Sonic Healthcare Limited

ABN **24 004 196 909**

Annual report – 30 June 2005

Contents

Corporate directory

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

Principal registered office in Australia

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Share registry

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South Australia, 5000, Australia.

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Ph: 61 3 9415 4000 (Outside Australia)
Fax: 61 8 8236 2305
Website: www.computershare.com

Auditor

PricewaterhouseCoopers

Solicitors

Allens Arthur Robinson
Baker McKenzie

Bankers

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

Stock exchange listings

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

Directors' report

Your directors present their report on the consolidated entity consisting of Sonic Healthcare Limited and the entities it controlled at the end of, or during, the year ended 30 June 2005.

Directors

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

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

Mr L.J. Panaccio was appointed a director on 30 June 2005 and continues in office at the date of this report.

Principal activities

During the year the principal continuing activities of the consolidated entity consisted of the provision of medical diagnostic services and, following Independent Practitioner Network Limited (IPN) becoming a subsidiary of Sonic in August 2004, the provision of administrative services and facilities to medical practitioners.

Dividends

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

	2005	2004
	\$'000	\$'000
Interim dividend paid	**35,665**	26,746
Final dividend paid	**63,367**	54,216
Total dividend for the year	**99,032**	80,962

On 22 August 2005, the Board declared a final dividend in respect of the year ended 30 June 2005 of 23 cents per ordinary share, 100% franked (at 30%) to be paid on 19 September 2005 with a record date of 6 September 2005. An interim dividend of 13 cents per ordinary share 100% franked (at 30%) was paid on 17 March 2005.

A final dividend of 20 cents per ordinary share was paid on 20 September 2004 in respect of the year ended 30 June 2004, out of profits of that year as recommended by the directors in last year's Directors' report. The interim dividend in respect of the year ended 30 June 2004 was 10 cents per ordinary share, paid on 17 March 2004.

The company's dividend reinvestment plan (DRP) was suspended in respect of the 2004 and 2005 interim and final dividends and until further notice. The standing discount to market price for subscriptions under the DRP is 2.5%.

Review of operations

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

	2005 $'000	2004 $'000	Movement %
Total Revenue	**1,382,412**	1,037,397	33.3%
Earnings before interest, tax, depreciation and amortisation (**EBITDA**)	**310,680**	238,240	30.4%
Depreciation and lease amortisation	**(49,594)**	(41,679)	19.0%
Earnings before interest, tax and intangibles amortisation (**EBITA**)	**261,086**	196,561	32.8%
Net interest expense	**(41,490)**	(34,132)	21.6%
Income tax attributable to operating profit	**(62,098)**	(45,222)	37.3%
Net (profit) attributable to outside equity interests	**(11,944)**	(255)	
Core net profit attributable to shareholders of Sonic Healthcare Limited	**145,554**	116,952	24.5%
Amortisation of intangibles	**(68,090)**	(59,324)	14.8%
Net profit attributable to shareholders of Sonic Healthcare Limited	**77,464**	57,628	34.4%

(a) Revenue

Revenue for the year increased by 33.3% from the prior year reflecting the following factors:

- Strong organic (excluding acquisitions) growth of around 7%, reflecting both patient volume growth and increased average fees.
- The consolidation of IPN from 26 August 2004, the acquisition of Accord Pathology (November 2004) and the acquisition by IPN of Endeavour Healthcare's medical centres (November 2004).
- A full year of the businesses acquired during the 2004 year, including the Schottdorf Group (June 2004), Omnilabs Pathology (July 2003) and the radiology group SDSG (December 2003).

(b) Profit

The net profit (after outside equity interests) of the consolidated entity for the year was $77,464,000 (2004: $57,628,000), after deducting income tax expense of $62,098,000 (2004: $45,222,000). Net profit after tax and before intangibles amortisation (core net profit) attributable to Sonic shareholders increased by 24.5% to $145,554,000 (2004: $116,952,000). Core diluted earnings per share (pre intangibles amortisation) increased 21.2% from 43.4 cents to 52.6 cents.

Operating margins are set out below:

	2005	2004
EBITDA as a % of Revenue	**22.5%**	23.0%
EBITA as a % of Revenue	**18.9%**	18.9%

Margins have been impacted by the acquisition of a lower margin business, IPN (acquired 26 August 2004). Excluding IPN, the EBITA margin for 2005 was 19.4%.

The results for the year exceeded the upgraded revenue and EBITA guidance given in February 2005. Sonic's largest subsidiaries in both pathology and radiology excelled, showing impressive revenue and earnings growth. Sonic reached a significant milestone in 2005, achieving double-digit core earnings per share (EPS) growth for the tenth successive year.

Net interest expense has increased by 21.6% to $41,490,000 due to increased debt as a result of the acquisitions of the Schottdorf Group, IPN and the Endeavour Healthcare businesses, offset by the group's strong cash generation from operations. Appropriate interest rate hedging arrangements are in place.

The relatively high effective tax rate of 41.0% (2004: 43.9%) is essentially a function of the non-deductible intangibles amortisation. The reduction in rate versus the prior year is mainly due to the reducing ratio of intangibles amortisation to profit, as well as deductible goodwill amortisation to 31 December 2004 in the Schottdorf Group.

Significant changes in the state of affairs

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

- The successful bid for control of IPN. IPN's results have been consolidated into Sonic from 26 August 2004.

- The acquisition by Sonic of Accord Pathology and the acquisition by IPN of Endeavour Healthcare's medical centres on 26 November 2004. The Accord Pathology businesses have since been completely merged into Sonic's existing operations in Sydney and Perth.

- Sonic completed the refinancing of its senior debt facility, with a new unsecured facility of $700 million provided by its existing banking syndicate. The new facility is more flexible, has a lower cost of funds and provides Sonic with significant "head room" for expansion.

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 22 August 2005 Sonic's directors declared a final dividend for 2005 of 23 cents per ordinary share payable on 19 September 2005. Sonic's dividend reinvestment plan remained suspended for this dividend and until further notice.

- On 23 August 2005 Sonic announced the signing of an agreement to acquire an interest in Clinical Pathology Laboratories, Inc. (CPL), the largest privately owned routine pathology laboratory in the United States of America. The initial acquisition will be of an interest of 82%. The purchase consideration for this interest will be ~US$312 million, including an earn out amount of up to US$20 million to be paid upon achievement of pre-determined earnings targets. As described in the August release, Sonic will progressively acquire the balance of CPL's equity over the year's 2009 to 2012.

- From 1 July 2005 to the date of this report, 546,750 options under the Sonic Healthcare Limited Employee Option Plan, 200,000 Executive Director options, and 35,000 Queensland X-Ray options have been exercised for a total exercise consideration of $5,060,155 to the consolidated group.

Likely developments and expected results of operations

Sonic's main focus during the 2006 and future financial years will be to continue to grow shareholder value through both acquisitions and organic growth and by extracting efficiencies from its existing businesses. Small "bolt-on" acquisitions which offer marginal profit contributions will continue to be targeted in Australia.

Sonic will also continue to pursue offshore expansion opportunities. The acquisition of CPL is a major strategic step for Sonic, providing an ideal entry and growth platform in the largest pathology market in the world. Sonic's partnership with CPL in the US will complement the company's successful growth strategy in Europe, making Sonic a truly global company. This strategy remains dependent on identifying attractive opportunities over time.

On 23 August 2005 Sonic provided guidance ranges to the market in relation to the 2006 financial year as follows:

- Revenue	$1,600	-	$1,670	million
- EBITA	$300	-	$320	million

This guidance includes the consolidation of CPL from 1 October 2005, but excludes any further acquisitions. The effect of expensing options/shares totalling $6.3 million under Australian equivalent International Financial Reporting Standards (AIFRS) has been included.

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

Share options

(a) Shares under option

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

(i) Sonic Healthcare Limited Employee Option Plan Options:

Number of options	Issue price of shares	Grant date	Expiry date
1,803,950	$7.38	20 June 2001	20 April 2006
587,250	$4.66	16 July 2002	16 May 2007
650,000	$6.30	15 April 2003	15 February 2008
10,000	$9.51	23 September 2004	23 July 2009
370,000	$9.56	23 September 2004	23 July 2009
3,421,200			

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

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

(ii) Executive Director Options:

Following approval by shareholders of the Executive Incentive Plan at the 2004 Annual General Meeting, options have been issued to Executive Directors in recognition that the applicable performance conditions have been satisfied. At the date of this report the following options are on issue:

Number of options	Issue price of shares	Issue date	Expiry date
1,540,000	$7.50	26 November 2004	26 November 2009
1,540,000	$7.50	22 August 2005	22 August 2010
3,080,000			

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

- Up to 50% may be exercised after 24 months from the date of issue
- Up to 100% may be exercised after 36 months from the date of issue

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

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

Number of options	Issue price of shares	Grant date	Expiry date
275,000	$4.66	16 July 2002	16 May 2007
80,000	$6.01	7 April 2003	7 February 2008
215,000	$7.57	19 February 2004	19 December 2008
570,000			

(iv) Schottdorf Options:

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

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

(v) Independent Practitioner Network Limited Employee Share Option Scheme:

Independent Practitioner Network Limited (IPN), a controlled entity, has in place an Employee Share Option Scheme where IPN, at the discretion of its Board of Directors, may grant options to directors, executives and certain members of IPN's staff. At the date of this report the following options are on issue.

