Sonic Healthcare Limited

ABN 24 004 196 909

PRELIMINARY FINAL REPORT FOR YEAR ENDED 30 JUNE 2006

Lodged with the ASX under Listing Rule 4.3A

RESULTS FOR ANNOUNCEMENT TO THE MARKET
For the year ended 30 June 2006

Financial Results

Revenue from ordinary activities	Up 19.9% to $1,656,367,000
Earnings before interest, tax and intangibles amortisation (EBITA)	Up 21.0% to $306,033,000
Profit from ordinary activities after tax attributable to members	Up 27.1% to $172,029,000
Net profit for the period attributable to members	Up 27.1% to $172,029,000

Dividends and Dividend Reinvestment Plan

	Amount per security	Franked amount per security
Final dividend	26¢	26¢
Previous corresponding period	23¢	23¢

The record date for determining entitlements to the final dividend will be 5 September 2006. The final dividend will be paid on 19 September 2006. The Company's Dividend Reinvestment Plan (DRP) remains suspended for this dividend and until further notice.

Earnings per Share

	Year to 30 June 2006	Year to 30 June 2005
Basic earnings per share	59.8¢	49.8¢
Diluted earnings per share	58.6¢	48.9¢

An explanation of the figures reported above is provided in the following pages of this report. Note that all comparatives in this report have been restated (where applicable) as a result of the application of the Australian equivalents to International Financial Reporting Standards (AIFRS).

SUMMARY AND EXPLANATION OF RESULTS
For the year ended 30 June 2006

1 Summary financial results

	Reference	2006 $'000	2005 $'000	Movement %
Total Revenue	(a)	**1,656,367**	1,380,905	19.9%
Earnings before Interest, Tax, Depreciation and Amortisation (**EBITDA**)	(b)	**360,307**	301,189	19.6%
Depreciation and Lease Amortisation	(c)	**(54,274)**	(48,184)	12.6%
Earnings before Interest, Tax and Intangibles Amortisation (**EBITA**)	(b)	**306,033**	253,005	21.0%
Amortisation of Intangibles	(d)	**(1,823)**	(1,708)	6.7%
Net Interest Expense	(e)	**(40,435)**	(41,490)	(2.5)%
Income Tax attributable to Operating Profit	(f)	**(77,960)**	(62,633)	24.5%
Net Profit attributable to Outside Equity Interests	(g)	**(13,786)**	(11,821)	16.6%
Net Profit attributable to shareholders of Sonic Healthcare Limited		**172,029**	135,353	27.1%
Cash generated from operations	(h)	**247,208**	214,066	15.5%
EPS (diluted earnings per share) (cents)	(i)	**58.6**	48.9	19.8%

(a) Revenue growth

Organic (excluding acquisitions) revenue growth for the period was strong at around 7% and was augmented by the acquisition of Clinical Pathology Laboratories, Inc. (CPL) from 1 October 2005 and a full 12 months of the acquisitions made in the previous year.

(b) Margin analysis

	2006	2005	Movement
EBITA as a % of Revenue	**18.5%**	18.3%	20 bps*

*bps = basis points of margin

Margin expansion was strong in the Pathology division due to revenue growth, extraction of synergies and efficiency improvements. Margin expansion has been mitigated by the acquisition of CPL (acquired 1 October 2005) and by a full 12 months of Independent Practitioner Network Limited (IPN) (acquired 26 August 2004). Both of these entities reported lower margins than the average of Sonic's other businesses. Sonic's Australian Pathology operations increased margins by 60 bps in the year. The Radiology division experienced margin decline in the period, mainly due to wage pressures. Strategies to address the wage pressures are underway.

SUMMARY AND EXPLANATION OF RESULTS
For the year ended 30 June 2006

(c) Depreciation and lease amortisation

Depreciation and leased asset amortisation has increased 12.6% against the prior year due mainly to the acquisition of CPL on 1 October 2005. As a percentage of total revenue, depreciation and leased asset amortisation has decreased from 3.5% in the comparative period to 3.3% in the current period.

(d) Intangibles amortisation

Intangibles amortisation mainly relates to internally developed software.

