5/8/03              | \$3.26         | \$6.71                             | <b>5,000</b>                        | 26/8/02              | \$1.47         | \$6.04                             | 260,000                             |
| 5/8/03              | \$5.41         | \$6.71                             | <b>22,500</b>                       | 26/8/02              | \$3.37         | \$6.04                             | 65,000                              |
| 15/8/03             | \$3.26         | \$6.97                             | <b>115,500</b>                      | 4/9/02               | \$3.37         | \$6.17                             | 21,000                              |
| 15/8/03             | \$5.41         | \$6.97                             | <b>3,000</b>                        | 25/9/02              | \$3.37         | \$5.73                             | 16,250                              |
| 22/8/03             | \$3.26         | \$6.95                             | <b>60,500</b>                       | 20/11/02             | \$3.37         | \$6.52                             | 22,500                              |
| 4/9/03              | \$3.26         | \$6.60                             | <b>80,000</b>                       | 20/11/02             | \$5.59         | \$6.52                             | 5,000                               |
| 4/9/03              | \$5.41         | \$6.60                             | <b>7,500</b>                        | 29/11/02             | \$3.26         | \$6.36                             | 2,500                               |
| 17/9/03             | \$3.26         | \$6.64                             | <b>183,750</b>                      | 17/12/02             | \$3.26         | \$6.30                             | 1,250                               |
| 17/9/03             | \$5.41         | \$6.64                             | <b>5,500</b>                        | 17/12/02             | \$5.41         | \$6.30                             | 5,000                               |
| 16/10/03            | \$3.26         | \$6.92                             | <b>3,750</b>                        | 11/2/03              | \$5.41         | \$6.18                             | 22,500                              |
| 16/10/03            | \$5.41         | \$6.92                             | <b>10,000</b>                       | 7/3/03               | \$3.26         | \$6.07                             | 5,000                               |
| 10/11/03            | \$3.26         | \$6.84                             | <b>18,500</b>                       | 3/4/03               | \$5.41         | \$5.84                             | 12,000                              |
| 10/11/03            | \$5.41         | \$6.84                             | <b>32,500</b>                       | 2/6/03               | \$5.41         | \$6.51                             | 21,000                              |
| 19/11/03            | \$3.26         | \$6.80                             | <b>40,000</b>                       | 13/6/03              | \$3.26         | \$6.89                             | 1,000                               |
| 19/11/03            | \$5.41         | \$6.80                             | <b>4,500</b>                        | 13/6/03              | \$5.41         | \$6.89                             | 2,000                               |
| 5/12/03             | \$3.26         | \$7.02                             | <b>123,500</b>                      | 19/6/03              | \$5.41         | \$6.81                             | 25,000                              |
| 5/12/03             | \$5.41         | \$7.02                             | <b>22,500</b>                       | 23/6/03              | \$5.41         | \$6.82                             | 5,000                               |
| 15/12/03            | \$3.26         | \$7.00                             | <b>106,000</b>                      | 26/6/03              | \$5.41         | \$6.74                             | 2,500                               |
| 15/12/03            | \$5.41         | \$7.00                             | <b>29,500</b>                       |                      |                |                                    |                                     |
| 6/1/04              | \$5.41         | \$6.90                             | <b>37,500</b>                       |                      |                |                                    |                                     |
| 2/2/04              | \$5.41         | \$7.38                             | <b>52,000</b>                       |                      |                |                                    |                                     |
| 6/2/04              | \$5.41         | \$7.23                             | <b>7,500</b>                        |                      |                |                                    |                                     |
| 26/2/04             | \$5.41         | \$7.71                             | <b>46,500</b>                       |                      |                |                                    |                                     |
| 26/2/04             | \$7.38         | \$7.71                             | <b>5,000</b>                        |                      |                |                                    |                                     |
| 3/3/04              | \$5.41         | \$7.80                             | <b>32,500</b>                       |                      |                |                                    |                                     |
| 29/3/04             | \$5.41         | \$8.03                             | <b>106,500</b>                      |                      |                |                                    |                                     |
| 22/4/04             | \$5.41         | \$8.88                             | <b>53,500</b>                       |                      |                |                                    |                                     |
| 22/4/04             | \$7.38         | \$8.88                             | <b>15,000</b>                       |                      |                |                                    |                                     |
| 13/5/04             | \$5.41         | \$8.75                             | <b>46,750</b>                       |                      |                |                                    |                                     |
| 13/5/04             | \$7.38         | \$8.75                             | <b>13,000</b>                       |                      |                |                                    |                                     |
| 4/6/04              | \$5.41         | \$8.96                             | <b>26,800</b>                       |                      |                |                                    |                                     |
| 4/6/04              | \$7.38         | \$8.96                             | <b>500</b>                          |                      |                |                                    |                                     |
| 29/6/04             | \$5.41         | \$8.72                             | <b>19,500</b>                       |                      |                |                                    |                                     |
| 29/6/04             | \$7.38         | \$8.72                             | <b>10,000</b>                       |                      |                |                                    |                                     |
|                     |                |                                    | <b>1,356,050</b>                    |                      |                |                                    | <b>509,500</b>                      |