Number of options	Weighted average exercise price of shares	Grant date	Expiry date	Vesting date
760,000	$0.085	23 November 2002	30 November 2007	25% per year from grant date
500,000	$0.085	23 November 2002	30 March 2007	25% per year from grant date
500,000	$0.085	23 November 2002	31 December 2006	25% per year from grant date
380,000	$0.132	22 August 2002	21 August 2007	10% on 1st and 2nd anniversary, 80% on third anniversary
2,140,000				

(vi) Independent Practitioner Network Limited Options:

At the date of this report there are 14,239,596 options over unissued ordinary IPN shares that were granted to R.E. Shreeve on 20 August 2002 in relation to the Foundation Healthcare Limited acquisition (prior to Sonic acquiring a controlling interest in IPN). Each option is convertible into one ordinary share in Independent Practitioner Network Limited at an exercise price of $0.132 on or before the expiry date of 7 October 2006.

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

(i) Sonic Healthcare Limited Employee Option Plan Options:

A total of 2,455,200 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 2005 on the exercise of options granted under the Sonic Healthcare Limited Employee Option Plan and a further 546,750 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 (per share)
1,213,200	$5.41
1,368,750	$7.38
420,000	$4.66
3,001,950	

(ii) Executive Director Options:

A total of 4,300,000 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 2005 on the exercise of Executive Director Options that were issued on 20 April 2000 following approval at Sonic's 1999 Annual General Meeting, and a further 200,000 shares have been issued since that date but prior to the date of this report. The total amount paid on issue of those shares was $23,940,000 ($5.32 per share).

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

A total of 180,000 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 2005 on the exercise of QXR options and a further 35,000 shares have been issued since that date, but prior to the date of this report. The total amount paid on issue of those shares was $1,001,900 ($4.66 per share).

No amounts are unpaid on any of these shares.

Remuneration report

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

Remuneration arrangements for Dr C.S. Goldschmidt (Managing Director) and C.D. Wilks (Finance Director) were revised effective 1 July 2003 following a detailed review by the Remuneration Committee and subsequent approval by shareholders at the 2004 Annual General Meeting. The key terms of the revised arrangements are set out in part (d) below.

Sonic Healthcare Limited's remuneration policy links the remuneration of the Managing Director and the Finance Director to Sonic's performance through the award of conditional entitlements. These conditional entitlements (cash bonuses, share and share option grants) are dependant on the core earnings per share performance of the consolidated entity and thus align reward with the creation of value for shareholders.

	2001	2002	2003	2004	2005	Compound Average Annual Growth Rate*
Core earnings per share (cps)	28.1	33.3	37.8	43.4	52.6	17.0%
Net profit attributable to members ($'000)	26,179	33,758	40,858	57,628	77,464	31.2%

* The compound average annual growth rate is calculated over the period shown.

Sonic's total shareholder return over the five year period was 111%. This measure is calculated as the increase in share price over that period plus the dividends declared for those years (grossed up for franking credits) as a percentage of the share price at the start of the five year period. This total shareholder return calculation incorporates the value of the SciGen equity issue to Sonic shareholders in November 2002.

Remuneration and other terms of employment for other executives are reviewed annually by the Managing Director having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance-related bonuses and share and option grants, and fringe benefits.

Cash bonuses and option grants to executives are made at the discretion of the Managing Director, the Remuneration Committee and the Board of directors based on individual and company performance. These bonuses and option grants reward the creation of value for shareholders.

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

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

Remuneration report (continued)

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

(a) Non-executive directors of Sonic Healthcare Limited

Name	Directors' fee $
B.S. Patterson (Chairman)	50,000
R.P. Campbell	50,000
L.J. Panaccio*	-

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

The non-executive fee of $50,000 per annum has remained unchanged for 7 years.

*Appointment effective 30 June 2005.

(b) Executive directors of Sonic Healthcare Limited

Name	Base remuneration $	Directors' fees $	Other benefits* $	Bonus $	Super-annuation $
Dr C.S. Goldschmidt *Managing Director*	584,890	-	145,525	526,000**	19,585
C.D. Wilks *Finance Director*	448,415	-	-	284,040**	11,585
Dr P.J. Dubois *Director*	329,518	50,000	1,830	-	-
C.J. Jackson *Director*	383,588	50,000	8,859	-	16,691
Dr H.F. Scotton *Director*	197,364	50,000	-	-	95,980

* Other benefits include fringe benefits tax.
** Bonuses paid to Dr C.S. Goldschmidt and C.D. Wilks are based upon the core earnings per share performance of the consolidated entity (as set out in (d) below).

An Executive Incentive Plan for Dr C.S. Goldschmidt and C.D. Wilks was approved by shareholders at the 2004 Annual General Meeting. Under this plan fully paid up ordinary shares and options over unissued ordinary shares of Sonic Healthcare Limited are issuable upon the achievement of performance conditions. The fair values of the options and shares at the time of grant dates have been independently determined and have been allocated equally over the service periods up to the vesting dates. In addition to the remuneration disclosed above the calculated values of shares and options allocated to the 12 month period to 30 June 2005 for Dr C.S. Goldschmidt were $249,601 and $2,339,825 respectively. In addition to the remuneration disclosed above, the calculated values of shares and options allocated to the 12 month period to 30 June 2005 for C.D. Wilks were $134,160 and $1,263,505 respectively.

Cash bonuses, fully paid up ordinary shares and options over unissued ordinary shares of Sonic Healthcare Limited are performance related components of Dr C.S. Goldschmidt's and C.D. Wilks' remuneration. In aggregate, these components make up 81% of Dr C.S. Goldschmidt's remuneration for the 12 months to 30 June 2005, and 79% of C.D. Wilks' remuneration for the 12 months to 30 June 2005.

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

Remuneration report (continued)

(c) Other executives of the consolidated entity

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

Name	Base remuneration $	Other benefits $	Bonus $	Super-annuation $
D. Byrne* *CEO* *The Doctors Laboratory*	423,514	66,111	123,305	122,308
Dr R. Prudo* *Executive Chairman* *The Doctors Laboratory*	251,541	79,428	88,779	396,814
Dr B. Schottdorf** *Executive Chairman* *The Schottdorf Group*	977,887	27,822	167,398	-
G. Schottdorf** *CEO* *The Schottdorf Group*	773,126	27,033	334,796	-
R.E. Shreeve*** *Managing Director* *Independent Practitioner Network Limited*	407,013	-	375,000	9,654

* D. Byrne and Dr R. Prudo are employed by The Doctors Laboratory Limited (TDL) in the United Kingdom. They are remunerated in British Pounds.
** Dr B. Schottdorf and G. Schottdorf are employed by the Schottdorf Group in Germany. They are remunerated in Euros.
*** R. Shreeve resigned as Managing Director of Independent Practitioner Network Limited (IPN) on 26 July 2005 and was appointed Chief Executive Officer of IPN on the same date.

In addition to the remuneration disclosed above fully paid ordinary shares were issued to Dr R. Prudo and D. Byrne during the financial year as bonuses pursuant to their service agreements and based on the performance of TDL. The market value of these shares at the time of grant to Dr R. Prudo and D. Byrne was $100,118 and $129,366 respectively.

Cash bonuses and the issue of fully paid up ordinary shares (to Dr R. Prudo and D. Byrne) represent performance related components of remuneration for the "other executives". The relative proportion of these components to total remuneration in the financial year was; D. Byrne 29%, Dr R. Prudo 21%, Dr B. Schottdorf 14%, G. Schottdorf 29%, and R. Shreeve 44%.

R.E. Shreeve was issued options over unissued ordinary IPN shares on 20 August 2002. The fair value of these options at the time of grant has been allocated equally over the service periods up to the vesting dates. In addition to the remuneration disclosed above the calculated value of IPN options allocated to the 12 month period to 30 June 2005 was $67,584.

(d) Service agreements

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks were revised effective 1 July 2003 following a detailed review by the Remuneration Committee and subsequent approval by shareholders at the 2004 Annual General Meeting. The key terms of the revised arrangements are set out below:

Dr C.S. Goldschmidt
- Base salary, inclusive of superannuation of $750,000.

Short term incentives:
- Cash bonus, payable half yearly based on reported core earnings per share.
- Issue of 20,000 fully paid ordinary shares if core earnings per share are at least 10% higher than the previous year. If core earnings per share growth falls below 10%, no shares will be issued. However, if core earnings per share growth in a subsequent year exceeds 10% and makes up for the previous year's shortfall, then the prior year's shares that were foregone will be released. This arrangement is to run for five consecutive years. Subject to satisfying the performance conditions the issues relating to the first four years of the arrangement were approved at the November 2004 Annual General Meeting. Share issues relating to the final year of the arrangement will be subject to renewal of shareholder approval.