(e) Interest expense

Net interest expense has decreased 2.5% on the prior year (despite increased debt as a result of the CPL acquisition) due to lower margins on Sonic's senior debt facility, which was refinanced during the year, and a change in the mix of currencies borrowed after the acquisition of CPL (funded in USD) and subsequent capital raisings (in AUD). Appropriate interest rate hedging arrangements are in place.

(f) Tax expense

Tax expense has increased 24.5% on the prior year reflecting growth in earnings.

(g) Outside equity interests

The current period outside equity interest figure includes minority interests in CPL for the 9 months since acquisition, the Schottdorf Group and IPN, in addition to minority interests in other (small) entities in the group. The comparative period figure excludes CPL.

The profit (and therefore the minority interests' profit share) for the Schottdorf Group for the comparative period was significantly increased by tax deductions associated with goodwill amortisation within the Schottdorf Group. This goodwill was fully amortised at 31 December 2004, and therefore no similar tax credits were available in the current period.

(h) Cashflow from operations

Cash generated from operations was in line with cash profit (net profit plus depreciation, intangibles amortisation and outside equity interests) for the year. Growth in cashflow from operations (15.5%) was less than growth in profits as cashflow was extremely strong in 2005, due to improvements in working capital management. These improvements have been maintained in 2006, but the high 2005 base reduces the growth rate.

(i) Earnings per share

Diluted earnings per share increased 19.8% due mainly to earnings growth and the positive effect of CPL and other synergistic acquisitions.

2 Final dividend and Dividend Reinvestment Plan (DRP)

The Board has declared a final dividend of 26 cents per share fully franked (at 30%) to be paid on 19 September 2006. The record date will be 5 September 2006.

The total dividend for the year is therefore 41 cents per share, a 13.9% increase on the prior year.

The Board has determined that the Company's Dividend Reinvestment Plan (DRP) remains suspended for this dividend and until further notice.

FULL YEAR REPORT

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This report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the accompanying notes, the 2005 Annual Report, the 2005 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

CONSOLIDATED INCOME STATEMENT
For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Revenue from operations		**1,645,184**	1,374,841
Other income		**11,183**	6,064
Total		**1,656,367**	1,380,905
Labour and related costs		**(745,392)**	(613,873)
Consumables used		**(247,158)**	(213,085)
Operating lease rental expense		**(80,127)**	(67,486)
Depreciation and amortisation of physical assets		**(54,274)**	(48,184)
Transportation		**(44,300)**	(37,028)
Borrowing costs expense		**(42,925)**	(43,411)
Repairs and maintenance		**(38,343)**	(33,152)
Utilities		**(37,821)**	(32,820)
Amortisation of intangibles		**(1,823)**	(1,708)
Other expenses from ordinary activities		**(100,429)**	(80,351)
Profit from ordinary activities before income tax expense		**263,775**	209,807
Income tax expense		**(77,960)**	(62,633)
Profit from ordinary activities after income tax expense		**185,815**	147,174
Net profit attributable to outside equity interests		**(13,786)**	(11,821)
Profit attributable to members of Sonic Healthcare Limited		**172,029**	135,353
Basic earnings per share (cents per share)	5	**59.8**	49.8
Diluted earnings per share (cents per share)	5	**58.6**	48.9

The above consolidated income statement should be read in conjunction with the accompanying notes, the 2005 Annual Report, the 2005 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED BALANCE SHEET
As at 30 June 2006

	Notes	2006 $'000	2005 $'000
Current assets			
Cash assets and cash equivalents		**68,156**	31,914
Other financial assets		**3,357**	-
Receivables		**188,386**	146,110
Inventories		**26,926**	23,813
Other		**16,174**	10,253
Total current assets		**302,999**	212,090
Non-current assets			
Receivables		**4,452**	4,017
Other financial assets		**8,068**	10,682
Property, plant and equipment		**306,800**	260,062
Intangible assets		**1,690,239**	1,271,648
Deferred tax assets		**35,773**	42,093
Other		**1,051**	1,211
Total non-current assets		**2,046,383**	1,589,713
Total assets		**2,349,382**	1,801,803
Current liabilities			
Payables		**122,319**	102,282
Interest bearing liabilities		**28,403**	40,035
Current tax liabilities		**3,338**	6,629
Provisions		**70,545**	61,266
Other		**11,945**	5,028
Total current liabilities		**236,550**	215,240
Non-current liabilities			
Payables		**-**	35
Interest bearing liabilities		**782,253**	616,610
Deferred tax liabilities		**6,142**	5,553
Provisions		**18,592**	19,100
Other		**3,500**	-
Total non-current liabilities		**810,487**	641,298
Total liabilities		**1,047,037**	856,538
Net assets		**1,302,345**	945,265
Equity			
Parent entity interest			
Contributed equity	6	**1,181,978**	909,912
Reserves	8	**9,542**	6,663
Accumulated profits		**93,202**	30,065
Total parent entity interest		**1,284,722**	946,640
Outside equity interest in controlled entities		**17,623**	(1,375)
Total equity		**1,302,345**	945,265