**Notes to the financial statements**

30 June 2004

**Note 34 Employee benefits (continued)****(d) Queensland X-Ray (QXR) options**

Pursuant to Sonic's agreement with the vendors of QXR, Sonic is to issue a total of 1,000,000 options to staff of QXR. The vesting and other conditions for these options are the same as those for the Sonic Healthcare Limited Employee Option Plan. To date the following tranches have been issued:

| Grant date                                   | Expiry date | Exercise*<br>price | Balance at<br>start of<br>the year<br><br>Number | Issued<br>during<br>the year<br><br>Number | Exercised<br>during<br>the year<br><br>Number | Forfeited<br>during<br>the year<br><br>Number | Balance at<br>end of<br>the year<br><br>Number |
|--|-------------|--------------------|--|--|---|---|--|
| <b>Consolidated and parent entity - 2004</b> |             |                    |  |  |   |   |  |
| 16/7/02                                      | 16/5/07     | \$4.66             | 490,000  | -  | -   | -   | <b>490,000</b>                                 |
| 7/4/03                                       | 7/2/08      | \$6.01             | 80,000   | -  | -   | -   | <b>80,000</b>                                  |
| 19/2/04                                      | 19/12/08    | \$7.57             | -  | 215,000                                    | -   | -   | <b>215,000</b>                                 |
| Total  |             |                    | 570,000  | 215,000                                    | -   | -   | <b>785,000</b>                                 |
| <b>Consolidated and parent entity - 2003</b> |             |                    |  |  |   |   |  |
| 16/7/02                                      | 16/5/07     | \$4.66             | -  | 490,000                                    | -   | -   | 490,000  |
| 7/4/03                                       | 7/2/08      | \$6.01             | -  | 80,000                                     | -   | -   | 80,000   |
| Total  |             |                    | -  | 570,000                                    | -   | -   | 570,000  |

During the period the first tranche of the QXR options were repriced as a consequence of the SciGen demerger. The exercise price pre demerger was \$4.81, the price post demerger is \$4.66.

No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

**(e) Executive director options**

Disclosures relating to Executive director options are set out in Note 32.

## Notes to the financial statements

30 June 2004

### Note 35 Related Parties

#### (a) Parent company directors and specified executives

Disclosures relating to parent company directors and specified executives are set out in Note 32.

In addition, during the financial year, administration and warehousing fees were charged by a controlled entity to Silex Systems Limited and SciGen Limited, entities with common parent company directors. These transactions were based on commercial terms and conditions and at market rates.

#### (b) Transactions with entities related to directors of subsidiaries

During the financial year rental payments have been made by the consolidated entity to subsidiary director related entities, including unit trusts, private companies and spouses. The rental transactions were based on commercial terms and conditions and at market rates. The aggregate amount recognised in the financial statements was \$458,366 (2003: \$515,562). The directors of subsidiaries within the consolidated entity who had an interest in the rental transactions in both the current and prior year were:

M. Prentice  
G. Bryant  
J. Roberts  
D. Hope

During the year ending 30 June 2004, The Doctors Laboratory Limited (a member of the consolidated entity) provided pathology laboratory services to S. Ungar, a director of The Doctors Laboratory Limited. The total value of these referrals was \$155,343 (2003: \$109,083). The transactions were on normal terms and conditions and at market rates.

During the financial year, several entities within The Doctors Laboratory group (part of the consolidated entity) have transacted with Varleigh UK Limited (an entity incorporated in the UK) in which directors of an entity in the consolidated entity, namely D. Byrne, R. Prudo and S. Ungar, have significant shareholdings. The nature and aggregate amounts of the transactions were:

- Management services income of Nil (2003: \$56,208)
- Purchase of IT support for \$552,148 (2003: \$2,332,878)
- Consultancy services provided by Varleigh UK Limited to the value of \$2,334,423 (2003: \$362,528), and
- Expenses paid on behalf of Varleigh UK Limited that were recharged to the value of Nil (2003: \$51,139).

These transactions were based on commercial terms and conditions and at market rates.

#### (c) Wholly-owned group

Sonic Healthcare Limited (Sonic) is the ultimate parent entity in the wholly owned group comprising the company and its wholly-owned controlled entities as detailed in Note 28.

Transactions between Sonic and other entities in the wholly-owned group during the years ended 30 June 2004 and 30 June 2003 consisted of:

- loans advanced to and by Sonic
- loans repaid to and by Sonic
- the payment of interest on the above loans
- the payment of dividends to Sonic
- the payment of a management fee to Sonic
- the payment of rental to Sonic
- the payment of a debt facility guarantee fee to Sonic
- payments to Sonic in respect of shares issued under the Sonic Healthcare Limited Employee Option Plan
- the acquisition of property, plant and equipment by Sonic
- the issue of shares for debt

The property, plant and equipment was acquired by Sonic at cost, otherwise the above transactions were made on normal commercial terms and conditions and at market rates.