Remuneration report (continued)

Long term incentive:
- Issue of 1,000,000 options exercisable at $7.50 (within 5 years) if core earnings per share are at least 10% higher than the previous year. If this growth is not achieved in one year but is made up in a subsequent year, then the previously forfeited options will be released. This arrangement is to run for five consecutive years. Subject to satisfying the performance conditions the issues relating to the first four years of the arrangement were approved at the November 2004 Annual General Meeting. Share option issues relating to the final year of the arrangement will be subject to renewal of shareholder approval.

C.D. Wilks
- Base salary, inclusive of superannuation of $460,000.

Short term incentives:
- Cash bonus, payable half yearly based on reported core earnings per share.
- Issue of 10,750 fully paid ordinary shares if core earnings per share are at least 10% higher than the previous year. If core earnings per share growth falls below 10%, no shares will be issued. However, if core earnings per share growth in a subsequent year exceeds 10% and makes up for the previous year's shortfall, then the prior year's shares that were foregone will be released. This arrangement is to run for five consecutive years. Subject to satisfying the performance conditions the share issues relating to the first four years of the arrangement were approved at the November 2004 Annual General Meeting. Share issues relating to the final year of the arrangement will be subject to renewal of shareholder approval.

Long term incentive:
- Issue of 540,000 options exercisable at $7.50 (within 5 years) if core earnings per share are at least 10% higher than the previous year. If this growth is not achieved in one year but is made up in a subsequent year, then the previously forfeited options will be released. This arrangement is to run for five consecutive years. Subject to satisfying the performance conditions the share option issues relating to the first four years of the arrangement were approved at the November 2004 Annual General Meeting. Share option issues relating to the final year of the arrangement will be subject to renewal of shareholder approval.

No other directors have service agreements. Service agreements for specified executives are detailed below:

D. Byrne
Following the acquisition of TDL in the UK in April 2002, a 5 year service contract was established with the following key terms:
- Initial base salary of £150,000 per annum, plus superannuation and other benefits to be reviewed annually on 1 September each year.
- Cash and equity bonus arrangements relating to the performance of TDL.
- Twelve month notice period by either party.

Dr R. Prudo
Following the acquisition of TDL, a 5 year service contract was established with the following key terms:
- Initial base salary of £165,000 per annum, plus superannuation and other benefits to be reviewed annually on 1 September each year.
- Cash and equity bonus arrangements relating to the performance of TDL.
- Twelve month notice period by either party.

Dr B. Schottdorf
Following the acquisition of The Schottdorf Group in June 2004, a rolling service contract was established with the following key terms:
- Base salary of €579,000.
- Cash bonus arrangement relating to the performance of the Schottdorf Group.
- Twelve month notice period by either party.

G. Schottdorf
Following the acquisition of The Schottdorf Group, a rolling service contract was established with the following key terms:
- Base salary of €508,000.
- Cash bonus arrangement relating to the performance of the Schottdorf Group.
- Twelve month notice period by either party.

Remuneration report (continued)

(e) Share options and shares granted to directors and executives

During the financial year 1,000,000 options over unissued ordinary shares in Sonic Healthcare Limited and 20,000 fully paid up ordinary shares were issued to Dr C.S. Goldschmidt, and 540,000 options and 10,750 shares were issued to C.D. Wilks under the Executive Incentive Plan. These performance related grants represented the short term and long term incentive awards in relation to the 2004 financial year.

Since the end of the financial year, but prior to the date of this report, an identical grant of fully paid up ordinary shares and options over unissued ordinary shares has been made to Dr C.S. Goldschmidt and C.D. Wilks under the Executive Incentive Plan. This performance related grant represented the short term and long term incentive awards in relation to the 2005 financial year.

During the financial year, 11,002 and 14,216 fully paid up ordinary shares were issued to Dr R. Prudo and D. Byrne as bonuses pursuant to their service agreements.

The amounts disclosed relating to shares and options issued under the Executive Incentive Plan represent the assessed fair values at the date they were granted allocated equally over the service periods up to the vesting dates. Fair values for these shares and options have been independently determined using appropriate pricing models that take into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and risk-free interest rate for the term of the option.

The amount disclosed for remuneration relating to options for R.E. Shreeve represents the assessed fair value of IPN options at the date they were granted allocated equally over the vesting periods. Fair value was independently determined using an appropriate pricing model as above.

Options over unissued ordinary shares in Sonic Healthcare Limited accounted for 61% of Dr C.S. Goldschmidt’s remuneration. During the financial year 1,000,000 options with an aggregate value of $4,315,000 were issued to Dr C.S. Goldschmidt under the terms of the Executive Incentive Plan. 3,000,000 options issued in April 2000 were exercised during the financial year. The value at exercise date of these options (being the difference between the market price and the exercise price) was $14,120,000. The total of the value of options issued in the financial year and the value of options issued in prior years exercised in this financial year is $18,435,000.

Options over unissued ordinary shares in Sonic Healthcare Limited accounted for 59% of C.D. Wilks’ remuneration. During the financial year 540,000 options with an aggregate value of $2,330,100 were issued to C.D. Wilks under the terms of the Executive Incentive Plan. 1,300,000 options issued in April 2000 were exercised during the financial year. The value at exercise date of these options (being the difference between the market price and the exercise price) was $5,768,000. The total of the value of options issued in the financial year and the value of options issued in prior years exercised in this financial year is $8,098,100.

Options over unissued ordinary shares in Independent Practitioner Network Limited granted in August 2002 accounted for 8% of R.E. Shreeve’s remuneration. No options were issued or exercised by R.E. Shreeve during the financial year.

Information on directors

(a) Directors' profiles

Barry Sydney Patterson
Chairman
A.S.M.M., M.I.M.M., F.A.I.C.D.

Mr Patterson has a corporate mining background, but in more recent years has held directorial positions in a number of both public and private companies. Mr Patterson is the Chairman of the Remuneration Committee and is a member of the Audit Committee and Chairman of the Nominations Committee. Mr Patterson is currently Chairman and a non-executive director of Silex Systems Limited (since 1992). Mr Patterson was formerly a non-executive director of National 1 Limited from June 2003 to July 2004.

Dr Colin Stephen Goldschmidt
Managing Director
M.B., B.Ch., F.R.C.P.A., F.A.I.C.D.

Dr Goldschmidt became the Managing Director of Sonic Healthcare Limited and its subsidiaries in 1993, prior to which he was the Medical Director of Douglass Hanly Moir Pathology. He joined the company after completing his Australian Pathology Fellowship training in Sydney in 1986. Dr Goldschmidt is a member of the Risk Management Committee and the Nominations Committee. Dr Goldschmidt is currently a non-executive director of SciGen Ltd (since 1999), Silex Systems Limited (since 1992) and Independent Practitioner Network Limited (since August 2005).

Christopher David Wilks
Finance Director
B.Comm. (Univ Melb) A.S.A., F.C.I.S., F.A.I.C.D.

Mr Wilks has a background in chartered accounting and investment banking. He was previously a partner in a private merchant bank and has held positions on the boards of a number of public companies. Mr Wilks has been a director of Sonic since 1989. Mr Wilks is a member of the Risk Management Committee. Mr Wilks is currently a non-executive director of SciGen Ltd (since 1999) and Independent Practitioner Network Limited (since August 2005). He is also an executive director of Silex Systems Limited (since 1988).

Peter Campbell
F.C.A., F.T.I.A., F.A.I.C.D.

Mr Campbell is a Chartered Accountant with his own practice based in Sydney. He is a Fellow of the Institute of Chartered Accountants in Australia, the Taxation Institute of Australia and the Australian Institute of Company Directors. He is a Registered Company Auditor. Mr Campbell is the Chairman of the Audit Committee and a member of both the Remuneration Committee and the Nominations Committee. Mr Campbell is currently a non-executive director of Silex Systems Limited (since 1996) and was formerly a non-executive director of SciGen Ltd from 1999 to February 2005.

Dr Philip Dubois
M.B., B.S., F.R.C.R., F.R.A.N.Z.C.R, F.A.I.C.D.

Dr Dubois is Chairman of the Sonic Imaging Executive Committee and is Chairman and CEO of Queensland X-Ray. A neuroradiologist and nuclear imaging specialist, he is currently an Associate Professor of Radiology at University of Queensland Medical School. He has served on numerous government and craft group bodies including the Diagnostic Economic Committee and the Council of the Royal Australian and New Zealand College of Radiologists (RANZCR) and the Diagnostic Imaging Management Committee. He is currently Vice President and Treasurer of the Australian Diagnostic Imaging Association (ADIA), a Councillor and the Radiology Craft Group Representative of the Australian Medical Association (AMA), and member of the Nuclear Imaging Consultative Committee. Dr Dubois is a member of Sonic's Risk Management Committee. Dr Dubois is currently a non-executive director of Magnetica Limited (since December 2004).