The above consolidated balance sheet should be read in conjunction with the accompanying notes, the 2005 Annual Report, the 2005 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 30 June 2006

	2006 $'000	2005 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**1,703,951**	1,442,355
Payments to suppliers and employees (inclusive of goods and services tax)	**(1,341,994)**	(1,131,942)
	361,957	310,413
Interest received	**2,490**	1,921
Borrowing costs	**(45,936)**	(40,072)
Income taxes paid	**(71,303)**	(58,196)
Net cash inflow from operating activities	**247,208**	214,066
Cash flows from investing activities		
Payment for purchase of controlled entities, net of cash acquired	**(419,373)**	(120,882)
Payments for property, plant and equipment and intangible assets	**(97,968)**	(58,197)
Proceeds from sale of non current assets	**9,497**	1,943
Payments for investments	**(1,162)**	(2,208)
Repayment of loans by other entities	**2,237**	2,940
Loans to other entities	**(1,328)**	(431)
Net cash (outflow) from investing activities	**(508,097)**	(176,835)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	**270,514**	38,504
Proceeds from borrowings	**988,721**	195,759
Repayment of borrowings	**(857,133)**	(166,258)
Dividends paid to company shareholders	**(107,539)**	(89,881)
Dividends paid to minority interests in controlled entities	**(1,995)**	(102)
Net cash inflow/(outflow) from financing activities	**292,568**	(21,978)
Net increase in cash and cash equivalents	**31,679**	15,253
Cash and cash equivalents at the beginning of the financial year	**31,914**	17,343
Effects of exchange rate changes on cash and cash equivalents	**4,563**	(682)
Cash and cash equivalents at the end of the financial year	**68,156**	31,914

The above consolidated cash flow statement should be read in conjunction with the accompanying notes, the 2005 Annual Report, the 2005 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2006

	2006 $'000	2005 $'000
Total equity at the beginning of the year	**945,265**	849,783
Adjustment on initial adoption of AASB 132 and AASB 139:		
Retained profits	**(1,353)**	-
Reserves	**516**	-
Exchange differences on translation of foreign operations	**(3,567)**	(3,080)
Cash flow hedges (net of tax)	**1,118**	-
Equity instrument expense	**5,511**	3,969
Net income recognised directly in equity	**2,225**	889
Profit for the year	**185,815**	147,174
Total recognised income and expense for the year	**188,040**	148,063
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	**271,455**	38,733
Dividends paid	**(107,539)**	(89,881)
Minority interest on acquisition of subsidiary	**7,119**	(1,331)
Distribution to minority interests in subsidiaries	**(1,995)**	(102)
Total equity at the end of year	**1,302,345**	945,265
Total recognised income and expense for the year is attributable to:		
Members of Sonic Healthcare Limited	**174,166**	135,765
Minority interest	**13,874**	12,298
	188,040	148,063

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes, the 2005 Annual Report, the 2005 Annual Financial Statements, and any public announcements made by Sonic Healthcare Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 1 Summary of significant accounting policies

This financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

This financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005, the 2005 Annual Financial Statements and any public announcements made by Sonic Healthcare Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards
This financial report is the first full year Sonic Healthcare Limited financial report to be prepared in accordance with AIFRS. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Sonic Healthcare Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the financial report for the year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments.