**Note 35 Related parties (continued)**

|  | <b>Parent entity</b> |         |
|--|----------------------|---------|
|  | <b>2004</b>          | 2003    |
|  | <b>\$'000</b>        | \$'000  |
| Aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with entities in the wholly-owned group: |                      |         |
| Interest revenue   | <b>21,033</b>        | 22,175  |
| Dividend revenue   | <b>63,070</b>        | 12,300  |
| Interest expense   | <b>8,648</b>         | 3,795   |
| Management fees  | <b>972</b>           | 1,407   |
| Rental income  | <b>2,893</b>         | 2,770   |
| Debt facility guarantee fee  | <b>1,566</b>         | 1,199   |
| Aggregate amounts receivable from wholly-owned controlled entities by the company at balance date:   |                      |         |
| Receivables (current)  | <b>1,258</b>         | 1,314   |
| Receivables (non-current)  | <b>143,952</b>       | 389,820 |
| Aggregate amounts payable to wholly-owned entities by the company at balance date:   |                      |         |
| Other (non-current)  | <b>334,518</b>       | 58,215  |

**(d) Other related parties**

Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with each class of other related parties:

|                          | <b>Consolidated</b> |        | <b>Parent entity</b> |        |
|--------------------------|---------------------|--------|----------------------|--------|
|                          | <b>2004</b>         | 2003   | <b>2004</b>          | 2003   |
|                          | <b>\$'000</b>       | \$'000 | <b>\$'000</b>        | \$'000 |
| <b>Interest Revenue:</b> |                     |        |                      |        |
| Controlled entities      | -                   | -      | -                    | 240    |

Aggregate amounts brought to account in relation to other transactions with each class of other related parties:

|                           |   |   |   |       |
|---------------------------|---|---|---|-------|
| <b>Loans advanced to:</b> |   |   |   |       |
| Controlled entities       | - | - | - | 1,874 |
| <b>Loans repaid by:</b>   |   |   |   |       |
| Controlled entities       | - | - | - | 7,573 |

The above transactions were made on normal commercial terms and conditions and at market rates. The average interest rate on the loans during the year was Nil% (2003: 10%).

**(e) Ownership interests in related parties**

Interests held in entities within the consolidated entity of which Sonic Healthcare Limited is the ultimate parent entity are set out in Note 28.

**Note 36 Earnings per share**

|  | <b>Consolidated</b> |       |
|--|---------------------|-------|
|  | <b>2004</b>         | 2003  |
|  | <b>Cents</b>        | Cents |
| Basic earnings per share                                       | <b>21.7</b>         | 15.7  |
| Diluted earnings per share                                     | <b>21.4</b>         | 15.5  |
| Core (pre intangibles amortisation) basic earnings per share   | <b>44.0</b>         | 38.3  |
| Core (pre intangibles amortisation) diluted earnings per share | <b>43.4</b>         | 37.8  |

Core basic and diluted earnings per share adjusts the figures used in the determination of basic and diluted earnings per share by adding back to net profit the amount of intangibles amortisation expense for the period.

|  | <b>Consolidated</b> |        |
|--|---------------------|--------|
|  | <b>2004</b>         | 2003   |
|  | <b>Shares</b>       | Shares |

**Weighted average number of ordinary shares used as the denominator**

|   |                    |             |
|---|--------------------|-------------|
| Weighted average of ordinary shares used as the denominator in calculating basic earnings per share and core basic earnings per share | <b>266,018,205</b> | 259,419,469 |
|---|--------------------|-------------|

|  |                    |             |
|--|--------------------|-------------|
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share and core diluted earnings per share | <b>269,429,507</b> | 263,238,845 |
|--|--------------------|-------------|

|  | <b>Consolidated</b> |        |
|--|---------------------|--------|
|  | <b>2004</b>         | 2003   |
|  | <b>\$'000</b>       | \$'000 |

**Reconciliations of earnings used in calculating earnings per share**

|   |                |        |
|---|----------------|--------|
| Net profit  | <b>57,883</b>  | 39,945 |
| Net (profit)/loss attributable to outside equity interest                   | <b>(255)</b>   | 913    |
| Earnings used in calculating basic and diluted earnings per share           | <b>57,628</b>  | 40,858 |
| Intangibles amortisation expense for the period                             | <b>59,324</b>  | 58,616 |
| Earnings used in calculating core basic and core diluted earnings per share | <b>116,952</b> | 99,474 |

Options as detailed in Notes 32 and 34 that are considered to be dilutive and other dilutive potential ordinary shares are included in the calculations of diluted and core diluted earnings per share. The options and other dilutive potential ordinary shares have not been included in the determination of basic earnings per share.