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

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

Lou Panaccio
B.Ec, C.A., M.A.I.C.D.

Mr Panaccio is a chartered accountant with strong management experience in business and healthcare services. He is currently Chairman of CPW Group, a director of the Inner Eastern Community Health Service in Victoria, Executive Chairman of Health Networks Australia, and a non-executive director of Primelife Corporation Limited (since 2001). Mr Panaccio was the Chief Executive Officer and an Executive Director of Melbourne Pathology for ten years to 2001. Mr Panaccio is a member of the Audit Committee.

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

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

(b) Company secretary

Paul Alexander
B.Ec, C.A., A.S.I.A.

Mr Alexander has been the Group Financial Controller of Sonic Healthcare Limited since 1997 and Sonic's Company Secretary since 2001. Prior to joining Sonic, Mr Alexander gained 10 years experience in professional accounting practice, mainly with Price Waterhouse, and was also Financial Controller and Company Secretary of a subsidiary of a multinational company for two years.

(c) Directors' interests in shares and options as at 16 September 2005

Director's name	Class of shares	Number of shares	Interest	Options
B.S. Patterson	Ordinary	3,816,646	Beneficially	-
Dr C.S. Goldschmidt	Ordinary	40,000 3,000,000	Personally Beneficially	2,000,000 -
C.D. Wilks	Ordinary	96,500 1,698,000	Personally Beneficially	1,080,000 -
R.P. Campbell	Ordinary	-	-	-
Dr P.J. Dubois	Ordinary	2,379 120,000	Personally Beneficially	- -
C.J. Jackson	Ordinary	490,590	Personally	-
L.J. Panaccio	Ordinary	-	-	-
Dr H.F. Scotton	Ordinary	180,634	Personally	-

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2005, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees							
			Audit		Remuneration		Risk Management		Nominations	
	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held
B.S. Patterson	9	11	2	2	-	-			3	3
Dr C.S. Goldschmidt	10	11					2	2	3	3
C.D. Wilks	11	11					2	2		
R.P. Campbell	11	11	2	2	-	-			3	3
Dr P.J. Dubois	11	11					2	2		
C.J. Jackson	11	11	2	2						
L.J. Panaccio	-	-								
Dr H.J. Scotton	9	11								

Insurance of officers

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

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

Environmental regulation

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

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the consolidated entity are important.

Details of the amount paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are detailed in Note 34 – Remuneration of auditors.

The board of directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor’s own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors’ independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

Rounding of amounts

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

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

Dr C.S. Goldschmidt
Director

C.D. Wilks
Director

Sydney
30 September 2005

PRICEWATERHOUSECOOPERS

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Auditors' Independence Declaration

As lead auditor for the audit of Sonic Healthcare Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sonic Healthcare Limited and the entities it controlled during the period.

B K Hunter
Partner
PricewaterhouseCoopers

Sydney
30 September 2005

Corporate governance statement

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

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

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

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

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

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

- Commit to Service Excellence
  To willingly serve all those with whom we deal with unsurpassed excellence.

- Treat each other with Respect & Honesty
  To grow a workplace where trust, team spirit and equity are an integral part of everything we do.

- Demonstrate Responsibility & Accountability
  To set an example, to take ownership of each situation to the best of our ability and to seek help when needed.

- Be Enthusiastic about Continuous Improvement
  To never be complacent, to recognise limitations and opportunities for ourselves and processes and to learn through these.

- Maintain Confidentiality
  With regard to patient records and all information pertaining to patients as well as other professional and commercial issues.

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

1. Board of directors

(a) Role of the board

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

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

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

The board's overall responsibilities include:

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

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

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

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

(b) Composition of the board

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

Name	*Age*	*Term of Office (Years)*	*Position*	*Expertise*	*Committees*
Mr Barry Patterson	64	12	Chairman Non-Executive, independent Director	Company Management	Chairman of Remuneration and Nominations Committees, member of Audit Committee
Dr Colin Goldschmidt	51	12	Managing Director	Healthcare Industry and Company Management	Chairman of Risk Management Committee
Mr Chris Wilks	47	15	Finance Director	Finance, Accounting, Banking, Secretarial and Company Management	Member of Risk Management Committee
Mr Peter Campbell	60	12	Non-Executive, independent Director	Finance and Accounting, Computing and Company Management	Chairman of Audit Committee, member of Remuneration and Nominations Committees
Dr Philip Dubois	59	4	Executive Director	Radiology Industry and Company Management	Member of Risk Management Committee
Mr Colin Jackson	57	5	Executive Director	Finance, Pathology Industry and Company Management	
Mr Lou Panaccio	48	0.3	Non-Executive, independent Director	Finance, Pathology Industry and Company Management	Member of Audit Committee
Dr Hugh Scotton	63	4	Executive Director	Radiology Industry and Company Management	

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

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

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

For the reasons described above, Sonic does not comply with ASX Corporate Governance Council Recommendation 2.1: "A majority of the board should be independent directors". Due to the importance to Sonic of medical leadership and representation of major medical practice subsidiaries on the board, it is envisaged that Sonic will not fully comply with Recommendation 2.1 in the short to medium term, however the appointment of a Nominations Committee, the retirements of two executive directors at the 2003 Annual General Meeting and the appointment of Mr Lou Panaccio (June 2005) as an additional independent director were significant steps towards compliance.

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

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

(c) Board meetings

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

(d) Independent professional advice and access to information

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

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

(e) Conflicts of interest of directors

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

(f) Share trading

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

2. Board committees

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

(a) Remuneration Committee

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

The members of the Remuneration Committee during the year were:

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

The Remuneration Committee operates under a formal Charter and meets on an as required basis.

The current remuneration for non-executive directors is $50,000 per annum. Further details of Sonic's remuneration policies for executive directors and senior executives of the company, and the relationship between such policy and the company's performance is provided in the Directors' report and Note 33 to the financial statements.

(b) Audit Committee

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

The members of the Audit Committee are:

Mr R.P. Campbell (Chairman)
Mr L.J. Panaccio (appointed 30 June 2005)
Mr B.S. Patterson

Mr C.J. Jackson resigned from the Committee on 30 June 2005.

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

The responsibilities of the Audit Committee are set out in its Charter and include:

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

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

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

(c) Risk Management Committee

The members of the Risk Management Committee's responsibilities are set out in its Charter and include:

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

The Risk Management Committee's responsibilities are set out in its Charter and include:

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

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

The Committee meets at least twice per year.

(d) Nominations Committee

The Nominations Committee's role, as set out in its Charter, is to:

- Review the board structure regularly.
- Advise the board on the recruitment, appointment and removal of directors.
- Assess and promote the enhancement of competencies of directors.
- Review board succession plans.
- Make recommendations on remuneration of non-executive directors.

Members of the Nominations Committee are:

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

The Committee meets on an as required basis.

3. Identifying and managing business risks

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

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

(a) Responsibilities

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

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

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

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

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

(b) Risk management systems and processes

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

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

(c) Regulatory compliance

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

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

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

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

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

(d) Managing Director and Finance Director sign-off

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

4. Ethical standards

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

5. Continuous disclosure

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

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

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

6. The role of shareholders

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

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

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

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

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

7. External auditors

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

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

(a) The board and its committees

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

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

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

The inaugural performance evaluation of the board and its members was completed during the year.

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

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

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

(b) The Managing Director and Finance Director

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

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

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

(c) Key executives

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

Sonic Healthcare Limited ABN 24 004 196 909
Financial report
30 June 2005

Contents

Statements of financial performance

For the year ended 30 June 2005

	Notes	Consolidated		Parent entity	
		2005	2004	**2005**	2004
		$'000	$'000	**$'000**	$'000
Revenue from ordinary activities	3	**1,382,412**	1,037,397	**98,318**	90,927
Labour and related costs		**(609,904)**	(503,309)	**(264)**	(325)
Consumables used		**(213,085)**	(130,300)	**-**	-
Amortisation of intangibles	4	**(68,090)**	(59,324)	**-**	-
Depreciation and amortisation of physical assets	4	**(49,594)**	(41,679)	**(609)**	(834)
Operating lease rental expense		**(67,486)**	(41,073)	**(83)**	(18)
Borrowing costs expense	4	**(43,411)**	(35,250)	**(2,341)**	(8,648)
Repairs and maintenance		**(33,152)**	(27,028)	**-**	-
Utilities		**(32,820)**	(24,161)	**(2)**	-
Other expenses from ordinary activities		**(113,364)**	(72,168)	**(1,118)**	(1,824)
Profit from ordinary activities before income tax expense		**151,506**	103,105	**93,901**	79,278
Income tax expense	5	**(62,098)**	(45,222)	**(1,366)**	(4,509)
Profit from ordinary activities after income tax expense		**89,408**	57,883	**92,535**	74,769
Net (profit) attributable to outside equity interests		**(11,944)**	(255)	**-**	-
Net profit attributable to members of Sonic Healthcare Limited	26(b)	**77,464**	57,628	**92,535**	74,769
Net exchange differences on translation of financial report of foreign controlled entities	26(a)	**(1,836)**	4,433	**-**	-
Total revenues, expenses and valuation adjustments attributable to members of Sonic Healthcare Limited recognised directly in equity		**(1,836)**	4,433	**92,535**	74,769
Total changes in equity other than those resulting from transactions with owners as owners		**75,628**	62,061	**92,535**	74,769