The consolidated entity has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Sonic's comparative figures relating to investments, financial instruments and other financial assets are reported under AGAAP. Further information on previous AGAAP is set out in the 2005 Annual Financial Statements.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the consolidated entity's equity and its net income are given in note 13.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(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 2006 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 reporting period, 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 reporting period its results are included for that part of the period during which control existed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 1 Summary of significant accounting policies (cont)

(b) Income tax

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Income tax on cumulative temporary differences is set aside to the deferred income tax liability or the future income tax benefit accounts at the rates which are expected to apply when those temporary differences reverse.

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

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

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

Sonic Healthcare Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation with effect from 30 June 2004, and have notified the Australian Taxation Office of this event. In addition to its own current and deferred tax amounts Sonic Healthcare Limited, as the head entity in the tax consolidated group, also recognises the current tax liabilities (or assets) assumed from the controlled entities in the tax consolidated group. Under tax sharing and funding agreements amounts receivable or payable between the tax consolidated entities are recognised within amounts receivable/payable to controlled entities.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Sonic Healthcare Limited's functional and presentation currency.

(ii) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At the balance sheet 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.

(iii) Foreign controlled entity

The assets and liabilities of foreign controlled entities are translated into Australian currency at rates of exchange current at the balance sheet 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.

Differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity are taken directly to the foreign currency translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 1 Summary of significant accounting policies (cont)

(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, these are fair valued. 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.

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

Where an entity or operation is acquired and the fair value of the identifiable net assets acquired, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is recognised directly in the income statement.

(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. Revenue from other services is recognised when the service has been provided. Rental income is recognised by allocating minimum lease payments on a basis representative of the pattern of services rendered through the provision of the leased asset.

(f) Receivables

All trade debtors are initially recognised at their fair value being the amounts receivable. 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 the balance sheet 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 assets

At each reporting date, Sonic assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, Sonic makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 1 Summary of significant accounting policies (cont)

(i) Investments and other financial assets

Sonic classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

With the exception of loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Changes in fair value are either taken to the income statement or an equity reserve depending upon the classification of the investment.

(i) Financial assets at fair value through profit or loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The assets in this category are classified as current assets.

(ii) Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the consolidated entity provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Investments are initially recognised at cost being the fair value of the consideration given plus transaction costs associated with the investment. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as 'available-for-sale' are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments accounted at 'fair value through profit and loss' are based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the consolidated entity establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and appropriate pricing models.

The consolidated entity assesses at each balance sheet date whether there is evidence that a financial asset or group of financial assets is impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 1 Summary of significant accounting policies (cont)

(j) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis to write off the net cost 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).

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(k) Leases

Finance leases, which transfer to Sonic substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Future payments for surplus leased space under non-cancellable operating leases are recognised as a liability, net of sub-leasing revenue, in the period in which it is determined that the leased space will be of no future benefit to the consolidated entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 1 Summary of significant accounting policies (cont)

(l) Intangible assets

(i) Goodwill
Goodwill represents the excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Intangible assets acquired from a business combination
Intangible assets acquired from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement.

Intangible assets (other than software development costs) created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Included in intangibles is the value of certain brand names acquired as part of the purchase of certain pathology businesses and controlled entities. Sonic's brand names have been assessed as having an indefinite useful life. No deferred tax assets relating to these brand names have been recognised.

(iii) Software development
Expenditure on software development is capitalised when its future recoverability can reasonably be assured. The expenditure capitalised comprises all directly attributable costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the period of the expected benefit. The carrying value is reviewed for impairment annually, or more frequently if an indicator of impairment arises.

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

(m) 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 CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 1 Summary of significant accounting policies (cont)

(n) Interest bearing liabilities
All loans and borrowings are initially recognised at cost. Thereafter interest bearing loans and borrowings are measured at amortised cost using the effective interest method. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

(o) Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. Changes in fair value are either taken to the income statement or an equity reserve (refer below). The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges or cash flow hedges.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

At the date of transition (1 July 2005) the group's interest rate swaps were determined to be cash flow hedges which met the requirements for hedge accounting.

Accordingly, on transition the fair values of the swaps were recognised as financial assets and financial liabilities, and were recognised in equity.

The fair value of the Group's cash flow hedges are determined by external advisors using appropriate valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 1 **Summary of significant accounting policies (cont)**

(p) 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
Share-based compensation benefits are provided to employees under various plans.

