SONIC HEALTHCARE LIMITED

ACN 004 196 909

ANNUAL REPORT 2000

contents

Sonic Healthcare Limited ACN 004 196 909

SONIC HEALTHCARE LIMITED

Official Provider of Pathology Services to the Sydney 2000 Olympic Games

Sonic Healthcare Limited is a listed company operating medical diagnostic businesses throughout eastern Australia and New Zealand. The main operating entities are listed below.

nsw

Douglass Hanly Moir Pathology
Barratt & Smith Pathology
Southern Pathology
Sonic Clinical Trials

qld

Sullivan Nicolaides Pathology
Townsville Pathology Laboratory

vic

Melbourne Pathology
Hitech Pathology

act

Capital Pathology

tas

Hobart Pathology
North West Pathology
Launceston Pathology

sa

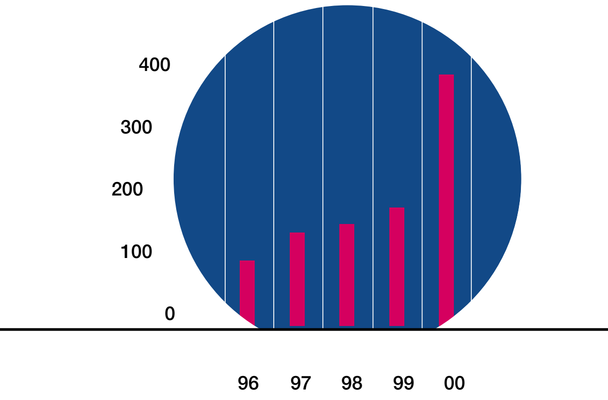
Clinpath Laboratories

nz

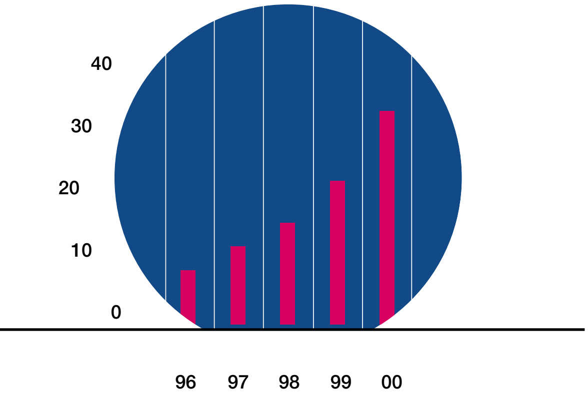
Diagnostic Medlab
Medlab Central
Medlab South
Valley Diagnostic Laboratories
New Zealand Radiology Group

Lifescreen Australia	Major Australian capital cities
SciGen	Singapore, Korea and Australia

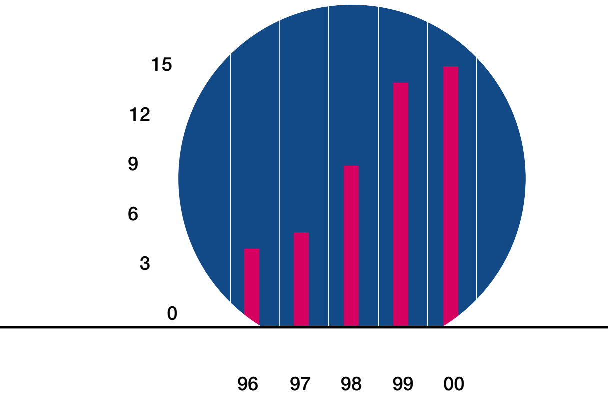
Gross revenue ($m)



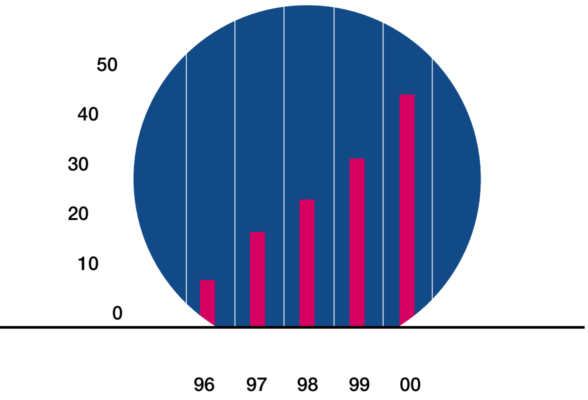
Normalised* net profit after tax ($m)



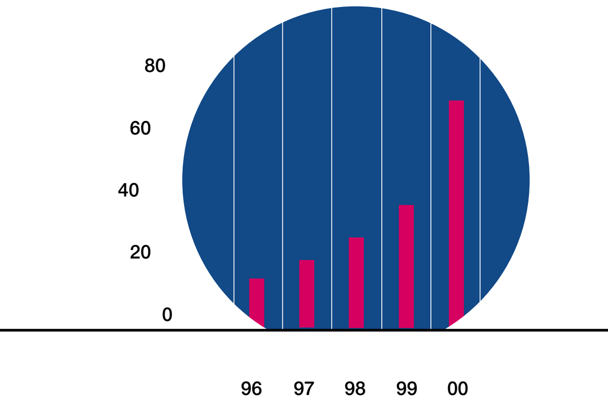
Dividend paid (cents)



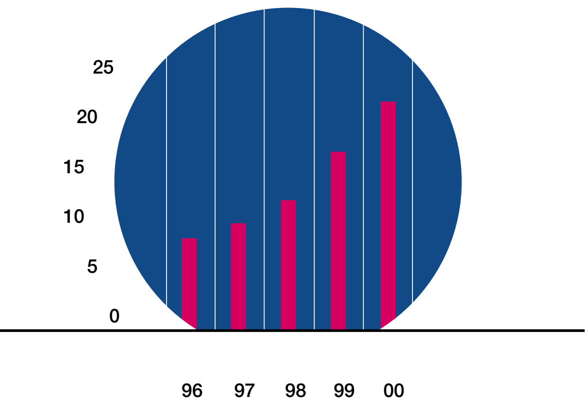
Net operating cash flow ($m)



Normalised* EBIT ($m)



Normalised* diluted earnings per share (cents)



* before intangibles amortisation and abnormal items


200
ml 0
±5%
50

managing director's report

I am delighted to report on a year of exceptional progress for Sonic Healthcare. Despite more than doubling in size over the year, the company's services have remained outstanding, management and staff have risen to the new challenges and shareholder returns have continued to grow. It is a great tribute to the company that Sonic is now the market leader in pathology services in both Australia and New Zealand.

The 1999/2000 year has been a landmark year for the growth achieved by the company in all key areas, including revenue, earnings per share, geographical coverage and corporate stature. In addition, despite major changes taking place within local health care sectors, Sonic has addressed its future strategy within the changing health care environment and positioned itself clearly as a medical diagnostics company, with interests in the provision of both pathology and radiology services in the Australasian region.

SGS Acquisition

The acquisition of the SGS Medical Group was completed in December 1999. Sonic's existing pathology businesses have now been supplemented by outstanding practices in Australia and New Zealand. Senior managers in the newly expanded group have addressed the many integration issues and a distributed leadership model known as the Sonic Amalgamation Team (SAT) structure has been established. As a result, teams of Sonic people, drawn from throughout the company, have been appointed to capture inter-company synergies and to identify important areas of common interest within the group. I am pleased to say that the Amalgamation Teams have already made good progress and I am confident that the SAT structure will create one of the finest, most efficient diagnostic companies in the world.

Management

With the dramatic increase in company size, our greatest challenge lies in the retention of the corporate values that have been the foundation for Sonic's successful track record to date. One of the most gratifying aspects of the Sonic/SGS merger was the affirmation by senior management across the entire group to embrace a set of commendable corporate values. Amongst others, we have agreed to maintain our identity as a "medical company", to preserve a style of professional and open management, to retain local business identity and autonomy, to respect our people, to operate ethically at all times and to strive for continuous improvement. The management style within Sonic has always been informal and it is my hope that we continue to avoid bureaucracy without detracting at all from our focus to achieve positive performance outcomes.

Performance

The financial results for the year were indeed most pleasing, with the company achieving core earnings per share growth of 30%. All operating entities are performing well, both in terms of market growth and cost management. Group-wide benchmarking and initiatives towards centralisation and standardisation have already translated into tangible results and it is expected that this momentum will accelerate through the 2001 year and beyond. We have the unique opportunity to work collaboratively within Sonic to improve performance through communication, benchmarking and the SAT process. The ability to compare operations between Sonic's many laboratories is not only exciting but will lead to greater efficiencies and stimulate performance to reach the level of best practice amongst entities within the group.

The acquisition of Hitech Pathology was completed in April 2000. It is intended that Hitech will soon merge with Melbourne Pathology, whose operations are now located within a new, purpose-built laboratory facility. Diagnostic Medlab has successfully completed its merger in Auckland and, as one of the largest laboratories in Australasia, is a showcase of modern, efficient pathology operations and a proud addition to the Sonic group.

Positioning

Following the year-end, Sonic announced its intention to acquire the radiology business of Pacific Medical Imaging (PMI), Australia's third largest radiology group with annual revenues of approximately $85 million. The practices within the PMI group are of exceptional calibre and standing and, together with New Zealand Radiology Group in Auckland, are ideally suited to form the platform for Sonic's planned expansion into the Australasian diagnostic imaging market.

Significant changes have been signalled in the Australian health care sector over the past year. Consolidation and corporatisation of general practices has gained momentum and the corporatisation of radiology practices has commenced. Furthermore, control of "vertically" inter-related health care entities by single corporate players has foreshadowed the "integration" of the sector. Sonic has made the decision not to become involved directly in the acquisition or management of primary care practices. This decision is a strong statement that we wish to remain an independent diagnostic company, free of any possibility of competition with our own referring practitioners.

The potential "vertical integration" of the health care system is an important change in terms of Sonic's future positioning. Our decision to take a passive (10%) investment position in Foundation Healthcare, one of Australia's premier primary care companies, is a strategic step to address the company's positioning for the future. Our investment in Foundation has established a strategic alliance between the two companies, whereby each company will leverage off the other's specialised expertise and specific market presence. We are optimistic that the alliance will provide Sonic with competitive advantage and that the relationship will be mutually beneficial well into the future.

> "The 1999/2000 year has been a landmark year for the growth achieved by the company in all key areas, including revenue, earnings per share, geographical coverage and corporate stature."

SciGen

We continue to be excited about the prospects for Sonic's majority-owned biotech company, SciGen. Sales of SciGen's Human Growth Hormone have commenced in Australia and the company is rapidly moving to register its Hepatitis B vaccine in all Asia-Pacific countries where it has exclusive selling rights. While SciGen is still not profitable, the good progress made by the management and staff of the company augers extremely well for the future. The Sonic Board is currently reassessing its strategic role in SciGen's future development, with the alternatives expected to unfold during the 2001 financial year.

The Future

I believe that the future holds much promise for Sonic Healthcare. Sonic's people have worked steadfastly and with ingenuity to establish strong market presence and exceptional branding in all areas of its operation. In line with its leadership role in the rationalisation of the pathology market, the company is now ideally placed to provide leadership in the corporatisation of radiology. As an independent medical diagnostic company, our commitment to remain a "medical company", with a focus on medical management, our dedication to people-centred core values and our happy informality within a large corporate environment, will ensure that Sonic thrives well into the new millennium and brings rewards to our staff, our customers and our shareholders.

I wish to thank all pathologists and managers for their crucial roles in Sonic's exciting progress to date. Furthermore, may I personally thank all of Sonic's people, without whom the company would not have achieved the status and success it currently enjoys.