		Cents	Cents
Basic earnings per share	37	**28.5**	21.7
Diluted earnings per share	37	**28.0**	21.4
Core (pre intangibles amortisation) diluted earnings per share	37	**52.6**	43.4

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

Statements of financial position

As at 30 June 2005

		Consolidated		Parent entity	
	Notes	**2005**	2004	**2005**	2004
		$'000	$'000	**$'000**	$'000
Current assets					
Cash assets	38(a)	**31,914**	17,343	**64**	3
Receivables	7	**146,110**	145,596	**173**	5,075
Inventories	8	**23,813**	22,903	**-**	-
Other	9	**10,253**	10,258	**139**	158
Total current assets		**212,090**	196,100	**376**	5,236
Non-current assets					
Receivables	10	**4,017**	4,499	**181,142**	143,952
Other financial assets	11	**11,677**	45,763	**1,081,383**	1,035,782
Property, plant and equipment	12	**270,127**	240,712	**25,070**	25,200
Intangible assets	13	**1,197,025**	1,162,162	**-**	-
Deferred tax assets	14	**40,919**	43,526	**13,074**	-
Other	15	**1,211**	1,371	**-**	-
Total non-current assets		**1,524,976**	1,498,033	**1,300,669**	1,204,934
Total assets		**1,737,066**	1,694,133	**1,301,045**	1,210,170
Current liabilities					
Payables	16	**102,282**	99,973	**2,956**	1,864
Interest bearing liabilities	17	**40,035**	34,746	**-**	-
Current tax liabilities	18	**6,629**	11,800	**3,812**	-
Provisions	19	**61,266**	55,036	**-**	-
Other	20	**5,028**	21,919	**-**	-
Total current liabilities		**215,240**	223,474	**6,768**	1,864
Non-current liabilities					
Payables	21	**35**	-	**364,726**	-
Interest bearing liabilities	22	**617,605**	606,536	**-**	334,518
Deferred tax liabilities	23	**2,453**	998	**4,713**	107
Provisions	24	**19,100**	15,338	**-**	-
Total non-current liabilities		**639,193**	622,872	**369,439**	334,625
Total liabilities		**854,433**	846,346	**376,207**	336,489
Net assets		**882,633**	847,787	**924,838**	873,681
Equity					
Parent entity interest					
Contributed equity	25	**913,981**	875,248	**924,771**	876,268
Reserves	26(a)	**8,668**	10,504	**982**	982
Accumulated losses	26(b)	**(38,142)**	(25,725)	**(915)**	(3,569)
Total parent entity interest		**884,507**	860,027	**924,838**	873,681
Outside equity interest in controlled entities	27	**(1,874)**	(12,240)	**-**	-
Total equity		**882,633**	847,787	**924,838**	873,681

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

Statements of cash flows

For the year ended 30 June 2005

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**1,442,355**	1,073,155	**30**	37
Payments to suppliers and employees (inclusive of goods and services tax)		**(1,127,693)**	(835,552)	**(1,049)**	(1,229)
		314,662	237,603	**(1,019)**	(1,192)
Dividends received from controlled entities		**-**	-	**90,714**	63,070
Interest received		**1,921**	1,118	**826**	22,280
Other revenue from controlled entities		**-**	-	**6,750**	5,431
Borrowing costs		**(40,072)**	(36,079)	**(2,341)**	(8,648)
Income taxes paid		**(58,196)**	(46,311)	**(1,607)**	(7,939)
Net cash inflow from operating activities	38(b)	**218,315**	156,331	**93,323**	73,002
Cash flows from investing activities					
Payment for purchase of controlled entity, net of cash acquired	29	**(121,411)**	(55,688)	**(44,306)**	-
Payments for property, plant and equipment		**(57,668)**	(38,568)	**(479)**	(1,220)
Proceeds from sale of non-current assets		**1,943**	5,022	**-**	1,320
Payments for investments		**(2,208)**	(5,497)	**(3,118)**	(24,185)
Loans to controlled entities		**-**	-	**(80,287)**	(90,791)
Repayment of loans by other entities		**2,940**	5,723	**-**	-
Repayment of loans by controlled entities		**-**	-	**1,600**	40,355
Loans to other entities		**(431)**	(3,625)	**-**	-
Payment for restructuring activities		**(4,249)**	(5,611)	**-**	-
Net cash (outflow) from investing activities		**(181,084)**	(98,244)	**(126,590)**	(74,521)
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities		**38,504**	5,839	**48,274**	6,859
Proceeds from borrowings		**195,759**	297,755	**80,000**	-
Loans from controlled entities		**-**	-	**74,935**	40,205
Repayment of borrowings		**(166,360)**	(326,202)	**(80,000)**	-
Dividends paid		**(89,881)**	(45,688)	**(89,881)**	(45,688)
Net cash (outflow)/inflow from financing activities		**(21,978)**	(68,296)	**33,328**	1,376
Net increase/(decrease) in cash held		**15,253**	(10,209)	**61**	(143)
Cash at the beginning of the financial year		**17,343**	26,489	**3**	146
Effects of exchange rate changes on cash		**(682)**	1,063	**-**	-
Cash at the end of the financial year	38(a)	**31,914**	17,343	**64**	3
Financing arrangements	17, 22				
Non-cash financing and investing activities	38(c)				

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

Notes to the financial statements

30 June 2005

Contents

Note 1 Summary of significant accounting policies

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

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

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Sonic Healthcare Limited ("company" or "parent entity") as at 30 June 2005 and the results of all controlled entities for the year then ended. Sonic Healthcare Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

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

(b) Income tax

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

Sonic Healthcare Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation at 30 June 2004, and have notified the Australian Taxation Office of this event.

As a consequence, Sonic Healthcare Limited, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Under a tax sharing and funding agreement amounts receivable or payable with the tax consolidated entities are recognised within amounts receivable/payable to controlled entities.

(c) Foreign currency translation

(i) Transactions

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

(ii) Foreign controlled entity

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

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

Note 1 Summary of significant accounting policies (continued)

(d) Acquisitions of assets

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

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

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

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

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

(e) Revenue recognition

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Medical services revenue is recognised on a completed test basis. Revenue from other services is recognised when the service has been provided. Rental income is recognised by allocating minimum lease payments on a basis representative of the pattern of services rendered through the provision of the leased asset.

(f) Receivables

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

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

(g) Inventories

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

(h) Recoverable amount of non-current assets

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

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

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

(i) Revaluations of non-current assets

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

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

Note 1 Summary of significant accounting policies (continued)

(j) Investments

(i) Controlled entities

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

(ii) Listed and unlisted securities

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

(k) Depreciation of property, plant and equipment

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

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

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

(l) Leased plant and equipment

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

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

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

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

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

(m) Intangible assets and expenditure carried forward

(i) Goodwill

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

(ii) Brand names

Included in intangibles is the value of certain brand names 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 50 years. The recoverable amount is reviewed annually by the directors and, where necessary, provision is made for any permanent diminution in value.

Note 1 Summary of significant accounting policies (continued)

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

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

(p) Derivative financial instruments
The consolidated entity enters into interest rate swap agreements.

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

(q) Employee benefits

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

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

(iii) Profit sharing and bonus plans
A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:
- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report, or
- past practice gives clear evidence of the amount of the obligation.

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

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

(v) Equity-based compensation benefits
Equity-based compensation benefits are provided to employees via the Sonic Healthcare Limited Employee Option Plan. Information relating to this scheme is set out in Note 35. No accounting entries are made in relation to the Sonic Healthcare Limited Employee Option Plan until options are exercised, at which time the amounts received are recognised in the statement of financial position as share capital. The amounts disclosed for remuneration of directors and executives in Note 33 include the imputed values of options at the date they were granted.

Note 1 Summary of significant accounting policies (continued)

(r) Borrowing costs
Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:
- interest on bank overdrafts, short-term and long-term borrowings, including amounts paid or received on interest rate swaps
- amortisation of discounts or premiums relating to borrowings
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- finance lease charges

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

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

(u) Earnings per share

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

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

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

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

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

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

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

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

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

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

Note 1 Summary of significant accounting policies (continued)

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

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

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

Note 2 Segment information

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

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

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

(iii) Other
Includes the corporate office function and other minor operations. Following its acquisition on 26 August 2004 this segment also includes the consolidated results of Independent Practitioner Network Limited (IPN).

Geographical segments
The consolidated entity operates predominantly in two geographical areas:

(i) Australia/New Zealand
The home country of the parent entity and New Zealand, incorporating both pathology and radiology activities. Following its acquisition on 26 August 2004 this segment also includes the consolidated results of IPN.