In the period between the reporting date and 30 September 2004, 331,700 options issued in previous years under the Sonic Healthcare Limited Employee Option Plan were exercised. 3,000,000 options were issued during the period to 30 September 2004 pursuant to an obligation arising prior to year end in relation to the Schottdorf acquisition with an exercise price of \$6.75.

**Notes to the financial statements**

30 June 2004

|   | Consolidated   |                | Parent entity  |                |
|---|----------------|----------------|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>Note 37</b>  |                |                |                |                |
| <b>Statements of cash flows</b>   |                |                |                |                |
| <b>(a) Cash at bank and on hand</b>   | <b>17,343</b>  | 26,489         | <b>3</b>       | 146            |
| <b>(b) Reconciliation of net cash inflow from operating activities to operating profit after income tax</b> |                |                |                |                |
| Operating profit after income tax   | 57,883         | 39,945         | 74,769         | 23,608         |
| Add/(less) non-cash items:  |                |                |                |                |
| Depreciation  | 27,470         | 24,561         | 834            | 837            |
| Amortisation - leases   | 14,208         | 16,256         | -              | -              |
| Amortisation - intangibles  | 59,324         | 58,616         | -              | -              |
| Net (profit)/loss on sale of property, plant and equipment  | 267            | 903            | (422)          | -              |
| Net (profit) on sale of other non-current assets  | (1,512)        | -              | -              | -              |
| Foreign exchange differences  | (12)           | (238)          | -              | -              |
| Loss attributable to the restructure of a controlled entity   | -              | -              | -              | 4,146          |
| Other non-cash items  | (1,785)        | (1,903)        | -              | -              |
| Add/(less) changes in assets and liabilities during the financial year:                                     |                |                |                |                |
| Increase/(decrease) in provision for employee entitlements  | 3,604          | 4,624          | -              | -              |
| (Increase)/decrease in sundry debtors   | 1,773          | (1,548)        | 55             | (784)          |
| (Increase)/decrease in prepayments  | (4,556)        | (901)          | 31             | (17)           |
| Increase/(decrease) in accrued expenses   | 2,245          | (353)          | 1,166          | (1,830)        |
| Increase/(decrease) in trade creditors  | 5,986          | (410)          | -              | -              |
| (Increase)/decrease in trade debtors and accrued revenue  | (7,015)        | 2,121          | -              | -              |
| (Increase)/decrease in inventories  | (458)          | (1,975)        | -              | -              |
| (Increase)/decrease in future income tax benefit  | (1,930)        | 2,214          | -              | 292            |
| Increase/(decrease) in deferred tax liability   | (1,993)        | 789            | (462)          | 569            |
| Increase/(decrease) in provision for income tax   | 2,832          | (5,349)        | (2,969)        | (2,104)        |
| (Increase)/decrease in provision for dividends receivable   | -              | -              | -              | 35,000         |
| Net cash inflow from operating activities   | <b>156,331</b> | 137,352        | <b>73,002</b>  | 59,717         |

**(c) Non-cash financing and investment activities**

The following transactions in the financial year of the consolidated entity are not reflected in the Statements of cash flows:

- plant and equipment with an aggregate fair value of \$19,014,000 was acquired by means of finance leases and hire purchase agreements.
- fully paid ordinary shares to the value of \$1,500,000 were issued as partial consideration for the acquisition of the Southside Diagnostic Services Group (SDSG).
- fully paid ordinary shares to the value of \$13,646,000 were issued in relation to the TDL acquisition. This amount was previously disclosed as Other Equity within Share Capital.
- 4,065,583 fully paid ordinary shares to the value of \$26,223,000 were issued pursuant to the company's Dividend Reinvestment Plan in lieu of dividend payments.
- an obligation to issue options with a value of \$4,410,000 arose in relation to the Schottdorf acquisition. The value of these options has been included as part of the consideration for the acquisition of the Schottdorf business and recorded as a Share Option Reserve in Share Capital (refer Note 24 (h)).

During the financial year ended 30 June 2003 the consolidated entity:

- acquired plant and equipment with an aggregate fair value of \$15,393,000 by means of finance leases, representing \$14,700,000 of leased asset additions and the refinancing of plant and equipment to the value of \$693,000.
- issued fully paid ordinary shares to the value of \$8,568,000 as deferred consideration for the acquisitions of the SKG Radiology group and The Doctors Laboratory group.

The above transactions are not reflected in the Statements of cash flows.



**Notes to the financial statements**

30 June 2004

|  | <b>Consolidated</b> |        | <b>Parent entity</b> |        |
|--|---------------------|--------|----------------------|--------|
|  | <b>2004</b>         | 2003   | <b>2004</b>          | 2003   |
|  | <b>\$'000</b>       | \$'000 | <b>\$'000</b>        | \$'000 |

**Note 37 Statements of cash flows (continued)**

During the financial year the following transactions of the parent entity occurred and are not reflected in the statements of cash flows:

- the issue of equity by wholly owned controlled entities in settlement of amounts payable by them to the parent entity with a value of \$534,738,000.
- an obligation to issue options with a value of \$4,410,000 arose in relation to the Schottdorf acquisition. The value of these options has been included as part of the consideration for the acquisition of the Schottdorf business and recorded as a Share Option Reserve in Share Capital (refer Note 24 (h)).