Dr C.S. Goldschmidt
Managing Director

Mr Barry Patterson
Chairman
ASMM MIMM FAICD

Dr Colin Goldschmidt
Managing Director
MB BCh FRCPA FAICD

Mr Christopher Wilks
BComm ASA FCIS FCIM FAICD

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 2000.

1. 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 – Appointed Chairman 31 December 1999
Dr C.S. Goldschmidt – Managing Director
Mr C.D. Wilks
Dr M.M. Barratt
Mr R.P. Campbell

Mr C.J. Jackson and Dr M.F. Robinson were appointed as directors on 31 December 1999 and have continued in office to the date of this report. Mr M.D. Boyd was a director and Chairman from the beginning of the financial year until his resignation on 31 December 1999.

2. Principal Activities

The principal activity of the consolidated entity during the course of the financial year was the provision of medical diagnostic services.

3. Dividends

On 25 August 2000, the Board declared a final dividend of 12 cents per share, fully franked (at 34%) to be paid on 22 September 2000 with a record date of 6 September 2000. An interim dividend of 3 cents per share, fully franked (at 36%) was paid on 10 April 2000. Dividends in respect of the current year therefore are:

Interim dividend paid on 10 April 2000	$4,918,000
Final dividend payable on 22 September 2000	$20,391,000
Total dividend for the year	$25,309,000

A final dividend of 11 cents per ordinary share was paid on 17 September 1999 for the year ended 30 June 1999, out of profits of that year as recommended by the directors in last year's Directors' Report.

4. Review of Operations

Revenue

Revenue for the year increased by 123% from $173,647,000 to $387,357,000 reflecting the acquisitions of the SGS Medical Group in December 1999 and Hitech Pathology in April 2000. In addition, the consolidated entity has continued to maintain a strong organic growth rate.

Dr Michael Barratt
MB BS FRCPA

Mr Colin Jackson
FCPA ACA FTIA FAICD

Dr Michael Robinson
MD FRACF FRCPA FAIM

Mr Peter Campbell
FCA FTIA MAICD

Profit

The net profit (after outside equity interests) for the consolidated entity for the year was $18,725,000 (1999 $17,451,000) after deducting income tax expense of $18,613,000 (1999 $12,273,000). Net profit attributable to Sonic shareholders before intangible amortisation increased by 53% to $32,733,000 (1999 $21,458,000).

Fully diluted earnings per share (pre intangibles amortisation) increased 30% from 16.7 cents to 21.7 cents.

Operating margins decreased from 20.7% to 17.9% as a result of the dilution effect of the SGS Medical Group, which has lower operating margins than the previously existing businesses within Sonic. The operating margins of the SGS Medical Group have shown improvement during the period since acquisition, and this improvement is expected to accelerate as the strategies in place to achieve rationalisation benefits take effect.

Refer to the Managing Director's Report on page 4 for additional information on operations.

5. Significant Changes in State of Affairs

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

- The acquisition of the SGS Medical Group was completed on 1 December 1999. As a result of this acquisition, seven months of trading of the entities comprising the SGS Medical Group is included in the profit for the year. The acquisition was financed by a combination of bank debt and equity. The annualised revenues of the SGS Medical Group were approximately $300 million.
- The company of Hitech Pathology was acquired on 18 April 2000 and was financed by bank debt and equity. The annualised revenues of this company were approximately $20 million.
- Sonic's interest in SciGen Pte Ltd ("SciGen"), a Singapore based biopharmaceutical company, increased to 48.575% during the year. As a result of obtaining significant influence over this company, an equity accounted $1.455 million loss has been recognised. This loss is in line with budgets and is associated with the establishment of registration and distribution infrastructure for the product portfolio.
- 1,014,500 shares have been issued during the year in respect of options exercised under the Sonic Healthcare Limited Employee Option Plan.

6. 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:

• On 3 July 2000, Sonic Healthcare Limited acquired additional shares in SciGen for cash consideration of $1,300,000 bringing its ownership of SciGen to 58% and making SciGen a controlled entity of Sonic.

• On 24 August 2000, the company advised the Australian Stock Exchange (ASX) that it had signed a Heads of Agreement to acquire the Pacific Medical Imaging group of radiology practices in Australia and New Zealand. Further detail regarding the proposed acquisition can be found in the Managing Director's Report.

• On 25 August 2000, Sonic acquired 12,300,000 shares (approximately a 10% interest) in Foundation Healthcare Limited ("Foundation") for $21,894,000. Foundation is a listed company operating medical centres in Australia. In addition to the investment, the two companies have entered into a mutually beneficial strategic alliance.

• On 7 September 2000, the company raised $102 million via a placement to institutional investors of 15 million new ordinary shares at a price of $6.80. The proceeds from the raising have been used to reduce debt, giving Sonic the ability to pursue further strategic expansion opportunities.

7. Likely Developments and Expected Results of Operations

The company has announced its intention to pursue an aggressive growth strategy in the diagnostic imaging industry, to become Australasia's premier medical diagnostic company. The first step in this strategy is the acquisition of Pacific Medical Imaging, discussed above.

Management is also highly focused on the achievement of rationalisation benefits from the SGS Medical Group and Hitech acquisitions. Specific strategies to achieve these benefits are in place and the results will contribute to 2001 and future years' profits.

The investment in SciGen is likely to generate losses in the short term with the expectation of significant profits in the medium to long term. The quantum of these losses is not expected to be material to the results of the consolidated entity. The Board is currently considering options to achieve recognition of the value of SciGen for shareholders.

Further information on likely developments in the operations of the consolidated entity have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

8. Share Options

(a) Shares Under Option

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

Sonic Healthcare Limited Employee Option Plan Options:

No. of Options	Issue Price of Shares	Expiry Date
53,000	72.5 cents	20 October 2000
179,500	82.5 cents	14 December 2000
892,500	$1.47	18 September 2002
1,225,000	$3.37	15 December 2003
2,728,000	$5.59	20 February 2005
5,078,000		

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; and

• Up to 100% may be exercised after 54 months from the date of grant.

Executive Director Options:

4,500,000 options were granted to two executive directors of Sonic Healthcare Limited on 20 April 2000, following approval by shareholders at the 1999 Annual General Meeting. Each option is convertible into one ordinary share as set out below on or before 20 April 2005 at a fixed price of $5.50 per share:

• Up to 16.67% may be exercised after 12 months from the date of grant;

• Up to 50% may be exercised after 24 months from the date of grant; and

• Up to 100% may be exercised after 36 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.

(b) Shares Issued on the Exercise of Options

A total of 1,014,500 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 2000 on the exercise of options granted under the Sonic Employee Option Plan and a further 1,649,500 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
330,000	70 cents
1,086,000	72.5 cents
905,500	82.5 cents
342,500	$1.47
2,664,000	

No amounts are unpaid on any of the shares.

9. Directors' and Executives' Emoluments

The Remuneration Committee, consisting of three non-executive directors (reduced to two after the resignation of Mr M.D. Boyd on 31 December 1999) advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Executive remuneration and other terms of employment are reviewed annually by the committee 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 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.

The Board continuously monitors its performance and the performance of the Board committees. Performance related bonuses are available to executives. 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 officers of the company and the consolidated entity receiving the highest emoluments are set out in the following tables.

(a) Non-executive Directors of Sonic Healthcare Limited

Name	Directors' Fees $
B.S. Patterson (Chairman)	50,000
R.P. Campbell	50,000
M.D. Boyd (resigned 31 December 1999)	25,000

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

(b) Executive Directors of Sonic Healthcare Limited

Name	Base Fee $	Directors' Fees $	Other Benefits $	Bonus $	Super-annuation $	Total $	No. of Share Options $
Dr C.S. Goldschmidt *Managing Director*	197,588	50,000	64,615	300,000	15,375	627,578	3,000,000
C.D. Wilks *Finance Director*	176,375	50,000	8,400	150,000	–	384,775	1,500,000
Dr M.M. Barratt *Director*	138,992	50,000	6,142	–	7,067	202,201	–
C.J. Jackson *Director (appointed 31.12.99)*	75,000	25,000	2,592	–	37,500	140,092	–
Dr M.F. Robinson *Director (appointed 31.12.99)*	122,245	25,000	6,260	–	906	154,411	–

Mr C.D. Wilks' remuneration is paid for consulting services provided by a company in which he has a beneficial entitlement.

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

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.

(c) Other Executives of the Consolidated Entity

Name	Base Salary $	Other Benefits $	Bonus $	Super-annuation $	Total $
Dr L. Bott *General Manager Barratt & Smith Pathology*	212,439	17,427	20,000	13,000	262,866
G. Alexander *General Manager Clinpath Laboratories*	173,547	–	20,000	7,067	200,614
Dr G. Armellin *General Manager Capital Pathology*	250,000	–	20,000	7,067	277,067
Dr S. Andersen *General Manager Southern Pathology Services (retired 12 June 2000)*	190,872	13,835	–	6,931	211,638
P. Alexander *Group Financial Controller*	122,775	17,010	75,000	7,067	221,852

"Other executives" are officers who are involved in, concerned in, or who take part in, the management of the affairs of Sonic Healthcare Limited and/or its controlled entities.

Dr S. Anderson retired from his position of General Manager of Southern Pathology Services on 12 June 2000. On the retirement of Dr S. Anderson, Dr L. Bott was appointed as the General Manager of Southern Pathology Services and Dr C.S. Goldschmidt took on the responsibility of General Manager of Barratt & Smith Pathology.

(d) Share Options Granted to Directors and Executives

Options over unissued ordinary shares of Sonic Healthcare Limited granted during or since the end of the financial year to any of the directors or the five most highly remunerated officers of the consolidated entity as part of their remuneration are included in the tables above. The options were granted to executive directors on 20 April 2000 following approval of shareholders at the 1999 Annual General Meeting. Details of the options are included in Note 18. The directors estimate that the fair value of the options at grant date was in the range of 50 cents to $1.85 each. An exact value is considered to be indeterminable as it is a function of the future prospects of the company and the conditions of the options which include continuity of employment.

10. Information on Directors

(a) Directors' Profiles

Barry Sydney Patterson

Chairman

ASMM, MIMM, FAICD

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 a substantial shareholder in Sonic via his interests in Polly Pty Ltd. Mr Patterson is the Chairman of the Remuneration Committee and a member of the Audit Committee.

Dr Colin Stephen Goldschmidt

Managing Director

MB, BCh, FRCPA, FAICD

Dr Goldschmidt became the Managing Director of Sonic Healthcare Limited and its subsidiaries in 1992, 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.

Christopher David Wilks

B.Comm (Univ Melb), ASA, FCIS, FCIM, FAICD

Mr Wilks is a management consultant with 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 and also fulfils the role of company secretary. Mr Wilks is a member of the Audit Committee.

Dr Michael Barratt

MB, BS, FRCPA

Dr Barratt was the founding partner of Drs Barratt & Smith Pathologists in 1971 where he was a pioneer in taking quality pathology services to rural Australia. Dr Barratt has also established close relationships with the medical community in China which led to his appointment as Vice Chairman of the expert committee of the Shanghai Consultation Centre in Histopathology. Dr Barratt was appointed to the Board following the acquisition of the Barratt & Smith practice in February 1996.

Colin Jackson

FCPA, ACA, FTIA, FAICD

Mr Jackson is a shareholder, director and Chief Executive Officer of Diagnostic Services Pty Ltd. Being a Fellow of the Australian Society of Certified Practising Accountants, the Taxation Institute of Australia and member of the Institute of Chartered Accountants in Australia, Mr Jackson's background is in professional accounting practice as well as the management of Diagnostic Services Pty Ltd. Mr Jackson has many years of active involvement at senior levels in the pathology industry including Vice President of the Australian Association of Pathology Practices. Mr Jackson is a member of the Audit Committee.