(ii) Europe and Other
Includes results of The Doctors Laboratory group in the United Kingdom, the Schottdorf Group in Germany and radiology in Hong Kong. None of these constitutes a separately reportable segment.

Note 2 Segment information (continued)

Primary Reporting – Business Segments

2005	Pathology $'000	Radiology $'000	Other $'000	Eliminations $'000	Consolidated $'000
Revenue					
External sales	1,002,997	293,896	63,009	-	1,359,902
Inter segment sales	354	344	2,097	(2,795)	-
Other revenue	5,723	1,183	13,683	-	20,589
Total segment revenue	1,009,074	295,423	78,789	(2,795)	1,380,491
Interest income					1,921
Total revenue					**1,382,412**
Result					
Segment result before interest and tax	171,017	31,825	(9,846)	-	192,996
Unallocated net interest expense					(41,490)
Profit before tax					151,506
Income tax expense					(62,098)
Profit after income tax expense					**89,408**
Segment assets	1,543,904	502,256	941,652	(1,250,746)	**1,737,066**
Segment liabilities	163,893	401,799	73,972	(380,845)	258,819
Unallocated liabilities					595,614
Total liabilities					**854,433**
Acquisition of property, plant & equipment*	32,849	34,725	18,779	-	**86,353**
Depreciation and amortisation expense	69,420	45,730	2,534	-	**117,684**
Other non cash expenses	9,962	3,164	59	-	**13,185**

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

Note 2 Segment information (continued)

Primary Reporting – Business Segments

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

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

Secondary Reporting – Geographic Segments

	Segment revenues from sales to external customers		Segment assets		Acquisition of property, plant & equipment	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000	**2005 $'000**	2004 $'000
Australia / New Zealand	**1,109,655**	963,226	**1,420,376**	1,343,457	**78,882**	50,333
Europe and Other	**250,247**	62,669	**316,690**	350,676	**7,471**	16,792
Total	**1,359,902**	1,025,895	**1,737,066**	1,694,133	**86,353**	67,125

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000

Note 3 Revenue

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Revenue from operating activities				
Medical services revenue	**1,359,902**	1,025,895	**-**	-
Revenue from outside the operating activities				
Management fees received or due and receivable from controlled entities	**-**	-	**1,100**	972
Dividends from controlled entities	**-**	-	**90,714**	63,070
Interest received or due and receivable from:				
Controlled entities	**-**	-	**824**	21,033
Other entities	**1,921**	1,118	**2**	38
Proceeds on sale of non-current assets	**1,943**	5,022	**-**	1,320
Net foreign exchange gains	**68**	12	**-**	-
Rental income:				
Controlled entities	**-**	-	**2,952**	2,893
Other entities	**8,702**	2,401	**26**	20
Other income:				
Controlled entities	**-**	-	**2,698**	1,566
Other entities	**9,876**	2,949	**2**	15
	22,510	11,502	**98,318**	90,927
Revenue from ordinary activities	**1,382,412**	1,037,397	**98,318**	90,927

Note 4 Profit from ordinary activities

Net gains and expenses

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

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Net gains				
Foreign exchange gains	**68**	12	**-**	-
Net gain on disposal of property, plant and equipment	**-**	-	**-**	422
Net gain on disposal of other non-current assets	**-**	1,512	**-**	-
Expenses				
Borrowing costs				
Finance charges on capitalised leases and hire purchase agreements	**4,565**	4,745	**-**	-
Controlled entities	**-**	-	**1,317**	8,648
Other entities	**38,846**	30,505	**1,024**	-
Total borrowing costs	**43,411**	35,250	**2,341**	8,648
Bad and doubtful debts:				
Trade debtors	**3,312**	4,555	**-**	-
Amortisation of:				
Goodwill	**64,154**	55,466	**-**	-
Brand names	**3,936**	3,858	**-**	-
Leased plant and equipment	**15,371**	14,208	**-**	-
Total amortisation	**83,461**	73,532	**-**	-
Depreciation of:				
Plant and equipment	**32,482**	26,093	**-**	-
Buildings	**1,741**	1,378	**609**	834
Total depreciation	**34,223**	27,471	**609**	834
Net amount provided for employee entitlements	**46,826**	40,128	**-**	-
Net loss on disposal of property, plant and equipment	**996**	267	**-**	-

Note 5 Income tax

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:				
Profit from ordinary activities before income tax expense	**151,506**	103,105	**93,901**	79,278
Income tax calculated @ 30%	**45,452**	30,931	**28,170**	23,783
Tax effect of permanent differences:				
Amortisation of intangibles	**17,281**	17,657	**-**	-
Deductible expenditure capitalised	**(1,953)**	(2,927)	**(232)**	(196)
Fully franked/rebateable dividends	**-**	-	**(27,214)**	(18,921)
Tax losses utilised, not previously booked	**(281)**	(430)	**-**	-
Other items (net)	**(1,668)**	413	**611**	(104)
Income tax adjusted for permanent differences	**58,831**	45,644	**1,335**	4,562
Effect of higher tax rates on overseas income	**3,430**	203	**-**	-
(Over) / under provision in prior year	**(163)**	(625)	**31**	(53)
Income tax expense	**62,098**	45,222	**1,366**	4,509

Tax losses
Part of the future income tax benefit asset shown in Note 14 is attributable to tax losses. The future income tax benefit brought to account in respect of tax losses at 30 June 2005 is $18,166,000 (2004: $23,885,000). These tax losses were acquired as part of the acquisition of the Schottdorf Group (refer Note 29) in the 2004 financial year.

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
The directors estimate that the potential future income tax benefit at 30 June 2005 in respect of tax losses not brought to account is:	**27,230**	22,075	**-**	-

This benefit of tax losses, which were acquired as part of the Omnilabs Pathology group and IPN, will only be obtained if:

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

Tax consolidation legislation
Sonic Healthcare Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation at 30 June 2004. The Australian Taxation Office has been notified of this event. The company is in the process of determining the financial impact of various elections available to it under this regime. The company does not believe there will be any significant financial impact on its financial performance and position as a result of making these elections.

The wholly-owned entities have fully compensated Sonic Healthcare Limited for deferred tax liabilities assumed by Sonic Healthcare Limited on the date of the implementation of the legislation and have been fully compensated for any deferred tax assets transferred to Sonic Healthcare Limited.

The entities have also entered into a tax sharing and funding agreement. Under the terms of this agreement, the wholly-owned entities reimburse Sonic Healthcare Limited for any current income tax payable by Sonic Healthcare Limited arising in respect of their activities. In the opinion of the directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of a default by Sonic Healthcare Limited.

Note 6 Dividends

	Parent entity	
	2005	2004
	$'000	$'000
Ordinary Shares		
Final dividend for the year ended 30 June 2004 of 20 cents (2003:17 cents) per fully paid share paid on 20 September 2004 (2003: 7 October 2003), fully franked (2003: 100% franked) based on tax paid at 30%	**54,216**	44,629
Interim dividend for the year ended 30 June 2005 of 13 cents (2004: 10 cents) per fully paid share paid 17 March 2005 (2004: 17 March 2004), fully franked based on tax paid @ 30%	**35,665**	26,746
Total dividends provided for or paid	**89,881**	71,375

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2005 and 30 June 2004 were as follows:

Paid in cash	**89,881**	45,143
Satisfied by issue of shares	**-**	26,223
DRP residual balance	**-**	9
	89,881	71,375

Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 23 cents (2004: 20 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the final dividend paid on 19 September 2005 out of profits, but not recognised as a liability at year end is	**63,367**	54,216

Franked dividends

The franked portions of the final dividends recommended after 30 June 2005 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2006.

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2004: 30%)	**83,289**	76,927	**83,284**	6,352

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

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

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities not part of the Australian tax consolidated group were paid as dividends. Under the tax consolidation legislation all of the franking credits of the Australian tax consolidated group are held by the parent entity.

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Note 7 Receivables – current				
Trade debtors	**128,767**	115,053	**-**	-
Less: Provision for doubtful debts	**(8,061)**	(9,683)	**-**	-
	120,706	105,370	**-**	-
Accrued revenue	**10,785**	9,706	**-**	-
Amounts owing from other entities	**1,171**	1,155	**-**	-
Amounts receivable from controlled entities (Note 36 (c) and (d))	**-**	-	**80**	1,258
Sundry debtors	**13,448**	29,365	**93**	8
Income tax receivable	**-**	-	**-**	3,809
	146,110	145,596	**173**	5,075

Significant terms and conditions
General trade debtors are required to be settled within 30 days.

Sundry debtors generally arise from transactions outside the usual trading activities of the consolidated entity. Collateral is not normally obtained.

Transactions outside the usual operating activities of the consolidated entity have given rise to amounts owing from other entities. Interest is charged on these amounts at commercial rates and repayments are specified by agreements.