**(d) Standby arrangements and credit facilities**

Entities in the consolidated entity have access to:

Credit standby arrangements

|                                     |                |         |   |   |
|-------------------------------------|----------------|---------|---|---|
| - secured loan facilities totalling | <b>699,122</b> | 581,550 | - | - |
| - amount of credit unused           | <b>126,080</b> | 79,672  | - | - |

Lease facilities

|                               |               |        |   |   |
|-------------------------------|---------------|--------|---|---|
| - total facilities            | <b>52,918</b> | 57,650 | - | - |
| - amount of facilities unused | <b>42,359</b> | 25,414 | - | - |

**Note 38 Financial instruments****(a) Off-balance sheet derivative instruments**

Sonic Healthcare Limited and certain controlled entities are parties to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates.

**Interest rate swap contracts**

Of the current and non-current secured bank loans of the consolidated entity, \$535,747,000 at balance date bear an average variable interest rate of 5.8% (2003: 5.6%) and the non-current Amounts owing to vendors of \$28,532,000 an average variable interest rate of 5.5% (2003: 4.7%). The remaining \$8,762,000 of secured bank loans, governed by a separate loan agreement, is subject to a fixed rate of interest and is therefore not exposed to interest rate risk.

It is policy to protect part of the variable interest loans from exposure to increasing interest rates. Accordingly, the consolidated entity has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is included in sundry debtors or sundry creditors and accruals.

The contracts require settlement of net interest receivable or payable on a quarterly or half yearly basis depending on the funding period of the underlying debt. All interest rate swap contracts have settlement dates which coincide with the dates on which interest is payable on the underlying debt.

Swaps in place at balance date cover approximately 36% (2003: 47%) of the variable interest loan principals outstanding. The fixed interest rates range between 4.03% and 8.70% (2003: 4.03% to 8.50%). Following Sonic's acquisition of the Schottdorf Group and the subsequent refinancing of its debt, the Schottdorf Group entered into hedging arrangements. Had these hedging arrangements been entered into at balance date coverage of approximately 40% of the Sonic group's variable interest loans outstanding would have been achieved.

**Notes to the financial statements**

30 June 2004

**Note 38 Financial instruments (continued)**

At 30 June, the notional principal amounts and periods of expiry of interest rate swap contracts for the consolidated entity were as follows:

|                  | <b>2004</b>          | 2003          |
|------------------|----------------------|---------------|
|                  | <b>\$'000</b>        | \$'000        |
| Less than 1 year | <b>92,650</b>        | 48,608        |
| 1 – 2 years      | <b>25,649</b>        | 90,226        |
| 2 – 3 years      | <b>35,650</b>        | 24,771        |
| 3 – 4 years      | <b>50,023</b>        | 34,771        |
| 4 – 5 years      | -                    | 35,757        |
|                  | <hr/> <b>203,972</b> | <hr/> 234,133 |

**(b) Credit risk exposures**

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, other than investments in shares, is generally at the carrying amount, net of any provisions for doubtful debts. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

The consolidated entity does not have any significant exposure to any individual customer or counterparty other than the Health Insurance Commission (Medicare) in Australia, the District Health Boards of New Zealand and the regional Kassenärztliche Vereinigungen ("KV's") of Germany, which are all government funded bodies.

The consolidated entity does not have major concentrations of credit risk arising from industry categories or location of customers.

Sonic Healthcare Limited and controlled entities  
**Notes to the financial statements**  
30 June 2004

**Note 38 Financial instruments (continued)**

**(c) Interest rate risk exposures**

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table.