Dr Michael Robinson

MD, FRACF, FRCPA, FAIM

Dr Robinson graduated with First Class Honours from the University of Queensland in 1971 and subsequently trained as a Specialist Immunologist in Brisbane, Adelaide, Chicago USA, and Oxford UK. Previous appointments include Senior Lecturer in Clinical Immunology, University of Queensland and Visiting Medical Officer (Clinical Immunology) at Princess Alexandra Hospital in Brisbane. Since 1983 he has been a partner of Sullivan Nicolaides Pathology and was made Managing Partner and Chief Executive Officer in 1997.

Peter Campbell

FCA, FTIA, MAICD

Mr Campbell is a Chartered Accountant with his own practice based in Sydney. Mr Campbell is also the Chairman of Lifecare Limited, a listed public company operating in the physiotherapy field. 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 and a member of the Remuneration Committee.

(b) Directors' Interests in Shares and Options as at 12 September 2000

Director's Name	Class of Shares	No. of Shares	Interest	No. of Options
B.S. Patterson	Ordinary	4,116,646	Beneficially	–
Dr C.S. Goldschmidt	Ordinary	200,000	Personally	3,500,000
Ordinary		658,000	Beneficially	–
C.D. Wilks	Ordinary	367,500	Personally	1,750,000
Ordinary		189,500	Beneficially	–
Dr M.M. Barratt	Ordinary	175,000	Personally	–
Ordinary		1,300,000	Beneficially	–
C.J. Jackson	Ordinary	–	–	–
Dr M.F. Robinson	Ordinary	200,000	Personally	–
R.P. Campbell	Ordinary	–	–	–

Mr C.J. Jackson has a 4.89% shareholding in Diagnostic Services Pty Ltd, a controlled entity of Sonic.

As part of the SGS Medical Group acquisition, Mr C.J. Jackson has made an irrevocable offer to sell his interest in Diagnostic Services Pty Ltd to the company, and the company has made an irrevocable offer to buy that interest in exchange for 567,590 ordinary shares in Sonic Healthcare Limited.

11. Directors' Meetings

	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
Director's Name	**Number Held**	**Number Attended**	**Number Held**	**Number Attended**	**Number Held**	**Number Attended**
B.S. Patterson	12	12	1	1	1	1
Dr C.S. Goldschmidt	12	12				
C.D. Wilks	12	12	2	2		
Dr M.M. Barratt	12	12				
C.J. Jackson	4	4				
Dr M.F. Robinson	4	4				
R.P. Campbell	12	11	2	2	1	1
M.D. Boyd	8	8	1	1	1	1

12. Indemnification and Insurance of Directors

During the financial year, the company entered into agreements to indemnify all directors of the company named in paragraph 1 of this report 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.

13. 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.

14. Rounding of Amounts to Nearest Thousand Dollars

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 and financial report. Amounts in the Directors' Report and financial report have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar, in accordance with that Class Order.

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

Dr C.S. Goldschmidt	**C.D. Wilks**
Managing Director	Director

Sydney, 12 September 2000

This statement outlines the main corporate governance practices that were in place throughout the financial year, unless otherwise stated. These practices are dealt with under the following headlines: Board of Directors and its Committees, Identifying and Managing Business Risks, Ethical Standards and The Role of Shareholders.

1. Board of Directors and its Committees

The Board is responsible for the overall corporate governance of the consolidated entity, including the strategic direction, establishing goals for management and monitoring the achievement of these goals. To give further effect, it has established a Remuneration Committee and Audit Committee to assist in the execution of its responsibilities.

(a) Composition of the Board

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

Name	*Age*	*Position*	*Expertise*
Mr Barry Patterson	59	Non-executive Director	Company Management
Dr Colin Goldschmidt	46	Managing Director	Pathology Industry and Company Management
Mr Chris Wilks	42	Executive Director	Finance, Accounting, Banking and Secretarial
Dr Michael Barratt	62	Executive Director	Pathology Industry and Company Management
Mr Colin Jackson	52	Executive Director	Finance and Company Management
Dr Michael Robinson	52	Executive Director	Pathology Industry and Company Management
Mr Peter Campbell	55	Non-executive Director	Finance and Accounting, Computing and Company Management

(b) Independent Professional Advice

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

(c) Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the Board on remuneration packages and policies applicable to senior executives and directors themselves. This role also includes responsibility for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. 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
Mr M.D. Boyd (resigned 31 December 1999)

The Managing Director, Dr C.S. Goldschmidt, is invited to the Remuneration Committee meetings as required to discuss management performance and remuneration packages.

The current remuneration for non-executive directors is $50,000 per annum.

The Remuneration Committee meets twice a year or as required.

Further details of directors' remuneration, superannuation and retirement payments are set out in Note 26 to the financial statements.

(d) Audit Committee

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The members of the Audit Committee are:

Mr R.P. Campbell (Chairman)
Mr B.S. Patterson
Mr C.D. Wilks
Mr M.D. Boyd (resigned 31 December 1999)
Mr C.J. Jackson (appointed 30 June 2000)

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

The responsibilities of the Audit Committee include:

- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified appropriate and prompt remedial action is taken by management;
- liaising with the external auditors and ensuring that the annual and half-year statutory audits are conducted in an effective manner;
- reviewing internal controls and recommending enhancements;
- monitoring compliance with Corporations Law, Stock Exchange Listing Rules and any matters outstanding with auditors, Australian Taxation Office, Australian Securities & Investments Commission (ASIC), Australian Stock Exchange (ASX), the New Zealand Companies Office, Inland Revenue Department and financial institutions;
- reviewing reports on any major defalcations, frauds and thefts from the consolidated entity;
- improving the quality of the accounting function.

The Audit Committee reviews the performance of the external auditors on an annual basis and meets with them during the year as follows:

Audit Planning

- to discuss the external audit plan;
- to discuss any significant problems that may be foreseen;
- to discuss the impact of any proposed changes in accounting policies on the financial statements;
- to review the nature and impact of any changes in accounting policies adopted by the consolidated entity during the year; and
- to review the fees proposed for the audit work to be performed.

Prior to Announcement of Results

- to review the proforma half-year and proforma preliminary final statements prior to lodgement of those documents with the ASX, and any significant adjustments required as a result of the audit; and
- to make the necessary recommendation to the Board for the approval of these documents.

Half-year and Annual Reporting

- to review the results and findings of the audit, the adequacy of financial and operating controls, and to monitor the implementation of any recommendations made; and
- to review the draft financial statements and the audit report and to make the necessary recommendation to the Board for the approval of the financial statements.

As Required

To organise, review and report on any special reviews or investigations deemed necessary by the Board.

2. Identifying and Managing Business Risks

The Board regularly monitors the operational and financial performance of the company and consolidated entity against budget and other key performance measures. The Board also reviews and receives advice on areas of operational and financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

3. 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.

4. The Role of Shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the consolidated entity'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 consolidated entity during the year, changes in the state of affairs of the consolidated entity and details of future developments, in addition to the other disclosures required by the Corporations Law; and
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity'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.

Sonic Healthcare Limited

Financial Statements

Profit and loss statements for the year ended 30 June 2000

	note	consolidated 2000 $'000	consolidated 1999 $'000	company 2000 $'000	company 1999 $'000
Revenue from operating activities	2	**384,663**	171,381	**–**	–
Revenue from outside the operating activities	2	**4,149**	2,266	**37,980**	24,330
Share of SciGen net profit/(loss)	2, 22	**(1,455)**	–	**–**	–
Total revenue		**387,357**	173,647	**37,980**	24,330
Operating profit before amortisation of intangibles, interest, share of SciGen loss, abnormal items and income tax		**70,831**	35,947	**26,886**	19,546
Net interest (expense)/income	2, 3	**(14,845)**	(2,216)	**4,303**	(316)
Amortisation of intangibles	3	**(14,008)**	(4,007)	**–**	–
Operating profit before income tax and share of SciGen loss		**41,978**	29,724	**31,189**	19,230
Income tax attributable to operating profit	4	**(18,613)**	(12,273)	**(1,952)**	(137)
Operating profit after tax, before SciGen loss		**23,365**	17,451	**29,237**	19,093
Share of SciGen loss after tax	2, 22	**(1,455)**	–	**–**	–
Operating profit after tax		**21,910**	17,451	**29,237**	19,093
Outside equity interests in operating profit after income tax		**(3,185)**	–	**–**	–
Operating profit after income tax attributable to members of Sonic Healthcare Limited		**18,725**	17,451	**29,237**	19,093
Accumulated losses at the beginning of the financial year		**(3,853)**	(3,984)	**(13,927)**	(15,700)
Total available for appropriation		**14,872**	13,467	**15,310**	3,393
Dividends provided for or paid	5	**(25,347)**	(17,320)	**(25,347)**	(17,320)
Accumulated losses at the end of the financial year		**(10,475)**	(3,853)	**(10,037)**	(13,927)
Earnings per share:					
Basic earnings per share (cents per share)	29	**12.7**	14.2		
Diluted earnings per share (cents per share)	29	**11.9**	13.6		
Normalised (pre intangibles amortisation) diluted earnings per share (cents per share)	29	**21.7**	16.7		

The above profit and loss statements should be read in conjunction with the accompanying notes.

Balance sheets as at 30 June 2000

		consolidated		company	
		2000	1999	**2000**	1999
	note	**$'000**	$'000	**$'000**	$'000
Current Assets					
Cash	30	**11,022**	5,345	**140**	108
Receivables	6	**72,389**	24,818	**23,390**	15,354
Inventories	7	**10,481**	3,292	**–**	–
Total Current Assets		**93,892**	33,455	**23,530**	15,462
Non-current Assets					
Receivables	8	**1,281**	–	**116,054**	13,615
Investments	9	**5,535**	4,216	**135,522**	60,240
Property, plant and equipment	10	**94,736**	34,312	**22,833**	19,762
Intangibles	11	**519,377**	80,959	**–**	–
Other	12	**10,819**	3,057	**88**	–
Total Non-current Assets		**631,748**	122,544	**274,497**	93,617
Total Assets		**725,640**	155,999	**298,027**	109,079
Current Liabilities					
Accounts payable	13	**33,515**	12,327	**904**	516
Borrowings	14	**49,520**	3,462	**–**	–
Provisions	15	**74,319**	31,953	**24,267**	13,828
Total Current Liabilities		**157,354**	47,742	**25,171**	14,344
Non-current Liabilities					
Borrowings	16	**293,051**	50,341	**2,528**	48,669
Provisions	17	**6,500**	1,818	**–**	42
Total Non-current Liabilities		**299,551**	52,159	**2,528**	48,711
Total Liabilities		**456,905**	99,901	**27,699**	63,055
Net Assets		**268,735**	56,098	**270,328**	46,024
Shareholders' Equity					
Share capital	18	**279,383**	58,969	**279,383**	58,969
Reserves	19	**276**	982	**982**	982
Accumulated losses		**(10,475)**	(3,853)	**(10,037)**	(13,927)
Equity attributable to members of Sonic Healthcare Limited		**269,184**	56,098	**270,328**	46,024
Outside equity interests in controlled entities		**(449)**	–	**–**	–
Total Shareholders' Equity		**268,735**	56,098	**270,328**	46,024