Note 8 Inventories – current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Consumable stores at cost	**23,813**	22,903	-	-

Note 9 Other – current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Prepayments	**10,253**	10,258	**139**	158

Note 10 Receivables – non-current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Amounts owing from other entities	**4,099**	4,581	**82**	82
Less: Provision for doubtful debts	**(82)**	(82)	**(82)**	(82)
	4,017	4,499	**-**	-
Amounts receivable from controlled entities (Note 36(c) and (d))	**-**	-	**181,142**	143,952
	4,017	4,499	**181,142**	143,952

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

Amounts receivable from controlled entities
The terms and conditions of amounts advanced by the ultimate parent entity during the year are detailed in Note 36.

Note 11 Other financial assets – non-current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Investments traded on organised markets				
Shares in other corporations – at cost	**3,371**	39,179	**3,371**	39,179
Other (non-traded) investments				
Investments in other entities – at cost	**8,349**	6,627	**1,249**	143
Less: Provision for write down to recoverable amount	**(43)**	(43)	**(43)**	(43)
Investments in other entities – at recoverable amount	**8,306**	6,584	**1,206**	100
Shares in controlled entities – at cost (Note 29)	**-**	-	**1,088,506**	1,008,203
Less: Provision for diminution in value	**-**	-	**(11,700)**	(11,700)
Shares in controlled entities – at recoverable amount	**-**	-	**1,076,806**	996,503
	11,677	45,763	**1,081,383**	1,035,782

Traded shares in other corporations
The investment at 30 June 2005 represents Sonic Healthcare's 8.73% interest in SciGen Limited ("SciGen"), a biopharmaceutical company.

On 12 July 2004 Sonic made a proportional takeover bid to acquire 2 of every 3 shares in Independent Practitioner Network Limited (IPN). As a result, Sonic's interest increased from 19.63% to 72.16% with acceptances for 510,304,947 shares requiring total consideration $43,375,920. IPN therefore became a subsidiary of Sonic during the 2005 year and the investment value is now recognised as Shares in controlled entities (2004: Shares in other corporations).

Carrying value of traded shares in other corporations
The directors have assessed the carrying value of the investment in SciGen at 30 June 2005 (7 cents per share), and believe that the investment is fully recoverable. This view is supported by the placement by SciGen of 132,304,877 shares to Bioton SA at 7 cents per share. This transaction occurred in two tranches on 8 March 2005 and 5 May 2005. The market value of Sonic's investment in SciGen at 30 June 2005 is $2,020,000 (2004: $2,742,000).

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

Non-current assets pledged as security
Refer to Note 32 for information on non-current assets pledged as security by the parent entity or its controlled entities.

Note 12 Property, plant and equipment – non-current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Freehold land and buildings - at cost	**67,896**	67,334	**30,916**	30,437
Less: Accumulated depreciation	**(11,530)**	(9,787)	**(5,846)**	(5,237)
	56,366	57,547	**25,070**	25,200
Plant and equipment - at cost	**380,496**	321,358	**-**	-
Less: Accumulated depreciation	**(232,560)**	(209,245)	**-**	-
	147,936	112,113	**-**	-
Leased plant and equipment	**106,219**	112,702	**-**	-
Less: Accumulated amortisation	**(40,394)**	(41,650)	**-**	-
	65,825	71,052	**-**	-
Total property, plant and equipment at written down value	**270,127**	240,712	**25,070**	25,200
Recent valuations of land and buildings				
Aggregate recent valuations of freehold land and buildings based on:				
Independent valuation - June 2003	**46,360**	46,360	**32,000**	32,000
Directors' valuation - June 2003	**14,600**	14,600	**-**	-
Carried at recent values	**16,563**	18,487	**4,994**	4,994
	77,523	79,447	**36,994**	36,994

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

Reconciliations

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

	Land & buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Total $'000
Consolidated – 2005				
Carrying amount at 1 July 2004	57,547	112,113	71,052	240,712
Additions	499	57,321	16,300	74,120
Disposals	-	(2,894)	(45)	(2,939)
Additions through acquisition of entities (Note 29)	-	12,077	156	12,233
Depreciation/amortisation expense (Note 4)	(1,741)	(32,482)	(15,371)	(49,594)
Transfers from leased plant and equipment to plant and equipment	-	5,855	(5,855)	-
Fair value adjustments to asset carrying values	-	(563)	(9)	(572)
Foreign currency exchange differences	61	(3,491)	(403)	(3,833)
Carrying amount at 30 June 2005	**56,366**	**147,936**	**65,825**	**270,127**
Parent Entity - 2005				
Carrying amount at 1 July 2004	25,200	-	-	25,200
Additions	479	-	-	479
Depreciation expense (Note 4)	(609)	-	-	(609)
Carrying amount at 30 June 2005	**25,070**	**-**	**-**	**25,070**

Note 13 Intangible assets – non-current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Goodwill - at cost	**1,297,007**	1,196,555	**-**	-
Less: Accumulated amortisation	**(275,496)**	(213,707)	**-**	-
	1,021,511	982,848	**-**	-
Brand names - at cost	**197,606**	197,465	**-**	-
Less: Accumulated amortisation	**(22,092)**	(18,151)	**-**	-
	175,514	179,314	**-**	-
	1,197,025	1,162,162	**-**	-

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

The recoverable amounts of Sonic's intangible assets significantly exceed their carrying values and at cost values. In assessing recoverable amounts, expected net cash flows are discounted to their present values using market-determined, risk-adjusted discount rates in the range of 9-10%. Sonic is of the opinion that the value of its existing intangibles is increasing over time, as evidenced by organic revenue and profit growth. However, under existing accounting standards goodwill must be amortised over a period no greater than 20 years, and for conservatism, brand names are also amortised (over 50 years). As outlined in Note 41, under the Australian equivalents of the International Financial Reporting Standards (IFRS), Sonic will cease amortising goodwill from 1 July 2005, but instead will be subject to impairment testing at each reporting date or where there is an indication of impairment.

Note 14 Deferred tax assets – non-current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Future income tax benefit	**40,919**	43,526	**13,074**	-

The future income tax benefit recognised includes benefits of $18,166,000 (2004: $23,885,000) relating to tax losses, as described in Note 5.

Note 15 Other – non-current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Prepayments	**1,211**	1,371	**-**	-

Note 16 Payables – current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Trade creditors	**49,041**	52,757	**-**	-
Sundry creditors and accruals	**53,241**	47,216	**2,920**	1,864
Amounts payable to controlled entities (Note 36 (d))	**-**	-	**36**	-
	102,282	99,973	**2,956**	1,864

Note 17 Interest bearing liabilities – current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Secured				
Bank loans	**18,986**	10,515	**-**	-
Lease liabilities (Note 30 (b))	**19,974**	22,926	**-**	-
Hire purchase liabilities (Note 30 (b))	**1,075**	1,305	**-**	-
	40,035	34,746	**-**	-

Details of the security relating to each of the secured liabilities are set out in Note 32.

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000

Note 18 Tax liabilities – current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Income tax	**6,629**	11,800	**3,812**	-

Note 19 Provisions – current

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Restructuring	**-**	3,803	**-**	-
Employee benefits (Note 35 (a))	**60,114**	51,233	**-**	-
Surplus lease space	**1,152**	-	**-**	-
	61,266	55,036	**-**	-

Surplus lease space provision represents future payments due for surplus leased premises under non-cancellable operating leases.

Restructuring provisions related to the acquisition of various entities and businesses. The provisions were for costs to be incurred in the rationalisation of the acquired entities and businesses to achieve targeted synergies, plus surplus rental premises.

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

	Restructuring $'000	**Surplus Lease Space $'000**	**Total $'000**
Consolidated – 2005			
Current			
Carrying amount at 1 July 2004	3,803	-	3,803
Provisions recognised on acquisition of entities (Note 29)	2,190	1,781	3,971
Reclassification of non-current provision to current (Note 24)	957	950	1,907
Reclassification of provisions between the restructuring and surplus lease space provisions	(55)	55	-
Unused restructuring provisions written back to goodwill	(954)	-	(954)
Payments	(4,249)	(1,496)	(5,745)
Costs applied – non-cash	(1,351)	(138)	(1,489)
Foreign currency exchange differences	(341)	-	(341)
Carrying amount at 30 June 2005	**-**	**1,152**	**1,152**

Note 20 Other – current

	Consolidated **2005** **$'000**	Consolidated 2004 $'000	Parent entity **2005** **$'000**	Parent entity 2004 $'000
Amounts owing to vendors	**4,728**	21,587	**-**	-
Other loans	**300**	332	**-**	-
	5,028	21,919	**-**	-

The decrease in amounts owing to vendors is due to the payment on 27 June 2005 of the "earnout" amount (€8,131,000) in relation to the Schottdorf Group.