|   |        | <u>Floating</u>      |                                       | <u>Non-interest</u>        |                | <u>Total</u>     |
|---|--------|----------------------|---------------------------------------|----------------------------|----------------|------------------|
|   |        | <u>interest rate</u> | <u>Fixed interest rate maturities</u> | <u>bearing</u>             |                |                  |
|   |        | <u>\$'000</u>        | <u>1 year or less \$'000</u>          | <u>1 to 5 years \$'000</u> | <u>\$'000</u>  | <u>\$'000</u>    |
| <b>30 June 2004</b>                         |        |                      |                                       |                            |                |                  |
| <i>Assets</i>                               |        |                      |                                       |                            |                |                  |
| Cash  | 37(a)  | 15,766               | -                                     | -                          | 1,577          | 17,343           |
| Trade debtors                               | 7      | -                    | -                                     | -                          | 115,053        | 115,053          |
| Accrued revenue                             | 7      | -                    | -                                     | -                          | 9,706          | 9,706            |
| Sundry debtors                              | 7      | 29                   | 1,126                                 | -                          | 29,365         | 30,520           |
| Other non-current receivables               | 10     | 358                  | -                                     | 2,064                      | 2,159          | 4,581            |
| Total financial assets                      |        | 16,153               | 1,126                                 | 2,064                      | 157,860        | 177,203          |
| Weighted average interest rate              |        | 3.17%                | 6.0%                                  | 6.0%                       | -              |                  |
| <i>Liabilities</i>                          |        |                      |                                       |                            |                |                  |
| Trade accounts payable                      | 16     | -                    | -                                     | -                          | 52,757         | 52,757           |
| Other accounts payable                      | 16     | -                    | -                                     | -                          | 47,216         | 47,216           |
| Interest bearing loans                      | 17, 21 | 535,747              | -                                     | 8,762                      | -              | 544,509          |
| Lease liabilities                           | 17, 21 | -                    | 22,926                                | 41,750                     | -              | 64,676           |
| Amounts owing to vendors                    | 20, 21 | 28,532               | -                                     | -                          | 21,587         | 50,119           |
| Other loans                                 | 20     | -                    | -                                     | -                          | 332            | 332              |
| Hire purchase liabilities                   | 17, 21 | -                    | 1,305                                 | 2,260                      | -              | 3,565            |
| Interest rate swaps *                       | 38(a)  | (203,972)            | 92,650                                | 111,322                    | -              | -                |
| <b>Total financial liabilities</b>          |        | <b>360,307</b>       | <b>116,881</b>                        | <b>164,094</b>             | <b>121,892</b> | <b>763,174</b>   |
| <b>Weighted average interest rate</b>       |        | <b>5.79%</b>         | <b>7.09%</b>                          | <b>5.59%</b>               | <b>-</b>       |                  |
| <b>Net financial assets / (liabilities)</b> |        | <b>(344,154)</b>     | <b>(115,755)</b>                      | <b>(162,030)</b>           | <b>35,968</b>  | <b>(585,971)</b> |

\* Notional principal amounts

|   |        | <u>Floating</u>      |                                       | <u>Non-interest</u>        |               | <u>Total</u>     |
|---|--------|----------------------|---------------------------------------|----------------------------|---------------|------------------|
|   |        | <u>interest rate</u> | <u>Fixed interest rate maturities</u> | <u>bearing</u>             |               |                  |
|   |        | <u>\$'000</u>        | <u>1 year or less \$'000</u>          | <u>1 to 5 years \$'000</u> | <u>\$'000</u> | <u>\$'000</u>    |
| <b>30 June 2003</b>                         |        |                      |                                       |                            |               |                  |
| <i>Assets</i>                               |        |                      |                                       |                            |               |                  |
| Cash  | 37(a)  | 25,748               | -                                     | -                          | 741           | 26,489           |
| Trade debtors                               | 7      | -                    | -                                     | -                          | 85,933        | 85,933           |
| Accrued revenue                             | 7      | -                    | -                                     | -                          | 10,487        | 10,487           |
| Sundry debtors                              | 7      | -                    | -                                     | -                          | 10,625        | 10,625           |
| Amounts receivable from other entities      | 7      | 3,204                | -                                     | -                          | 128           | 3,332            |
| Other non-current receivables               | 10     | 387                  | -                                     | -                          | 2,390         | 2,777            |
| Total financial assets                      |        | 29,339               | -                                     | -                          | 110,304       | 139,643          |
| Weighted average interest rate              |        | 3.94%                | -                                     | -                          | -             |                  |
| <i>Liabilities</i>                          |        |                      |                                       |                            |               |                  |
| Trade accounts payable                      | 16     | -                    | -                                     | -                          | 30,861        | 30,861           |
| Other accounts payable                      | 16     | -                    | -                                     | -                          | 34,543        | 34,543           |
| Interest bearing loans                      | 17, 21 | 456,515              | 550                                   | -                          | -             | 457,065          |
| Lease liabilities                           | 17, 21 | -                    | 20,325                                | 43,842                     | -             | 64,167           |
| Amounts owing to vendors                    | 20, 21 | 36,532               | -                                     | -                          | 4,728         | 41,260           |
| Other loans                                 | 20     | -                    | -                                     | -                          | 358           | 358              |
| Hire purchase liabilities                   | 17, 21 | -                    | 1,805                                 | 1,726                      | -             | 3,531            |
| Interest rate swaps *                       | 38(a)  | (234,133)            | 48,608                                | 185,525                    | -             | -                |
| <b>Total financial liabilities</b>          |        | <b>258,914</b>       | <b>71,288</b>                         | <b>231,093</b>             | <b>70,490</b> | <b>631,785</b>   |
| <b>Weighted average interest rate</b>       |        | <b>5.45%</b>         | <b>7.23%</b>                          | <b>5.98%</b>               | <b>-</b>      |                  |
| <b>Net financial assets / (liabilities)</b> |        | <b>(229,575)</b>     | <b>(71,288)</b>                       | <b>(231,093)</b>           | <b>39,814</b> | <b>(492,142)</b> |

## Notes to the financial statements

30 June 2004

### Note 38 Financial instruments (continued)

#### (d) Net fair value of financial assets and liabilities

##### (i) On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date and discounted net cash flows, refer to Note 11. For non-traded equity investments, the net fair value is an assessment by the directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

##### (ii) Off-balance sheet

The net fair value of financial assets or financial liabilities which may arise from certain contingencies are disclosed in Note 30. No material losses are anticipated in respect of any contingencies.