Share options granted before 7 November 2002 and/or vested before 1 January 2005
No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received are allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005
The fair value of equity remuneration granted under the various employee plans is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares and options (“the vesting period”).

The fair value at grant date is determined using an appropriate binomial 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 share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 1 Summary of significant accounting policies (cont)

The fair value of the options and shares granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares and options that are expected to vest. At each balance sheet date, the entity revises its estimate of the number of shares and options that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

No expense is recognised for shares and options that do not ultimately vest.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The dilutive effect, if any, of outstanding shares and options is reflected as additional share dilution in the calculation of diluted earnings per share.

(q) Borrowing costs

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

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use. In these circumstances, borrowing costs are capitalised to the cost of the assets.

(r) Contributed equity

Ordinary shares are classified as equity.

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

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and 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.

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

(t) 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 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 weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 1 Summary of significant accounting policies (cont)

(u) Segment information

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 "arms-length" basis and are eliminated on consolidation.

(v) Dividends

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

(w) 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(j).

(x) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) held for sale are stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group). A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

(y) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 2 Segment information

Primary Reporting – Business Segments

Year ended 30 June 2006	Pathology $'000	Radiology $'000	Other $'000	Eliminations $'000	Consolidated $'000
Total segment revenue	1,243,555	314,242	99,698	(3,618)	1,653,877
Interest income					2,490
Total revenue					**1,656,367**
Segment result	259,062	52,047	(6,899)		304,210
Unallocated net interest expense					(40,435)
Profit before tax					**263,775**
Income tax expense					(77,960)
Profit after income tax expense					**185,815**

Primary Reporting – Business Segments

Year ended 30 June 2005	Pathology $'000	Radiology $'000	Other $'000	Eliminations $'000	Consolidated $'000
Total segment revenue	1,008,057	295,134	78,588	(2,795)	1,378,984
Interest income					1,921
Total revenue					**1,380,905**
Segment result	209,987	51,752	(10,442)		251,297
Unallocated net interest expense					(41,490)
Profit before tax					**209,807**
Income tax expense					(62,633)
Profit after income tax expense					**147,174**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 3 Business combinations

On 1 October 2005 Sonic acquired an 82% equity interest in Clinical Pathology Laboratories, Inc. ("CPL"), an entity incorporated in the United States of America.

The initial accounting has been determined only provisionally as at the date of this report. Sonic is in the process of finalising fair values for identifiable assets and liabilities and the cost of the acquisition.

Sonic has provisionally recognised a total cost of investment of $425,900,000 in relation to the acquisition including all costs directly attributable to the combination.

The CPL acquisition has contributed $12,019,000 to the net profit of the Group for the period.

In the comparative period:

- On 26 August 2004, Independent Practitioner Network Limited (IPN) became a subsidiary of Sonic following a proportional takeover bid which raised Sonic's shareholding from 19.63% as at 30 June 2004 to 72.16%. IPN's results have been consolidated from that date.
- On 26 November 2004, Sonic and its subsidiary IPN acquired the pathology and medical centre businesses of Endeavour Healthcare.

Note 4 Dividends

	2006 $'000	2005 $'000
Dividends paid during the year	**107,539**	89,881
Dividends not recognised at the end of the year		
Since the end of the year the directors have declared a fully franked final dividend of 26 cents per share (2005: 23 cents).		
The dividend was declared on 21 August 2006 and is payable on 19 September 2006 with a record date of 5 September 2006.		
The aggregate amount of the proposed final dividend to be paid out of retained profits at the end of the year, but not recognised as a liability is:	**76,800**	63,367
Australian franking credits available at the year end for the subsequent financial year based on a tax rate of 30%	**83,137**	79,476

The balance of the franking accounts as at 30 June 2006 would enable Sonic to pay fully franked dividends of $193,986,000 in future periods (including the final dividend noted above).