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of cash flows for the year ended 30 June 2000

	note	consolidated 2000 $'000	consolidated 1999 $'000	company 2000 $'000	company 1999 $'000
Cash Flows From Operating Activities					
Receipts from customers		**386,684**	169,466	**–**	–
Payments to suppliers and employees		**(308,577)**	(126,218)	**(4,725)**	(2,382)
Dividends received		**–**	–	**17,400**	4,000
Interest received		**695**	245	**5,886**	1,503
Interest and other costs of finance paid		**(13,563)**	(2,461)	**(1,582)**	(1,819)
Income tax paid		**(20,824)**	(9,517)	**(379)**	(16)
Other income		**–**	–	**6,275**	3,827
Net Cash Inflows From Operating Activities	30	**44,415**	31,515	**22,875**	5,113
Cash Flows From Investing Activities					
Payment for property, plant and equipment		**(24,353)**	(4,521)	**(3,712)**	(1,395)
Proceeds from sale of property, plant and equipment		**1,214**	716	**–**	–
Payment for investment in related party		**–**	–	**–**	(35,237)
Payment for purchase of controlled entities		**(336,394)**	(34,713)	**(52,581)**	–
Repayment of loans by related entities		**–**	–	**–**	22,036
Repayment of loans by other entities		**476**	–	**–**	–
Loans to associates		**(592)**	–	**(551)**	–
Payment for investments		**(2,480)**	(4,216)	**(2,701)**	(4,216)
Loans to controlled entities		**–**	–	**(63,146)**	–
Net Cash Outflows From Investing Activities		**(362,129)**	(42,734)	**(122,691)**	(18,812)
Cash Flows From Financing Activities					
Loans from controlled entities		**–**	–	**1,370**	933
Proceeds from borrowings		**331,427**	35,000	**15,000**	35,000
Repayments of borrowings		**(146,267)**	(14,694)	**(61,000)**	(14,504)
Repayment of lease and hire purchase liabilities		**(4,998)**	(3,527)	**–**	–
Proceeds from issue/conversion of shares		**166,299**	616	**166,299**	616
Share issue transaction costs		**(3,270)**	–	**(3,270)**	–
Dividends paid to Sonic shareholders		**(18,551)**	(12,302)	**(18,551)**	(12,301)
Dividends/distributions paid to outside equity interests in controlled entities		**(1,232)**	–	**–**	–
Net Cash Inflows From Financing Activities		**323,408**	5,093	**99,848**	9,744
Net Increase/(decrease) in cash held		**5,694**	(6,126)	**32**	(3,955)
Cash at the beginning of the financial year		**5,345**	11,471	**108**	4,063
Effects of exchange rate changes on cash		**(17)**	–	**–**	–
Cash at the end of the financial year	30	**11,022**	5,345	**140**	108

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

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 Law.

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 as at 30 June 2000 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 profit and loss statement and balance sheet respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated profit and loss statement 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.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the profits or losses of associates is recognised as revenue in the consolidated profit and loss statement, and its share of movements in reserves is recognised in consolidated reserves. Associates are those entities over which the consolidated entity exercises significant influence, but not control. The use of the equity method was adopted with effect from 1 July 1999.

(b) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the profit and loss statements are matched with the accounting profit after allowing for permanent differences. The 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.

No provision is made for additional taxes which could become payable if certain reserves of the foreign controlled entity were to be distributed as it is not expected that any substantial amount will be distributed from those reserves in the foreseeable future.

(c) Cash

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

(d) Intangible Assets

(i) Goodwill

On acquisition of some, or all, of the assets of another entity or, in the case of an investment in a controlled entity, on acquisition of some, or all, of the equity of that controlled entity, 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 period during which the benefits are expected to arise. The cost of acquisition is discounted as described in Note 1(l) 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.

1. Summary of Significant Accounting Policies (continued)

(e) 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 brought to account in determining the profit or loss for the year.

(ii) Foreign Controlled Entities

As 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.

(f) Investments

(i) Controlled Entities and Associates

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

(ii) Listed and Unlisted Securities

Investments in listed and unlisted securities are stated at cost. Where the cost exceeds the recoverable amount, the investment has been written down to this recoverable value.

(g) Property, Plant and Equipment

(i) Depreciation of Plant and Equipment

Items of plant and equipment are depreciated over their estimated useful lives to the consolidated entity commencing when the asset is held ready to use. Depreciation is calculated on a straight line basis. Expected useful lives are:

- Buildings and improvements 40 years; and
- Plant and equipment 3-15 years.

The cost of improvements to or on leasehold property is capitalised and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter (generally 7-40 years).

(ii) Leased Plant and Equipment

Finance leases, which effectively transfer to the consolidated entity substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments, disclosed as leased property, plant and equipment, and amortised over the period the consolidated entity is expected to benefit from the use of the leased assets (generally 2-5 years).

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit in equal instalments over the lease term.

(h) Receivables, Accounts Payable, Provisions and Borrowings

(i) Receivables

Trade accounts receivable generally settled within 45 days are carried at amounts due.

A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified. Collectibility of trade debtors is reviewed on an ongoing basis.

(ii) Accounts Payable and Other Creditors

Trade accounts payable, including accruals not yet billed, are recognised when the consolidated entity becomes obliged to make future payments as a result of a purchase of assets or services. Trade accounts payable are unsecured and generally settled within 30 days.

(iii) Provision for Employee Entitlements

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

1. Summary of Significant Accounting Policies (continued)

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

(iv) Borrowings

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 sundry creditors.

(i) 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.

(j) Superannuation Commitments

The consolidated entity contributes to group employee superannuation funds. Employee contributions are based on a percentage of their gross salary. Employees are entitled to benefits on retirement, disability or death. The contributions are charged to the profit and loss when incurred.

The fund provides benefits based on the accumulated contributions into the fund and fund earnings vested to each employee.

(k) Share Issue Expenses

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

(l) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined 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.

A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to a restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

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

(m) Revenue Recognition

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

(n) Year 2000 Software Modification Costs

Costs relating to the modification of computer software for Year 2000 compatibility were charged as expenses as incurred.

(o) 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, the recoverable amount is determined on the basis of the relevant group of assets. To the extent that a revaluation decrement reverses a revaluation increment previously credited to, and still included in the balance of, the asset revaluation reserve, the decrement is debited directly to that reserve. Otherwise the decrement is recognised as an expense in the profit and loss statement in the period the write down occurs.

1. Summary of Significant Accounting Policies (continued)

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market-determined, risk-adjusted discount rate.

(p) Revaluations of Non-current Assets

The consolidated entity does not have a policy of regularly revaluing its non-current assets. Revaluations reflect independent assessments of the fair market value of land and buildings based on existing use.

Revaluation increments are credited directly to the asset revaluation reserve, unless they are reversing a previous decrement charged to the profit and loss statement, in which case the increment is credited to the profit and loss statement.

Revaluation decrements are recognised as expenses in the profit and loss statement, unless they are reversing revaluation increments previously credited to, and still included in the balance of, the asset revaluation reserve in respect of that same class of assets, in which case they are debited directly to the asset revaluation reserve.

Revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

Potential capital gains tax is not taken into account in determining revaluation amounts unless it is expected that a liability for such tax will crystallise.

Revaluations do not result in the carrying value of land or buildings exceeding their recoverable amount.

(q) 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;
- Amortisation of discounts or premiums relating to borrowings;
- Amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- Finance lease charges.

(r) Earnings per Share

(i) Basic Earnings per Share

Basic earnings per share is determined by dividing the operating 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 amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

(iii) Normalised Diluted Earnings per Share

Normalised 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 intangible amortisation expense for the period.

(s) Goods and Services Tax Systems Changes

Costs incurred to update existing systems or to design, develop and implement new systems to deal with the GST are charged as expenses as incurred, except where they result in an enhancement of future economic benefits and are recognised as an asset.

(t) 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 at each reporting date.

(u) Rounding of Amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and 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.

	consolidated		company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
2. Revenue				
Revenue from operating activities:				
Medical services revenue	**384,663**	171,381	**–**	–
Revenue from outside the operating activities:				
Management fees received or due and receivable from controlled entities	**–**	–	**4,182**	1,867
Dividends from:				
Controlled entities	**–**	–	**24,400**	19,000
Interest received or due and receivable from:				
Controlled entities	**–**	–	**5,762**	1,487
Other entities	**695**	245	**124**	16
Gross proceeds on sale of plant and equipment	**1,214**	716	**–**	–
Rental income:				
Controlled entities	**–**	–	**2,093**	1,960
Other entities	**1,120**	807	**–**	–
Other income	**1,120**	498	**1,419**	–
	4,149	2,266	**37,980**	24,330
Share of SciGen loss	**(1,455)**	–	**–**	–
Total revenue	**387,357**	173,647	**37,980**	24,330

3. Operating Profit

Net gains and expenses

The operating profit before income tax includes the following net gains and expenses:

	consolidated 2000 $'000	consolidated 1999 $'000	company 2000 $'000	company 1999 $'000
Net gains				
Net gain on disposal of property, plant and equipment	**124**	–	**–**	–
Expenses				
Net loss on disposal of property, plant and equipment	**–**	161	**–**	–
Interest paid:				
Finance charges on capitalised leases and hire purchase agreements	**1,046**	642	**–**	–
Controlled entities	**–**	–	**185**	–
Other entities	**14,494**	1,819	**1,397**	1,819
Bad and doubtful debts:				
Trade debtors	**2,092**	1,371	**–**	–
Amortisation of:				
Goodwill	**11,604**	3,904	**–**	–
Brand names, licences and authorities	**2,404**	103	**–**	–
Leased assets	**4,410**	2,485	**–**	–
Depreciation of:				
Plant and equipment	**7,048**	2,151	**44**	36
Buildings	**827**	549	**598**	549
Net amount provided for:				
Employee entitlements	**16,284**	6,504	**–**	–
Operating lease rental expense	**16,093**	6,454	**11**	11

	2000	1999	**2000**	1999
	$	$	**$**	$
Remuneration of auditors				
Amounts received or due and receivable by auditors of the company for:				
Auditing and reviewing the financial statements	**205,000**	81,000	**70,000**	81,000
Other services	**42,009**	2,000	**32,409**	2,000
	247,009	83,000	**102,409**	83,000

	consolidated		company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
4. Taxation				
The aggregate amount of income tax attributable to the financial year differs from the amount prima facie payable on the operating profit. The differences are reconciled as follows:				
Operating profit before income tax	**40,523**	29,724	**31,189**	19,230
Prima facie income tax expense calculated at 36%	**14,588**	10,700	**11,228**	6,923
Minority interests' share of pre-tax profit of trading trusts	**(917)**	–	**–**	–
Tax effect of permanent differences:				
Amortisation of intangibles	**5,043**	1,443	**–**	–
Other items (net)	**18**	238	**23**	54
(Over)/under provision in prior year	**(255)**	19	**–**	–
Deductible expenditure capitalised in investment costs	**(361)**	(127)	**–**	–
Non-assessable income	**–**	–	**(511)**	–
Net adjustment to deferred income tax liabilities and assets to reflect the decreasing Australian company tax rate	**(32)**	–	**(4)**	–
Effect of lower tax rates on overseas income	**5**	–	**–**	–
Share of net losses of SciGen	**524**	–	**–**	–
Rebateable dividends	**–**	–	**(8,784)**	(6,840)
Total income tax expense attributable to operating profit	**18,613**	12,273	**1,952**	137

Adjustment to deferred income tax balances

Legislation reducing the Australian company tax rate from 36% to 34% in respect of the 2000-2001 income tax year and then to 30% from the 2001-2002 income tax year was announced on 21 September 1999 and received Royal Assent on 10 December 1999. As a consequence deferred tax balances which are expected to reverse in the 2000-2001 or a later income tax year have been restated using the appropriate new rates, depending on the timing of their reversal.

	consolidated 2000 $'000	consolidated 1999 $'000	company 2000 $'000	company 1999 $'000
5. Dividends Provided For or Paid				
Dividends proposed:				
Franked (2000: 34%, 1999: 36%) final dividend			**20,391**	13,594
Dividends paid during the year:				
Franked (36%) interim dividend			**4,918**	3,695
Underprovision from prior year			**38**	31
			25,347	17,320
Franking credits available for the subsequent financial year.	**36,941**	16,762	**5,286**	2,531

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

- Franking credits that will arise from the payment of the current tax liability;
- Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- Franking credits that have arisen from the receipt of dividends recognised as receivables at the reporting date; and
- Franking debits that have arisen as a result of tax refunds received after year end.