### Note 39 Events occurring after reporting date

Since the end of the financial year, the directors are not aware of any matter or circumstance not otherwise dealt with in these financial statements that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the subsequent financial year other than as follows:

- Pursuant to an obligation arising prior to year end in relation to the Schottdorf Group acquisition, on 1 July 2004 3,000,000 options over unissued ordinary Sonic shares with an exercise price of \$6.75 each were granted to Sonic's partners in the Schottdorf business.
- On 12 July 2004 Sonic made a proportional takeover bid to acquire 2 of every 3 shares in Independent Practitioner Network Limited (IPN). Prior to the bid Sonic held 19.63% of IPN. The bid closed on 16 August 2004 with Sonic having reached 71.1% with acceptances for 500,003,619 shares, requiring total consideration of \$42,500,000 which was paid on 26 August 2004. IPN will therefore become a subsidiary of Sonic and its results will be consolidated into Sonic's from this date.
- On 20 August 2004 Sonic's directors declared a final dividend for 2004 of 20 cents per ordinary share payable on 20 September 2004. Sonic's dividend reinvestment plan remains suspended for this dividend and until further notice.
- In the period to the date of this report 331,700 employee share plan options and 3,000,000 Executive Director options have been exercised for a total exercise consideration of \$18,021,000 to the consolidated group.

## Notes to the financial statements

30 June 2004

### Note 40 International financial reporting standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005 and will issue AASB equivalents to the IFRS. This change will be first reflected in the Group's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

The company is currently reviewing the potential impact of the new financial reporting standards. A working group led by the Group Financial Controller has been established and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, and these are still being analysed to determine the most appropriate accounting policy for the Group.

The following areas have been identified as potentially having a significant impact for Sonic:

- *AASB 138 "Intangible Assets" and AASB 136 "Impairment"*  
Sonic's current accounting policy is to amortise goodwill over the period during which the related benefits are expected to arise. In the year ended 30 June 2004 this led to a \$59,324,000 charge against reported profits. Under the new standards goodwill will no longer be amortised but instead will be subject to impairment testing at each reporting date or where there is an indication of impairment. This will have the effect of reducing expenses and improving reported profits of the Group, subject to any impairment charges that may be required from time to time.
- *AASB 2 "Share-based Payments"*  
In accordance with AGAAP, share-based compensation is not recognised in the Statement of Financial Performance. Under AASB 2, such compensation must be recognised at fair value, with the expense recognised over the vesting period. Thus in future reporting periods a non-cash expense will be recognized by the company for share options vesting in the reporting period.
- *AASB 112 "Income taxes"*  
A new method of accounting for income taxes known as the "balance sheet liability method" will replace the "tax effect income statement" approach currently used by Australian companies including Sonic. Under the new method, deferred tax balances will be determined by calculating temporary differences based on the differences between the carrying amounts of Sonic's assets and liabilities and their associated cost bases for tax purposes.

The above should not be regarded as a complete list of changes in accounting policies, as not all new standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available.

## Directors' declaration

For the year ended 30 June 2004

The directors declare that the financial statements and notes set out on pages 23 to 76:

- (a) comply with Accounting Standards, the Corporation Regulations 2001 and other mandatory professional reporting requirements, and
- (b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

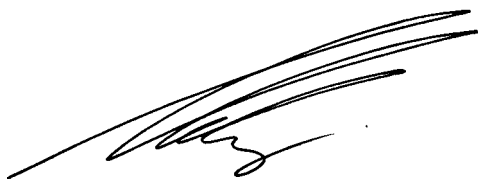
In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 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; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 28 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 27.

This declaration is made in accordance with a resolution of the directors.



Dr C.S. Goldschmidt  
Managing Director



C.D. Wilks  
Director

Sydney  
30 September 2004

## **Independent audit report to the members of Sonic Healthcare Limited**

### **Audit opinion**

In our opinion, the financial report of Sonic Healthcare Limited:

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Sonic Healthcare Limited and the Sonic Healthcare Limited Group (defined below) as at 30 June 2004, and of their performance for the year ended on that date, and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

### **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 both Sonic Healthcare Limited (the company) and the Sonic Healthcare Limited Group (the consolidated entity), for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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.

#### **Audit approach**

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. 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, Accounting Standards 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.