Dividend Reinvestment Plan (DRP)
The company's DRP remains suspended for the 2006 final dividend and until further notice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

	2006 Cents	2005 Cents
Note 5 Earnings per share		
Basic earnings per share	**59.8**	49.8
Diluted earnings per share	**58.6**	48.9

	2006 Shares	2005 Shares
Weighted average number of ordinary shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and core basic earnings per share	**287,910,303**	271,932,711
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	**293,420,332**	276,973,703

Note 6 Contributed equity

	Notes	2006 Shares	2005 Shares	2006 $'000	2005 $'000
Share capital					
Fully paid ordinary shares		**295,203,095**	274,740,648	**1,181,978**	909,912

Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$'000
1/7/05	Opening balance	274,740,648		909,912
24/8/05	Shares issued to executives under remuneration arrangements	30,750	-	-
25/10/05	Share placement to institutions	15,474,553	14.54	225,000
8/12/05	Shares issued to shareholders under Shareholder Purchase Plan (SPP)	2,079,869	13.99	29,097
	Costs associated with share placement and SPP	-	-	(2,196)
Various	Shares issued following exercise of employee options	2,877,275	Various	19,554
Various	Transfers from equity remuneration reserve	-	-	611
30/06/06	Closing Balance	295,203,095		1,181,978

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 7 Unlisted share options

Exercise Price	Expiry Date	Options at 30.6.05	Options issued	Options Exercised	Options Forfeited	Options at 30.6.06
$5.32	20/04/2010	200,000	-	(200,000)	-	-
$7.38	20/04/2006	2,281,450	-	(2,071,400)	(210,050)	-
$4.66	16/05/2007	971,500	-	(370,875)	(25,000)	575,625
$6.01	07/02/2008	80,000	-	(20,000)	-	60,000
$6.30	15/02/2008	650,000	-	(215,000)	-	435,000
$7.57	19/12/2008	215,000	-	-	(50,000)	165,000
$6.75	31/08/2009	3,000,000	-	-	-	3,000,000
$7.50	26/11/2009	1,540,000	-	-	-	1,540,000
$9.51	23/07/2009	10,000	-	-	-	10,000
$9.56	23/07/2009	370,000	-	-	-	370,000
$7.50	22/08/2010	-	1,540,000	-	-	1,540,000
		9,317,950	1,540,000	(2,877,275)	(285,050)	7,695,625

Note 8 Reserves

	2006 $'000	2005 $'000
Foreign currency translation reserve	**(7,212)**	(3,557)
Hedge accounting reserve	**1,634**	-
Equity remuneration reserve	**10,710**	5,810
Share option reserve (relating to Schottdorf Group acquisition)	**4,410**	4,410
	9,542	6,663

Note 9 Net tangible asset backing

	2006	2005
Net tangible asset backing per ordinary security	**($1.31)**	($1.19)

Note 10 Ratios

	2006	2005
Profit before tax/revenue Consolidated profit from ordinary activities before tax as a percentage of revenue	**15.9%**	15.2%
Profit after tax/equity interests Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable) at the end of the year	**13.4%**	14.3%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 11 Non cash financing and investing activities

Plant and equipment with an aggregate fair value of $2,447,000 (2005: $16,452,000) was acquired by means of finance leases and hire purchase agreements and is therefore not reflected in the Statement of Cash Flows.

During the year 1,540,000 options and 30,750 fully paid up ordinary shares were issued to Dr C.S. Goldschmidt and C.D. Wilks under the terms of the Executive Incentive Plan.

Note 12 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 subsequent financial years other than as follows:

On 21 August 2006 Sonic's Directors declared a final dividend of 26 cents per ordinary share payable on 19 September 2006. Sonic's DRP remains suspended for this dividend and until further notice.

Note 13 Explanation of transition to Australian equivalents to International Financial Reporting Standards (AIFRS)

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards ("AGAAP") are illustrated below:

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

	Note	30.6.2005 $'000	1.7.2004 $'000
Total equity under AGAAP		882,633	847,787
De-recognition of restructure provisions	(a)	-	4,287
Adjustments to goodwill and identifiable intangibles	(b)	65,738	(1,185)
Adjustments to deferred tax balances	(c)	(3,106)	(1,106)
Total equity under AIFRS		945,265	849,783