The balance of the franking accounts disclosed above are based on a tax rate of 36%. Legislation dealing with the implications for franking accounts of the Australian company tax rate change from 36% to 34% for the 2000-2001 income tax year was passed in Parliament on 29 June 2000. The legislation requires companies to convert their existing Class C franking account balances from an underlying tax rate of 36% to an underlying tax rate of 34% on 1 July 2000. The balances of the franking account will increase accordingly and all franking debits and credits arising after 1 July 2000 (including those relating to dividends) will be entered into the converted franking account using the new rate of 34%. Upon conversion of the franking account balance on 1 July 2000 franking credits available for subsequent financial years, based on an underlying tax rate of 34%, will increase to $40,336,000 for the consolidated entity and $5,771,000 for the company.

	consolidated		company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
6. Receivables (Current)				
Trade Debtors	**59,119**	21,011	**–**	–
Less: Provision for doubtful debts	**(2,934)**	(1,593)	**–**	–
	56,185	19,418	**–**	–
Accrued revenue	**8,703**	2,703	**–**	–
Dividends receivable from controlled entities	**–**	–	**22,000**	15,000
Amounts receivable from SciGen	**592**	–	**551**	–
Sundry debtors and prepayments	**6,909**	2,697	**839**	354
	72,389	24,818	**23,390**	15,354

Significant Terms and Conditions

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.

7. Inventories				
Consumable stores at cost	**10,481**	3,292	**–**	–
8. Receivables (Non-current)				
Amounts owing by:				
Controlled entities	**–**	–	**116,054**	15,034
Less: Provision for doubtful debts	**–**	–	**–**	(1,419)
Other entities	**848**	82	**82**	82
Less: Provision for doubtful debts	**(82)**	(82)	**(82)**	(82)
Prepayments	**515**	–	**–**	–
	1,281	–	**116,054**	13,615

Significant Terms and Conditions

The terms and conditions of loans advanced to the ultimate parent entity and controlled entities during the year are detailed in Note 28.

9. Investments (Non-current)				
Investments in controlled entities at cost	**–**	–	**140,305**	67,724
Less: Provision for diminution in value	**–**	–	**(11,700)**	(11,700)
	–	–	**128,605**	56,024
Investment in associate (SciGen)	**5,462**	–	**6,917**	–
Investment in shares of companies not listed on a Stock Exchange, at cost	**90**	6,706	**–**	6,616
Less: Provision for diminution in value	**(90)**	(2,490)	**–**	(2,400)
	–	4,216	**–**	4,216
Investments – other	**116**	43	**43**	43
Less: Provision for diminution in value	**(43)**	(43)	**(43)**	(43)
	73	–	**–**	–
	5,535	4,216	**135,522**	60,240

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity.

The market value and net fair value at 30 June 2000 of shares in non-listed companies (excluding controlled entities) was $Nil (1999 $4,216,000).

The company's investment in non-listed companies for 1999 related solely to SciGen Pte Ltd, a Singapore based biopharmaceutical company. At 30 June 1999, Sonic Healthcare had a 29% interest in SciGen with a carrying value of $4,216,000. In the 2000 year this interest increased to 48.575% (total cost $6,917,000) and SciGen became an associate. The investment has therefore been equity accounted and disclosed above as an investment in an associate (equity accounted carrying value $5,462,000).

	consolidated		company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
10. Property, Plant and Equipment				
Freehold land and buildings				
At independent valuation – October 1994	**8,100**	8,100	**8,100**	8,100
Accumulated depreciation	**(363)**	(298)	**(363)**	(298)
	7,737	7,802	**7,737**	7,802
At cost	**44,447**	12,924	**16,581**	12,924
Accumulated depreciation	**(2,362)**	(1,248)	**(1,781)**	(1,248)
	42,085	11,676	**14,800**	11,676
Plant and equipment – at cost	**93,864**	21,542	**408**	352
Accumulated depreciation	**(63,947)**	(13,819)	**(112)**	(68)
	29,917	7,723	**296**	284
Leased plant and equipment capitalised	**25,321**	12,650	**–**	–
Accumulated amortisation	**(10,324)**	(5,539)	**–**	–
	14,997	7,111	**–**	–
Total property, plant and equipment, at written down value	**94,736**	34,312	**22,833**	19,762
Recent Valuations of Land and Buildings				
Aggregate recent valuations of freehold land and buildings based on:				
Independent valuation – October 1999	**19,100**	–	**–**	–
Independent valuation – June 2000	**30,875**	–	**30,875**	–
Directors' valuation – 1997	**–**	17,000	**–**	17,000
Independent valuation – 1998	**–**	4,000	**–**	4,000
Carried at recent values	**6,747**	5,666	**784**	5,666
	56,722	26,666	**31,659**	26,666

The independent valuations, which have not been recognised in the financial statements, were carried out by Colliers Jardine Consultancy and Valuation Pty Limited (October 1999) and International Valuation Consultants Pty Limited (June 2000). The basis of valuation was fair market value based on existing use.

11. Intangibles				
Goodwill – at cost	**360,620**	87,029	**–**	–
Accumulated amortisation	**(29,405)**	(17,767)	**–**	–
	331,215	69,262	**–**	–
Brand names, licences and authorities – at cost	**190,558**	11,800	**–**	–
Accumulated amortisation	**(2,396)**	(103)	**–**	–
	188,162	11,697	**–**	–
	519,377	80,959	**–**	–

In attributing the balance of the purchase price for the SGS Medical Group between goodwill and brand names, licences and authorities, the directors have 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.

12. Other Assets (Non-current)				
Future income tax benefit	**10,819**	3,057	**88**	–
13. Accounts Payable (Current)				
Trade creditors	**17,222**	4,788	**–**	–
Sundry creditors and accruals	**16,293**	7,539	**904**	516
	33,515	12,327	**904**	516

	consolidated		company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
14. Borrowings (Current)				
Bank loans – secured (Note 25)	**15,415**	–	**–**	–
Lease liabilities – secured (Notes 23 and 25)	**6,728**	3,387	**–**	–
Hire purchase agreements – secured (Note 25)	**388**	60	**–**	–
Other loans – secured (Note 25)	**3,250**	–	**–**	–
Amounts owing to vendors	**22,341**	–	**–**	–
Other loans	**1,398**	15	**–**	–
	49,520	3,462	**–**	–
15. Provisions (Current)				
Restructuring	**11,508**	651	**1,939**	–
Dividends	**20,391**	13,594	**20,391**	13,594
Income tax payable	**11,152**	8,493	**1,937**	234
Employee entitlements	**31,268**	9,215	**–**	–
	74,319	31,953	**24,267**	13,828

The restructuring provisions relate to the acquisitions of Alpha Healthcare's pathology division, the SGS Medical Group and Hitech Pathology Pty Limited. The provisions are for costs to be incurred in the rationalisation of the acquired entities to achieve targeted synergies, plus surplus rental premises. The rationalisation strategies are in place and will yield benefits in the 2001 and later years.

	consolidated		company	
16. Borrowings (Non-current)				
Bank loans – secured (Note 25)	**283,116**	46,000	**–**	46,000
Other loans	**27**	250	**–**	–
Loans – controlled entities	**–**	–	**2,528**	2,669
Lease liabilities – secured (Notes 23 and 25)	**9,049**	4,071	**–**	–
Hire purchase agreements – secured (Note 25)	**859**	20	**–**	–
	293,051	50,341	**2,528**	48,669
17. Provisions (Non-current)				
Employee entitlements	**6,428**	1,818	**–**	–
Deferred income tax liability	**72**	–	**–**	42
	6,500	1,818	**–**	42
Total employee entitlements:				
Current (Note 15)	**31,268**	9,215	**–**	–
Non-current (Note 17)	**6,428**	1,818	**–**	–
	37,696	11,033	**–**	–

	company		company	
	2000	1999	**2000**	1999
	shares	shares	**$'000**	$'000
18. Share Capital				
Ordinary shares fully paid	**167,800,847**	123,264,101	**279,383**	58,969

Movements in Paid up Capital during the past two years were as follows:

On 1 July 1998, the balance of the share premium reserve ($33,667,000) and the share option reserve ($195,000) were transferred into share capital in accordance with section 1446 of the Corporations Law.

On 1 December 1999, 9,728,539 ordinary shares were issued to vendors of the SGS Medical Group as part consideration for the acquisition at a price of $4.10 per share. A further 30,000,000 ordinary shares were issued on the same day to institutional investors at a price of $5.50. Transaction costs associated with this share issue totalled $3,270,000.

On 17 April 2000, 3,793,707 ordinary shares were issued to vendors of Hitech Pathology Pty Ltd as part consideration for the acquisition at a price of $4.7447.

A total of 1,014,500 (1999 812,000) ordinary shares were issued during the year ended 30 June 2000, on the exercise of options granted under the Sonic Employee Option Plan for a total consideration of $798,710 (1999 $615,950). The total market value of the shares at their issue dates was $5,376,395 (1999 $2,192,750). The following shares were issued in relation to options exercised under the plan:

18. Share Capital (continued)

2000 Number	1999 Number	Exercise Price
80,000	70,000	70 cents
511,500	452,000	72.5 cents
387,500	290,000	82.5 cents
35,500	–	$1.47

Options in respect of ordinary shares in Sonic Healthcare Limited which were in existence as at balance date:

2000 Number	1999 Number	Exercise Price	Expiry Date
250,000	330,000	70 cents	1 October 2000
627,500	1,139,500	72.5 cents	20 October 2000
697,500	1,126,000	82.5 cents	14 December 2000
1,199,500	1,235,000	$1.47	18 September 2002
1,225,000	1,255,000	$3.37	15 December 2003
4,500,000	–	$5.50	20 April 2005
2,728,000	–	$5.59	20 February 2005

2,728,000 options were granted under the Sonic Employee Option Plan to 192 eligible employees of Sonic Healthcare Limited and its controlled entities on 20 April 2000. Each option is convertible into one ordinary share as set out below on or before 20 February 2005 at a fixed price of $5.59 per share:

- 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; and
- Up to 100% may be exercised after 54 months from the date of grant.

4,500,000 options were granted to two executive directors of Sonic Healthcare Limited on 20 April 2000, following approval by shareholders at the 1999 Annual General Meeting. Each option is convertible into one ordinary share as set out below on or before 20 April 2005 at a fixed price of $5.50 per share:

- Up to 16.67% may be exercised after 12 months from the date of grant;
- Up to 50% may be exercised after 24 months from the date of grant; and
- Up to 100% may be exercised after 36 months from the date of grant.