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.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

## **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*S. Humph*

Stephen Humphries  
Partner

Sydney  
30 September 2004



**Shareholders' information****1. Information relating to shareholders***(a) Distribution Schedule as at 17 September 2004*

|  | <b>No. of Holders<br/>Ordinary<br/>Shares</b> |
|--|---|
| 1 – 1,000  | 4,481   |
| 1,001 – 5,000  | 4,898   |
| 5,001 – 10,000   | 591   |
| 10,001 – 100,000   | 382   |
| 100,001 and over   | 137   |
|  | <hr/> 10,489                                  |
| Voting rights – on a show of hands                             | 1 / member                                    |
| – on a poll  | 1 / share                                     |
| Percentage of total holding held by the twenty largest holders | 79.34   |
| Number of holders holding less than a marketable parcel        | <hr/> 129                                     |

*(b) Substantial holders as at 17 September 2004*

The company has received substantial shareholding notices to 17 September 2004 in respect of the following holdings:

|   | <b>No. of Securities</b> | <b>Percentage Held</b> |
|---|--------------------------|------------------------|
| Commonwealth Bank Group                                   | 37,306,759               | 13.76%                 |
| The Capital Group Companies Inc                           | 24,177,576               | 8.92%                  |
| Jardvan Pty Limited                                       | 21,458,704               | 7.92%                  |
| UBS Nominees Pty Limited and its related bodies corporate | 16,074,655               | 5.93%                  |
| Barclays Group  | 13,786,623               | 5.09%                  |
| Concord Capital Limited                                   | 13,567,769               | 5.01%                  |

*(c) Names of the Twenty Largest Holders of Equity Securities as at 17 September 2004*

|  | <b>No. of Securities</b> | <b>Percentage Held</b> |
|--|--------------------------|------------------------|
| J P Morgan Nominees Australia Limited              | 45,087,387               | 16.63%                 |
| Citicorp Nominees Pty Limited                      | 37,927,222               | 13.99%                 |
| Westpac Custodian Nominees Limited                 | 31,320,244               | 11.55%                 |
| National Nominees Limited                          | 24,347,271               | 8.98%                  |
| Jardvan Pty Limited                                | 21,458,704               | 7.92%                  |
| RBC Global Services Australia Nominees Pty Limited | 12,004,301               | 4.43%                  |
| Cogent Nominees Pty Limited                        | 5,679,276                | 2.10%                  |
| Queensland Investment Corporation                  | 5,627,856                | 2.08%                  |
| ANZ Nominees Limited                               | 4,358,925                | 1.61%                  |
| Polly Pty Limited                                  | 3,816,646                | 1.41%                  |
| Westpac Financial Services Limited                 | 3,453,511                | 1.27%                  |
| AMP Life Limited                                   | 3,328,148                | 1.23%                  |
| HSBC Custody Nominees (Australia) Limited          | 3,092,894                | 1.14%                  |
| Dr Thomas Davis                                    | 2,970,485                | 1.10%                  |
| Bardavis Pty Limited                               | 2,970,000                | 1.10%                  |
| Hamlac Pty Limited                                 | 2,000,000                | 0.74%                  |
| Quintal Pty Limited                                | 1,500,000                | 0.55%                  |
| Government Superannuation Office                   | 1,459,554                | 0.54%                  |
| PSS Board  | 1,435,043                | 0.53%                  |
| CSS Board  | 1,185,919                | 0.44%                  |
|  | <hr/> <b>215,023,386</b> | <hr/> <b>79.34</b>     |

**Shareholders' information****2. Interests of directors in securities as at 17 September 2004**

|                      | <b>Ordinary Shares</b> | <b>Interest</b>   |
|----------------------|------------------------|-------------------|
| B.S. Patterson       | 3,816,646              | Held beneficially |
| Dr C. S. Goldschmidt | 2,000,000              | Held beneficially |
| C.D. Wilks           | 273,000                | Held personally   |
|                      | 1,000,000              | Held beneficially |
| R.P. Campbell        | -                      | -                 |
| Dr P.J. Dubois       | 120,000                | Held beneficially |
| C.J. Jackson         | 517,590                | Held personally   |
| Dr H.F. Scotton      | 180,634                | Held personally   |

**3. Unquoted equity securities as at 17 September 2004**

|  | <b>No. on Issue</b> | <b>No. of Holders</b> |
|--|---------------------|-----------------------|
| Options issued under the Sonic Healthcare Limited Employee Option Plan to take up ordinary shares. | 5,997,250           | 566                   |
| Executive director options to take up ordinary shares  | 1,500,000           | 2                     |
| Queensland X-Ray options to take up ordinary shares  | 745,000             | 25                    |
| Schottdorf options to take up ordinary shares  | 3,000,000           | 2                     |

**4. Securities subject to voluntary escrow as at 17 September 2004**

|  | <b>No. on Issue</b> | <b>Date escrow period ends</b> |
|--|---------------------|--------------------------------|
| As at the date of this report the following securities were subject to voluntary escrow: |                     |                                |
| Ordinary shares  | 86,058              | 5 December, 2005               |
| Ordinary shares  | 172,119             | 5 December, 2006               |

The above securities were issued to vendor radiologists as part of the acquisition of the Southside Diagnostics Services Group.