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

	Note	Year ended 30.6.2005 $'000
Profit after tax as previously reported under AGAAP		77,464
De-recognition of restructure provisions	(a)	(5,522)
Adjustments to goodwill and identifiable intangible amortisation	(b)	67,792
Adjustments to deferred tax balances	(c)	(535)
Share based payment expense	(d)	(3,969)
Movement in minority interest share of profit		123
Profit after tax under AIFRS		135,353

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 13 Explanation of transition to Australian equivalents to International Financial Reporting Standards (AIFRS) (cont)

Notes to the reconciliations:

(a) Derecognition of restructure provisions

Under AASB3 provisions for restructuring costs existing at 1 July 2004 that arose as part of acquisition accounting where the acquiree had not, at the acquisition date, recognised an existing liability for restructuring, have been released to opening retained earnings as a transition adjustment.

(b) Adjustments to goodwill and identifiable intangibles

Sonic's AGAAP accounting policy was to amortise goodwill over 20 years and identifiable intangibles over 50 years. Under AIFRS goodwill and indefinite life intangibles are no longer amortised, but instead are subject to impairment testing.

Under the transitional arrangements of AASB 1 there is an option to apply AASB 3 *Business Combinations* prospectively from the transition date to AIFRS. Sonic has chosen this option rather than to restate all previous business combinations.

Under AASB 3 there is a requirement to bring to account all identifiable intangibles acquired in a business combination entered into since the date of transition to AIFRS that meet the recognition and measurement criteria set out in AASB 138 *Intangible Assets.*

Sonic acquired a majority interest in IPN in the prior financial period. In restating this acquisition under AIFRS an identifiable intangible not recognised under AGAAP has been recognised on acquisition and associated amortisation expense has arisen in the restated financial results.

The carrying value of goodwill has been reduced by the derecognition of restructure provisions created under AGAAP.

(c) Income tax

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

The identified tax adjustments to Sonic's consolidated deferred tax balances that arose on transition to AIFRS included the recognition of deferred tax assets relating to deductible costs not previously recognised under AGAAP, and an increase in deferred tax liabilities relating to the requirement to recognise directly in the foreign currency translation reserve (FCTR) tax amounts attributable to amounts recognised directly in the FCTR.

(d) Share-based payment expense

Under AASB 2 *Share-Based Payment*, Sonic is required to recognise an expense for all share-based remuneration. Under AGAAP no expense was recognised for equity-based compensation.

Under the transitional exemptions of AASB 1 Sonic has elected not to apply AASB 2 to equity instruments issued prior to 7 November 2002.

The share based remuneration expense in the profit and loss is offset via a credit against the share based payment reserve. Consequently there is no net change in consolidated equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2006

Note 13 Explanation of transition to Australian equivalents to International Financial Reporting Standards (AIFRS) (cont)

(e) Other changes not impacting equity or net profit

Foreign currency translation reserve: cumulative translation differences
Sonic has elected to apply the exemption in AASB 1 that permits the resetting of the FCTR to nil as at the date of transition. As such, on transition, the FCTR decreased by $7,318,000 with a corresponding increase in retained earnings.

Internally developed software
Internally developed software assets recognised under AGAAP as part of fixed assets are defined under AASB 138 as identifiable intangibles. These assets have been reclassified from fixed assets to intangible assets on transition to AIFRS with no effect on profit or equity.

Revenue disclosures in relation to the sale of non-current assets
Under AIFRS, the net gain or net loss recognised in relation to the sale of a non-current asset is reported as either income or expense. This is in contrast to the previous AGAAP treatment under which the gross proceeds from the sale were recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on profit of this difference is nil. However, the consolidated revenue from ordinary activities would have been $1,507,000 lower than as reported under AGAAP.

Asset revaluation reserve
On transition to AIFRS Sonic deemed the carrying value of all items of property, plant and equipment to be cost from the date of transition. The revaluation reserve of $982,000 in the opening balance sheet of the consolidated entity was written off against opening retained earnings as an AIFRS transition adjustment.

COMPLIANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

Identify other standards used: NIL

This report, and the accounts upon which the report is based use the same accounting policies.

This report does give a true and fair view of the matters disclosed.

This report is based on accounts which are in the process of being audited.

The entity has a formally constituted audit committee.

Signed: ……………………………………………. Date: 22 August 2006
(Company Secretary)

Print name: PAUL ALEXANDER