A total of 1,649,500 ordinary shares have been issued in the period 1 July 2000 to 12 September 2000 on the exercise of options granted under the Sonic Employee Option Plan.

	consolidated		company	
	2000 $'000	1999 $'000	**2000 $'000**	1999 $'000
19. Reserves				
Asset revaluation reserve	**982**	982	**982**	982
Foreign currency translation reserve	**(706)**	–	**–**	–
	276	982	**982**	982
Movements in reserves:				
Share premium				
balance at beginning of year	**–**	33,667	**–**	33,667
transfer to share capital (Note 18)	**–**	(33,667)	**–**	(33,667)
balance at end of year	**–**	–	**–**	–
Share options				
balance at beginning of year	**–**	195	**–**	195
transfer to share capital (Note 18)	**–**	(195)	**–**	(195)
balance at end of year	**–**	–	**–**	–
Foreign currency translation reserve				
balance at beginning of year	**–**	–	**–**	–
net exchange difference on translation of foreign controlled entities	**(706)**	–	**–**	–
balance at end of year	**(706)**	–	**–**	–

20. Interests in Controlled Entities

Details of Controlled Entities
Controlled entities of:

	Place of Incorporation	Class of Share	Beneficial Interest % 2000	Beneficial Interest % 1999
(a) Sonic Healthcare Limited (iv)	Australia			
Douglass Hanly Moir Pathology Pty Ltd (i)	Australia	Ord	**100**	100
Southern Pathology Services Pty Ltd (i)	Australia	Ord	**100**	100
Clinpath Laboratories Pty Ltd (i)	Australia	Ord	**100**	100
Lifescreen Australia Pty Ltd (i)	Australia	Ord	**100**	100
Hitech Pathology Pty Ltd	Australia	Ord	**100**	–
Sonic Healthcare (New Zealand) Ltd	New Zealand	Ord	**100**	–
(b) Douglass Hanly Moir Pathology Pty Ltd (iv)				
Milberg Investments Ltd (iii)	Gibraltar	Ord	**100**	100
Diagnostic Pathology Pty Ltd (formerly Cloudguard No 69 Pty Ltd) (i)	Australia	Ord	**100**	100
Barratt & Smith Pathology Pty Ltd (i)	Australia	Ord	**100**	100
Barratt & Smith Pathology Trust (ii)	Australia	Units	**100**	100
Hanly Moir Pathology Pty Ltd (i)	Australia	Ord	**100**	100
Hanly Moir Pathology Trust (ii)	Australia	Units	**100**	100
Sonic Medlab Holdings Australia Pty Ltd (i)	Australia	Ord	**100**	–
(c) Sonic Healthcare (New Zealand) Ltd (iv)				
Diagnostic Medlab Ltd	New Zealand	Ord	**100**	–
Medlab Central Ltd	New Zealand	Ord	**100**	–
Valley Diagnostic Laboratories Ltd	New Zealand	Ord	**100**	–
Medlab South Ltd	New Zealand	Ord	**100**	–
New Zealand Radiology Group Ltd	New Zealand	Ord	**100**	–
(d) Sonic Medlab Holdings Australia Pty Ltd (iv)				
Sonic Pathology (Queensland) Pty Ltd (i)	Australia	Ord	**100**	–
Sonic Pathology (Victoria) Pty Ltd (i)	Australia	Ord	**100**	–
(e) Sonic Pathology (Queensland) Pty Ltd				
Sullivan Nicolaides Pty Ltd	Australia	Ord	**85.05**	–
L & A Services Pty Ltd	Australia	Ord	**82.60**	–
Bradley Services Trust	Australia	Units	**82.69**	–
Northern Pathology Pty Ltd	Australia	Ord	**6.00**	–
(f) Sonic Pathology (Victoria) Pty Ltd				
Consultant Pathology Services Pty Ltd	Australia	Ord	**70.50**	–
Diagnostic Services Pty Ltd	Australia	Ord	**72.83**	–
Melbourne Pathology Pty Ltd	Australia	Ord	**70.18**	–
Melbourne Pathology Services Pty Ltd	Australia	Ord	**69.87**	–
Melbourne Pathology Services Trust	Australia	Units	**70.18**	–
(g) Diagnostic Medlab Ltd (iv)				
Laboratory Data Systems Ltd	New Zealand	Ord	**100**	–
Diagnostic Medlab Services Ltd	New Zealand	Ord	**100**	–
(h) Bradley Services Trust				
Biotech Laboratories Pty Ltd	Australia	Ord	**100**	–
Northern Pathology Pty Ltd	Australia	Ord	**76.00**	–

20. Interests 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 21. Sonic Medlab Holdings Australia Pty Ltd, Sonic Pathology (Queensland) Pty Ltd and Sonic Pathology (Victoria) Pty Ltd have been added by an Assumption Deed contemplated by the Deed of Cross Guarantee during the financial year and therefore they now form part of the "Closed Group".

(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 Ltd is the ultimate parent entity. Sonic Healthcare (New Zealand) Ltd, Sonic Medlab Holdings Australia Pty Ltd, Diagnostic Medlab Ltd, Hitech Pathology Pty Ltd and the entities that they control became members of the wholly-owned group during the year.

Acquisitions of Entities

The consolidated entity acquired assets of the following businesses during the financial year for a total consideration of $393,781,000 (1999 $34,713,000):

SGS Medical Group (effective 1 December 1999)
Hitech Pathology Pty Ltd (effective 18 April 2000)

Acquisitions during the 1999 financial year were:

Exelpath Mobile Paramedical Services (effective 25 September 1998)
Alpha Healthcare Pathology Division (effective 23 January 1999)

	consolidated	
	2000	1999
	$'000	$'000
Consideration – cash	**338,298**	34,713
Less: Cash of entity acquired	**(1,904)**	–
	336,394	34,713
Consideration – shares in the company	**57,387**	–
Total consideration	**393,781**	34,713
Fair value of net assets acquired:		
Property, plant and equipment	**47,930**	1,430
Debtors	**41,322**	2,420
Inventory	**4,642**	320
Prepayments	**1,754**	235
Future income tax benefits	**8,216**	544
Investments	**294**	–
Brand names, licences and authorities	**179,063**	11,800
Trade creditors	**(18,213)**	–
Provision for tax	**(4,907)**	–
Borrowings	**(93,202)**	–
Lease and hire purchase liabilities	**(12,969)**	(859)
Employee provisions	**(22,655)**	(1,661)
	131,275	14,229
Less: Provision for restructuring	**(12,233)**	(1,278)
	119,042	12,951
Goodwill	**274,739**	21,762

21. Deed of Cross Guarantee

The "Closed Group" (refer Note 20) 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 and 00/0321) issued by the Australian Securities and Investments Commission.

The above 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".

	2000 $'000	1999 $'000
(a) Consolidated Profit and Loss Statements of the Extended Closed Group		
Revenue from operating activities	**198,926**	171,381
Revenue from outside the operating activities	**15,038**	2,266
Total revenue	**213,964**	173,647
Operating profit before income tax	**35,722**	29,724
Income tax attributable to operating profit	**(16,027)**	(12,273)
Operating profit after income tax	**19,695**	17,451
Retained losses at the beginning of the financial year	**(3,853)**	(3,984)
Total available for appropriation	**15,842**	13,467
Dividends provided for or paid	**(25,347)**	(17,320)
Retained losses at the end of the financial year	**(9,505)**	(3,853)
(b) Consolidated Balance Sheets of the Extended Closed Group		
Current assets		
Cash	**3,775**	5,345
Receivables	**30,076**	24,818
Inventories	**4,206**	3,292
Total current assets	**38,057**	33,455
Non-current assets		
Receivables	**52,698**	–
Investments	**224,615**	9,727
Property, plant and equipment	**42,796**	34,312
Intangibles	**190,895**	78,215
Other	**3,259**	3,057
Total non-current assets	**514,263**	125,311
Total assets	**552,320**	158,766
Current liabilities		
Accounts payable	**13,332**	12,327
Borrowings	**31,550**	6,229
Provisions	**52,704**	31,953
Total current liabilities	**97,586**	50,509
Non-current liabilities		
Borrowings	**181,473**	50,341
Provisions	**2,401**	1,818
Total non-current liabilities	**183,874**	52,159
Total liabilities	**281,460**	102,668
Net assets	**270,860**	56,098
Equity		
Share capital	**279,383**	58,969
Reserves	**982**	982
Accumulated losses	**(9,505)**	(3,853)
Total equity	**270,860**	56,098

22. Investments in Associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. The equity method was adopted with effect from 1 July 1999. The company carrying amounts are at cost. Information relating to the associate is set out below.

Name of Company	Principal Activity	Ownership Interest		consolidated		company	
		2000	1999	**2000**	1999	**2000**	1999
		%	%	**$'000**	$'000	**$'000**	$'000
Other (non-traded)							
SciGen Pte Ltd	Biopharmaceuticals	**48.575**	29.0	**5,462**	4,216	**6,707**	4,216
(incorporated in Singapore)							

	consolidated 2000 $'000	consolidated 1999 $'000	company 2000 $'000	company 1999 $'000
(a) Movements in Carrying Amounts of Investments in Associates				
Carrying amount at the beginning of the financial year	**–**	–	**–**	–
Adjustment on adoption of equity accounting	**4,216**	–	**–**	–
Additional investment during the year	**2,701**	–	**–**	–
Share of operating loss after income tax	**(1,455)**	–	**–**	–
Carrying amount at the end of the financial year	**5,462**	–	**–**	–
(b) Results Attributable to Associates				
Operating loss before income tax	**(1,455)**	–	**–**	–
Income tax expense	**–**	–	**–**	–
Operating loss after income tax	**(1,455)**	–	**–**	–
Retained profits attributable to associate at the beginning of the financial year	**–**	–	**–**	–
Retained loss attributable to associate at the end of the financial year	**(1,455)**	–	**–**	–
(c) Investor's Share of Associates' Expenditure Commitments				
Licensing agreement commitments payable within 1 year	**308**	–	**–**	–
Licensing agreement commitments payable after 1 year	**2,586**	–	**–**	–
Operating lease commitments payable within 1 year	**138**	–	**–**	–
Operating lease commitments payable after 1 year	**18**	–	**–**	–
Total share of associate's expenditure commitments	**3,050**	–	**–**	–

23. Commitments for Expenditure

(a) Capital Commitments

	consolidated 2000 $'000	consolidated 1999 $'000	company 2000 $'000	company 1999 $'000
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**1,354**	–	**–**	–

	consolidated		company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
23. Commitments for Expenditure (continued)				
(b) Lease Commitments				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**20,421**	6,012	**1**	1
Later than one year but not later than 5 years	**32,596**	8,827	**–**	–
Later than 5 years	**3,284**	2,990	**–**	–
	56,301	17,829	**1**	1
Representing:				
Non-cancellable operating leases	**54,439**	17,029	**1**	1
Future finance charges on finance leases	**1,862**	800	**–**	–
	56,301	17,829	**1**	1
Operating Leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**19,420**	5,552	**1**	1
Later than one year but not later than 5 years	**31,735**	8,487	**–**	–
Later than 5 years	**3,284**	2,990	**–**	–
Commitments not recognised in the financial statements	**54,439**	17,029	**1**	1
Finance Leases				
Commitments in relation to finance leases are payable as follows:				
Within one year	**7,644**	3,812	**–**	–
Later than one year but not later than 5 years	**9,799**	4,446	**–**	–
Minimum lease payments	**17,443**	8,258	**–**	–
Less: Future finance charges	**(1,666)**	(800)	**–**	–
Total lease liabilities	**15,777**	7,458	**–**	–
Representing lease liabilities:				
Current (Note 14)	**6,728**	3,387	**–**	–
Non-current (Note 16)	**9,049**	4,071	**–**	–
	15,777	7,458	**–**	–

The weighted average interest rate implicit in the leases is 7.93% (1999 8.55%).

24. Contingent Liabilities

Sonic Healthcare Limited and certain controlled entities, as disclosed in Note 20, are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. By entering into the deed, the entities have been relieved from the requirements to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended by Class Order 98/2017) issued by the Australian Securities & Investments Commission.

25. Secured Borrowings

Secured bank loans to companies within the consolidated entity of $298,531,000 (1999 $46,000,000) are secured by fixed and floating charges over all assets and undertakings of the company and its controlled entities, and also by registered mortgages over all real property.

A loan of $3,250,000 (1999 Nil) resulting from the purchase of land by a company within the consolidated entity is secured by a first ranking mortgage over the land.

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

	consolidated		company	
	2000	1999	**2000**	1999
	$	$	**$**	$
26. Remuneration of Directors and Executives				
(a) Directors' Remuneration				
Income paid or payable, or otherwise made available to directors by entities in the consolidated entity and related parties in connection with the management of affairs of the company or its controlled entities	**3,094,147**	1,327,949	**1,634,057**	1,327,949

The number of company directors whose total income from the company or related parties was within the following bands:

	company	
	2000	1999
\$ 20,000 – \$ 29,999	**1**	–
\$ 50,000 – \$ 59,999	**2**	3
\$140,000 – \$149,999	**1**	–
\$150,000 – \$159,999	**1**	–
\$200,000 – \$209,999	**1**	–
\$210,000 – \$219,999	**–**	1
\$340,000 – \$349,999	**–**	1
\$380,000 – \$389,999	**1**	–
\$610,000 – \$619,999	**–**	1
\$620,000 – \$629,999	**1**	–

The remuneration above includes performance based bonuses as well as payments made to certain directors during the financial year in relation to their employment as qualified pathologists.

Details of options granted to directors during the year ended 30 June 2000 are set out in Note 26(d).

	consolidated		company	
	2000	1999	**2000**	1999
	$	$	**$**	$
(b) Executives' Remuneration				
Remuneration received or receivable by executive officers of the consolidated entity and the company whose total income exceeds \$100,000 from entities in the consolidated entity and related entities	**4,253,492**	1,980,346	**1,549,807**	1,177,949

The number of the executives of the company and its controlled entities whose total income falls within the following bands:

	consolidated		company	
	2000	1999	**2000**	1999
\$100,000 – \$109,999	**3**	–	**–**	–
\$140,000 – \$149,999	**–**	1	**–**	–
\$150,000 – \$159,999	**2**	–	**1**	–
\$160,000 – \$169,999	**2**	–	**–**	–
\$170,000 – \$179,999	**1**	1	**1**	–
\$180,000 – \$189,999	**1**	–	**–**	–
\$190,000 – \$199,999	**1**	–	**–**	–
\$200,000 – \$209,999	**2**	–	**1**	–
\$210,000 – \$219,999	**1**	1	**–**	1
\$220,000 – \$229,999	**1**	–	**–**	–
\$230,000 – \$239,999	**–**	1	**–**	–
\$240,000 – \$249,999	**–**	1	**–**	–
\$260,000 – \$269,999	**1**	–	**–**	–
\$270,000 – \$279,999	**1**	–	**–**	–
\$340,000 – \$349,999	**–**	1	**–**	1
\$350,000 – \$359,999	**1**	–	**–**	–
\$380,000 – \$389,999	**1**	–	**1**	–
\$610,000 – \$619,999	**–**	1	**–**	1
\$620,000 – \$629,999	**1**	–	**1**	–

26. Remuneration of Directors and Executives (continued)

The total income reported above includes the income of executive directors reported in Note 26(a) and certain pathologists with executive roles. Performance related bonuses have been included where applicable.

(c) Directors' Benefits

Mr C.D. Wilks has a beneficial entitlement in a company which provided managerial and administrative services to the consolidated entity. The charges were levied on a commercial basis and amounted to $384,775 (1999 $314,212).

Dr M.F. Robinson has a beneficial entitlement in a partnership which provided managerial and pathology services to a member of the consolidated entity. The charges were levied on a commercial basis and amounted to $127,500 (1999 Nil).

(d) Options Granted

The value of options over unissued ordinary shares of Sonic Healthcare Limited granted during the financial year to any of the directors or executive officers of the consolidated entity as part of their remuneration are not included in the disclosure above. 4,500,000 options were granted to executive directors on 20 April 2000 following approval of shareholders at the 1999 Annual General Meeting. Details of the options are included in Note 18. The directors estimate that the fair value of the options at grant date was in the range of 50 cents to $1.85 each. An exact value is considered to be indeterminable as it is a function of the future prospects of the company and the conditions of the options which include continuity of employment.

27. Segment Information

The consolidated entity operates predominantly in the medical diagnostic services industry within Australasia.

The parent entity has an investment in SciGen, a biopharmaceutical company located in Singapore. The investment was equity accounted for the first time in the current year, resulting in the recognition of a share of loss of $1,455,000 for the year. The net (equity accounted) value of the investment at 30 June 2000 was $5,462,000.

28. Related Party Disclosures

Details in respect of related parties are as follows:

(a) Directors

The names of the persons who have held the position of Director of the parent company for the past two years are:

	Date Appointed	Date Resigned
C.D. Wilks	5 December 1989	
M.D. Boyd	28 January 1993	31 December 1999
Dr C.S. Goldschmidt	28 January 1993	
R.P. Campbell	28 January 1993	
B.S. Patterson	12 May 1993	
Dr M.M. Barratt	14 February 1996	
C.J. Jackson	31 December 1999	
Dr M.F. Robinson	31 December 1999	

Directors' remuneration during the financial year has been disclosed in Note 26(a).

Transactions with Director Related Entities

L. Panaccio, R. Harris and R. Sutherland are directors of an entity in the consolidated entity (Melbourne Pathology Pty Ltd), and are also directors of 103 Victoria Parade Pty Ltd. On 2 December 1999, Melbourne Pathology Pty Ltd entered into a contract for the sale of land with 103 Victoria Parade Pty Ltd. The land was sold for a value of $3,250,000 and this transaction was considered to be on normal terms and conditions and at market rates. This transaction gave rise to a secured loan payable at 30 June 2000 of $3,250,000 to 103 Victoria Parade Pty Ltd. The secured loan is for a period of 15 months payable in full on 1 March 2001, levies interest at a rate of 9.5% per annum and is secured by a first ranking mortgage over the land. Interest expense included in the determination of the operating profit before income tax associated with this loan is $179,923.

During the period 1 December 1999 to 30 June 2000 rental payments have been made to director related entities, including unit trusts, private companies and spouses. These rental transactions were based on commercial terms and conditions and at market rates. The aggregate amount of rental expense recognised in the financial statements was $343,979. The directors of entities within the consolidated entity who have an interest in the rental transactions were:

C. Jackson	M. Prentice
D. Hope	J. Roberts
M. Robinson	G. Bryant
R. Harris	R. Sutherland

28. Related Party Disclosures (continued)

During the financial year, a controlled entity charged administration fees of $42,000 (1999 $20,000) to Silex Systems Limited, an entity which has common directors, namely; Mr B.S. Patterson, Dr C.S. Goldschmidt, Mr C.D. Wilks, Mr R.P. Campbell and Mr M.D. Boyd (for that period in which he was a director of Sonic Healthcare Limited). The transaction was based on commercial terms and conditions and at market rates.

(b) Directors' Shareholding and Options

Interests in the shares of entities within the consolidated entity held by directors of the parent entity and their director related entities:

	Sonic Healthcare Limited Options Over Ordinary Shares		Sonic Healthcare Limited 20c Ordinary Shares Fully Paid	
	2000	1999	**2000**	1999
B.S. Patterson	**–**	–	**4,916,646**	5,916,646
Dr C.S. Goldschmidt	**3,700,000**	700,000	**658,000**	258,000
C.D. Wilks	**2,050,000**	630,000	**517,000**	387,000
Dr M.M. Barratt	**–**	–	**1,890,000**	2,020,000
C.J. Jackson	**–**	–	**–**	–
Dr M.F. Robinson	**–**	–	**200,000**	–

Mr C.D. Wilks exercised 80,000 (1999 70,000) options with an exercise price of 70 cents (1999 70 cents).

During the financial year, Mr C.D. Wilks bought 200,000 and sold 150,000 shares, Dr C.S. Goldschmidt bought 800,000 and sold 400,000 shares, and Dr M.M. Barratt sold 130,000 shares. Mr B.S. Patterson's beneficial holding decreased by 1,000,000 shares after Polly Pty Ltd (a company in which Mr Patterson is a director and shareholder) disposed of these shares. These transactions were on commercial terms and conditions and at market rates.

Mr C.J. Jackson has a 4.89% interest in Diagnostic Services Pty Ltd, a controlled entity.

(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 20.

Transactions between Sonic and the other entities in the wholly-owned group during the years ended 30 June 2000 and 30 June 1999 consisted of:

- Loans advanced by Sonic;
- Loans repaid to Sonic;
- The payment of interest on the above loans;
- The payment of dividends to Sonic; and
- The payment and charging of administration and rental charges to Sonic.

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

	company	
	2000	1999
	$'000	$'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	**5,762**	1,487
Dividend revenue	**24,400**	19,000
Interest expense	**185**	–
Provision for doubtful debt recovery/(expense)	**1,419**	–
Aggregate amounts receivable from wholly-owned controlled entities by the company at balance date:		
Receivables (non-current)	**116,054**	30,034
Provisions against receivables	**–**	(1,419)
Aggregate amounts payable to wholly-owned entities by the company at balance date:		
Loans (non-current)	**2,528**	2,669

28. Related Party Disclosures (continued)

(d) Other Related Parties

During the financial year the company charged administration fees of $1,373,000 to controlled entities outside the wholly-owned group. These transactions were on commercial terms and conditions and at market rates.

An equity accounted loss of $1,455,000 has been recognised in the operating profit before income tax of the consolidated entity, and is attributable to its interest in an associate, SciGen. Refer Note 22.

Non-current receivables from SciGen of $551,000 have been recognised by the company and $592,000 by the consolidated entity at balance date.

Aggregate amounts brought to account in relation to other transactions which occurred on commercial terms and conditions and at market rates with SciGen are:

	consolidated		company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
Cash advance	**500**	–	**500**	–
Recharge of costs incurred on behalf of the associate	**62**	–	**51**	–
Rental	**8**	–	**–**	–
Administration Fee	**22**	–	**–**	–

(e) Ownership Interests in Related Parties

Interests held in the following classes of related parties are set out in the following notes:

(i) entities of the wholly-owned group: Note 20

(ii) associates: Note 22

	consolidated	
	2000	1999
29. Earnings per Share		
Basic earnings per share (cents per share)	**12.7**	14.2
Diluted earnings per share (cents per share)	**11.9**	13.6
Normalised (pre intangible amortisation) diluted earnings per share (cents per share)	**21.7**	16.7
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**147,750,564**	122,965,309

Options as detailed in Note 18 are considered to be dilutive and are included in the calculation of diluted earnings per share. These options have not been included in the determination of basic earnings per share. Diluted earnings per share has also been calculated with the inclusion of 17,781,309 shares expected to be issued to minority shareholders in ex-SGS Medical Group controlled entities when those minority interests convert to Sonic equity over the period to 30 November 2000.

	consolidated		company	
	2000 $'000	1999 $'000	**2000 $'000**	1999 $'000
30. Statements of Cash Flows				
(a) Cash at Bank and on Hand	**11,022**	5,345	**140**	108
(b) Reconciliation of Net Cash Provided by Operating Activities to Operating Profit after Income Tax				
Operating profit after income tax	**21,910**	17,451	**29,237**	19,093
Add/(less) non-cash items:				
Depreciation	**7,874**	2,700	**642**	586
Amortisation – leases	**4,410**	2,485	**–**	–
– intangibles	**14,008**	4,007	**–**	–
Provision for doubtful debts	**2,092**	1,371	**–**	–
Net (profit)/loss on sale of property, plant and equipment	**(124)**	161	**–**	–
Share of loss of associate	**1,455**	–	**–**	–
Add/(less) changes in assets and liabilities during the financial year:				
Increase/(decrease) in provision for employee entitlements	**4,008**	1,392	**–**	–
(Increase)/decrease in prepaid expenditure	**(912)**	130	**255**	(17)
Increase/(decrease) in accrued expenses	**3,281**	2,151	**388**	319
Increase/(decrease) in trade creditors	**(1,102)**	204	**–**	–
(Increase)/decrease in trade debtors and accrued revenue	**(2,311)**	(1,729)	**–**	–
(Increase)/decrease in sundry debtors	**(1,680)**	(349)	**(740)**	11
(Increase)/decrease in inventories	**(2,546)**	(73)	**–**	–
Increase/(decrease) in other provisions	**(4,224)**	(1,140)	**(1,480)**	–
(Increase)/decrease in future income tax benefit	**453**	(393)	**(88)**	–
Increase/(decrease) in deferred tax liability	**72**	–	**(42)**	(152)
Increase/(decrease) in provision for income tax	**(2,249)**	3,147	**1,703**	273
(Increase)/decrease in provision for dividends receivable	**–**	–	**(7,000)**	(15,000)
Net cash provided by operating activities	**44,415**	31,515	**22,875**	5,113

(c) Non-cash Financing and Investment Activities
During the financial year the consolidated entity:

- Acquired the SGS Medical Group and Hitech Pathology Pty Ltd which were partly funded by the issue of shares to the value of $57,387,000 to vendors. This part of the purchase price is not reflected in the Statement of Cash Flows.
- Acquired property, plant and equipment with an aggregate fair value of $3,168,000 (1999 $3,423,133) by means of finance leases and hire purchase agreements. As a result, these acquisitions are not reflected in the Statements of Cash Flows.

(d) Standby Arrangements and Credit Facilities
Entities in the consolidated entity have access to:

	consolidated 2000 $'000	consolidated 1999 $'000	company 2000 $'000	company 1999 $'000
(i) Credit standby arrangements:				
Secured loan facilities totalling	**63,000**	62,000	**–**	62,000
Amount of credit unused	**33,525**	16,000	**–**	16,000
(ii) Lease facilities:				
Total facilities	**25,083**	13,982	**–**	–
Amount of facilities unused	**14,919**	6,524	**–**	–

31. 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

Bank loans of the consolidated entity currently bear an average variable interest rate of 7.8%. It is company policy to protect part of the 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 other debtors or other creditors.

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Swaps currently in place cover approximately 70% of the loan principal outstanding. The fixed interest rates range between 5.50% and 7.64%.

At 30 June 2000, the notional principal amounts and periods of expiry of the interest rate swap contracts for the consolidated entity are as follows:

	consolidated	
	2000	1999
	$'000	$'000
Less than 1 year	**26,984**	–
1 – 2 years	**39,691**	–
2 – 3 years	**40,476**	–
3 – 4 years	**46,183**	–
4 – 5 years	**53,183**	–
	206,517	–

(b) Credit Risk Exposures

The carrying amounts of financial assets included in the consolidated balance sheet represent the consolidated entity's maximum exposure to credit risk in relation to these assets. 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 and the Health Funding Authority in New Zealand, both of which are government bodies.

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

31. 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.

	Floating Interest Rate	Fixed Interest Rate Maturities			Non-Interest Bearing	
		1 Year or Less	1 to 5 Years	Over 5 Years		Total
30 June 2000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Assets						
Cash	**8,550**	**550**			**1,922**	**11,022**
Trade debtors					**59,119**	**59,119**
Accrued revenue					**8,703**	**8,703**
Sundry debtors					**3,387**	**3,387**
Amounts receivable from associate					**592**	**592**
Loans	**640**				**208**	**848**
Total financial assets	**9,190**	**550**			**73,931**	**83,671**
Weighted average interest rate	**5.50%**	**6.30%**				
Liabilities						
Trade accounts payable					**17,222**	**17,222**
Other accounts payable					**16,293**	**16,293**
Bank loans	**296,546**	**415**	**1,570**			**298,531**
Lease liabilities		**6,728**	**9,049**			**15,777**
Amounts owing to vendors		**7,757**			**17,834**	**25,591**
Other loans					**1,425**	**1,425**
Hire purchase		**388**	**859**			**1,247**
Interest rate swaps*	**(206,517)**	**26,984**	**179,533**			**–**
Total financial liabilities	**90,029**	**42,272**	**191,011**		**52,774**	**376,086**
Weighted average interest rate	**7.66%**	**6.95%**	**6.80%**			
Net financial assets/(liabilities)	**(80,839)**	**(41,722)**	**(191,011)**		**21,157**	**(292,415)**

* Notional principal amounts

30 June 1999	Floating Interest Rate	1 Year or Less	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
Assets						
Cash	5,345					5,345
Trade debtors					21,011	21,011
Accrued revenue					2,703	2,703
Sundry debtors					1,613	1,613
Loans					82	82
Total financial assets	5,345				25,409	30,754
Weighted average interest rate	4.2%					
Liabilities						
Trade accounts payable					4,788	4,788
Other accounts payable					7,539	7,539
Bank loans	46,000					46,000
Lease liabilities		3,387	4,071			7,458
Hire purchase		60	20			80
Total financial liabilities	46,000	3,447	4,091		12,327	65,865
Weighted average interest rate	5.43%	9.02%	8.15%			
Net financial assets/(liabilities)	(40,655)	(3,447)	(4,091)		13,082	(35,111)

31. 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. 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 24. As explained in that note, no material losses are anticipated in respect of any contingencies.

	consolidated		company	
	2000	1999	**2000**	1999
	$'000	$'000	**$'000**	$'000
32. Amounts Receivable and Payable Denominated in Foreign Currencies				
Exposures on items not effectively hedged				
Amounts receivable				
Non-current, not effectively hedged United States dollars	**82**	82	**82**	82

33. Events Occurring After Reporting Date

On 3 July 2000, Sonic Healthcare Limited acquired additional shares in SciGen for a consideration of $1,300,000, bringing its ownership of SciGen to 58%, and making SciGen a controlled entity of Sonic.

On 24 August 2000, the company advised the Australian Stock Exchange (ASX) that it had signed a Heads of Agreement to acquire the Pacific Medical Imaging group of radiology practices in Australia and New Zealand.

Sonic subscribed for 12,300,000 shares (approximately a 10% interest) in Foundation Healthcare Limited for $21,894,000 on 25 August 2000. The parties have also entered into a strategic alliance.

On 7 September 2000, the company raised $102 million via a placement to institutional investors of 15 million new ordinary shares at a price of $6.80.

Directors' declaration for the year ended 30 June 2000

The directors declare that the financial statements and notes set out on page 20 to 45:

(a) comply with Accounting Standards, the Corporations Regulations 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 2000 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 Law; 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 20 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 21.

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

Dr C.S. Goldschmidt
Managing Director

C.D. Wilks
Director

Sydney, 12 September 2000

Independent audit report to the Members of Sonic Healthcare Limited

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Scope

We have audited the financial report of Sonic Healthcare Limited (the company) for the financial year ended 30 June 2000 as set out on pages 20 to 46. The company's directors are responsible for the financial report which includes the financial statements of the company and the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of, or during, the financial year. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Law in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of the company is in accordance with:

(a) the Corporations Law, including:

  (i) giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2000 and of their performance for the financial year ended on that date; and

  (ii) complying with Accounting Standards and the Corporations Regulations;

(b) other mandatory professional reporting requirements.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

DSWiadrowski

D.S. Wiadrowski
Partner

Sydney, 12 September 2000

Shareholders' information

1. Information Relating to Shareholders

(a) Distribution Schedule as at 12 September 2000

	No. of Holders Ordinary Shares
1 – 1,000	1,371
1,001 – 5,000	1,438
5,001 – 10,000	269
10,001 – 100,000	238
100,001 and over	128
Total number of holders of each class of security	3,444
Voting Rights – on a show of hands	1/member
– on a poll	1/share
Percentage of total holding held by the twenty largest holders	69.37%
Number of holders holding less than a marketable parcel	5

(b) Names of the Twenty Largest Holders of Equity Securities as at 12 September 2000

Name	No. of Securities	Percentage Held
Permanent Trustee Australia Limited	25,154,035	13.64%
Jardvan Pty Limited	24,458,704	13.26%
Chase Manhattan Nominees Limited	14,131,360	7.66%
National Nominees Limited	9,933,645	5.39%
Westpac Custodian Nominees Limited	6,922,833	3.75%
AMP Life Limited	5,071,165	2.75%
The National Mutual Life Association of Australasia Limited	4,988,788	2.70%
Perpetual Trustees Nominees Limited	4,339,883	2.35%
Polly Pty Limited	4,116,646	2.23%
Westpac Financial Services Limited	3,922,489	2.13%
Mercantile Mutual Life Insurance Company Limited	3,021,911	1.64%
Dr Thomas Davis	2,970,485	1.61%
Bardavis Pty Limited	2,970,000	1.61%
Citicorp Nominees Pty Limited	2,698,529	1.46%
Westpac Life Insurance Services Limited	2,562,226	1.39%
BT Custodial Services Pty Limited	2,535,004	1.37%
Commonwealth Custodial Services Limited	2,485,669	1.35%
Quintal Pty Limited	2,000,000	1.08%
NRMA Nominees Pty Limited	1,935,000	1.05%
Queensland Investment Corporation	1,751,853	0.95%
	127,970,225	69.37%

2. Interest of Directors in Securities as at 12 September 2000

	Ordinary Shares	Interest
B.S. Patterson	4,116,646	Held Beneficially
Dr C.S. Goldschmidt	200,000	Held Personally
	658,000	Held Beneficially
C.D. Wilks	367,500	Held Personally
	189,500	Held Beneficially
Dr M.M. Barratt	175,000	Held Personally
	1,300,000	Held Beneficially
C.J. Jackson	–	–
Dr M.F. Robinson	200,000	Held Personally
R.P. Campbell	–	–

3. Unquoted Equity Securities as at 12 September 2000

	No. on Issue	No. of Holders
Options issued under the Sonic Healthcare Limited Employee Option Plan to take up ordinary shares	5,078,000	307
No person holds 20% or more of these securities.		
Executive director options to take up ordinary shares	4,500,000	2

company directory

Directors

Mr B.S. Patterson – Chairman

Dr C.S. Goldschmidt – Managing Director

Mr C.D. Wilks

Dr M.M. Barratt

Mr C.J. Jackson

Dr M.F. Robinson

Mr R.P. Campbell

Company Secretary

Mr C.D. Wilks

Assistant Company Secretary

Mr P.J. Alexander

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Auditors

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Solicitors

Allen Allen & Hemsley

Manion McCosker

Bankers

Australia and New Zealand Banking Group Limited

Westpac Banking Corporation

Citibank

ABN-AMRO

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