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000

Note 21 Payables – non-current

Other payables	**35**	-	**-**	-
Amounts payable to controlled entities (Note 36 (c))	**-**	-	**364,726**	-
	35	-	**364,726**	-

Note 22 Interest bearing liabilities – non-current

Secured				
Bank loans	**52,237**	533,994	**-**	-
Lease liabilities (Note 30(b))	**38,452**	41,750	**-**	-
Hire purchase liabilities (Note 30(b))	**1,337**	2,260	**-**	-
Amounts owing to vendors	**1,177**	28,532	**-**	-
	93,203	606,536	**-**	-
Unsecured				
Bank loans	**524,402**	-	**-**	-
Amounts owing to controlled entities (Note 36 (c))	**-**	-	**-**	334,518
	617,605	606,536	**-**	334,518

Details of the security relating to each of the secured liabilities are set out in Note 32.

Note 23 Deferred tax liabilities – non-current

Provision for deferred income tax	**2,453**	998	**4,713**	107

Note 24 Provisions – non-current

Restructuring	**-**	1,012	**-**	-
Employee benefits (Note 35 (a))	**15,266**	14,326	**-**	-
Surplus lease space	**3,834**	-	**-**	-
	19,100	15,338	**-**	-

Surplus lease space provision represents future payments due for surplus leased premises under non-cancellable operating leases.

Movements in non-current provisions

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

	Restructuring Provisions	**Surplus Lease Space**	**Total**
Consolidated – 2005			
Current			
Carrying amount at 1 July 2004	1,012	-	1,012
Provisions recognised on acquisition of entities (Note 29)	-	4,541	4,541
Reclassification of non-current provision to current (Note 19)	(957)	(950)	(1,907)
Reclassification of provisions between the restructuring and surplus lease space provisions	(243)	243	-
Foreign currency exchange differences	188	-	188
Carrying amount at 30 June 2005	-	**3,834**	**3,834**

Note 25 Contributed equity

		Notes	Consolidated		Parent entity	
			2005	2004	**2005**	2004
			Shares	Shares	**Shares**	Shares
(a)	**Share capital**					
	Fully paid ordinary shares		**274,740,648**	267,749,480	**274,740,648**	267,749,480

		Notes	Consolidated		Parent entity	
			2005	2004	**2005**	2004
			$'000	$'000	**$'000**	$'000
	Fully paid ordinary shares	(b)	**909,571**	870,838	**920,361**	871,858
	Share option reserve	(f)	**4,410**	4,410	**4,410**	4,410
			913,981	875,248	**924,771**	876,268

(b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	Consolidated $'000	Parent entity $'000
1/7/03	Opening balance of the consolidated and parent entity		259,763,911		823,386	823,386
7/10/03	Shares issued under the Dividend Reinvestment Plan – 2003 final dividend	(e)	4,065,583	6.45	26,223	26,223
14/10/03	Shares issued as deferred consideration for The Doctors Laboratory Group acquisition		2,270,385	6.01	13,646	13,646
14/10/03	Shares issued to vendors of The Doctors Laboratory Group		35,374	6.89	244	244
5/12/03	Shares issued as partial consideration for the acquisition of the Southside Diagnostic Services Group		258,177	5.81	1,500	1,500
Various	Shares issued under the Sonic Healthcare Limited Employee Option Plan	(d)	1,356,050	Various	5,839	5,839
Various	Payments made by subsidiary entities to the parent entity in respect of shares issued under the Sonic Healthcare Limited Employee Option Plan		-		-	1,020
30/6/04	Balance of the consolidated and parent entity		267,749,480		870,838	871,858

Note 25 Contributed equity (continued)

(b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	Consolidated $'000	Parent entity $'000
1/7/04	Opening balance		267,749,480		870,838	871,858
26/11/04	Shares issued to executives under remuneration arrangements		30,750	-	-	-
26/11/04	Shares issued to vendors of The Doctors Laboratory Group		25,218	9.10	229	229
Various	Shares issued under the Sonic Healthcare Limited Employee Option Plan	(d)	6,935,200	Various	38,504	38,504
Various	Payments made by subsidiary entities to the parent entity in respect of shares under the Sonic Healthcare Limited Employee Option Plan		-		-	9,770
30/6/05	Closing balance of the consolidated and parent entity		**274,740,648**		**909,571**	**920,361**

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

(d) Options
Information relating to the Sonic Healthcare Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 35(c).

Information relating to Executive Director options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 33(d).

Information relating to the Queensland X-Ray options movements during the financial year and options outstanding at the end of the financial year are set out in Note 35(d).

(e) Dividend reinvestment plan
The company operates a Dividend Reinvestment Plan (DRP) under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than being paid in cash. The DRP last applied to the final dividend for the year ended 30 June 2003 that was paid on 7 October 2003. Shares issued under the plan were at a 5% discount to the weighted average market price of all Sonic's ordinary shares sold on the Australian Stock Exchange during the five trading days following the record date. In respect of the interim and final dividends for the years ended 30 June 2005 and 30 June 2004, the Board resolved to suspend the operation of the company's DRP. The DRP remains suspended until further notice. The standing discount to market price for subscriptions under the DRP is 2.5%.

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

Note 26 Reserves and accumulated losses

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
(a) Reserves				
Asset revaluation reserve	**982**	982	**982**	982
Foreign currency translation reserve	**7,686**	9,522	**-**	-
	8,668	10,504	**982**	982
Movements				
Foreign currency translation reserve at the beginning of the financial year	**9,522**	5,089	**-**	-
Net exchange difference on translation of foreign controlled entities	**(1,836)**	4,433	**-**	-
Foreign currency translation reserve at the end of the financial year	**7,686**	9,522	**-**	-

Nature and purpose of reserves

(i) Asset revaluation reserve

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

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities, Sonic Healthcare (New Zealand) Limited, Sonic Healthcare Asia Limited, Sonic Healthcare Holdings Limited, Sonic Finance Holdings Limited and Sonic Healthcare Germany GmbH and their respective subsidiaries, are taken to the foreign currency translation reserve as described in accounting policy Note 1(c)(ii).

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
(b) Accumulated losses				
Accumulated losses at the beginning of the financial year	**(25,725)**	(11,978)	**(3,569)**	(6,963)
Net profit attributable to members of Sonic Healthcare Limited	**77,464**	57,628	**92,535**	74,769
Dividends provided for or paid (Note 6)	**(89,881)**	(71,375)	**(89,881)**	(71,375)
Accumulated losses at the end of the financial year	**(38,142)**	(25,725)	**(915)**	(3,569)

Note 27 Outside equity interests in controlled entities

	Consolidated	
	2005	2004
	$'000	$'000
Interest in:		
Share capital	**21,339**	210
Reserves	**15,402**	17,022
Accumulated losses	**(38,615)**	(29,472)
	(1,874)	(12,240)

Note 28 Deed of cross guarantee

The "Closed Group" (refer Note 29) are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Order 98/2017, 00/0321 and 01/1087) issued by the Australian Securities and Investments Commission.

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

(a) Consolidated statement of financial performance of the Extended Closed Group

	2005 $'000	2004 $'000
Revenue from ordinary activities	**860,963**	795,716
Labour and related costs	**(404,028)**	(379,289)
Consumables used	**(99,772)**	(92,525)
Amortisation of intangibles	**(33,565)**	(33,214)
Operating lease rental expense	**(37,260)**	(33,285)
Depreciation and amortisation of physical assets	**(35,879)**	(32,203)
Borrowing costs	**(22,546)**	(23,674)
Other operating expenses from ordinary activities	**(104,873)**	(95,245)
Profit from ordinary activities before income tax expense	**123,040**	106,281
Income tax expense	**(46,020)**	(37,155)
Profit from ordinary activities after income tax expense	**77,020**	69,126
Outside equity interests in operating profit after income tax	**-**	-
Net profit attributable to members of the extended closed group	**77,020**	69,126
Total revenues, expenses and valuation adjustments attributable to members of the extended closed group recognised directly in equity	**-**	-
Total changes in equity other than those resulting from transactions with owners as owners	**77,020**	69,126

(b) Reconciliation of accumulated losses

	2005 $'000	2004 $'000
Accumulated losses at the beginning of the financial year	**(17,491)**	(15,242)
Profit from ordinary activities after income tax expense	**77,020**	69,126
Dividends provided for or paid	**(89,881)**	(71,375)
Accumulated losses at the end of the financial year	**(30,352)**	(17,491)

Note 28 Deed of cross guarantee (continued)

(c) Consolidated statement of financial position of the Extended Closed Group

	2005 $'000	2004 $'000
Current assets		
Cash assets	**1,457**	4,361
Receivables	**68,721**	64,178
Inventories	**13,883**	13,132
Other	**4,215**	5,548
Total current assets	**88,276**	87,219
Non-current assets		
Receivables	**44,908**	22,644
Other financial assets	**423,721**	377,954
Property, plant and equipment	**200,916**	179,540
Intangible assets	**581,001**	600,790
Deferred tax assets	**13,510**	14,119
Other	**1,211**	1,371
Total non-current assets	**1,265,267**	1,196,418
Total assets	**1,353,543**	1,283,637
Current liabilities		
Payables	**51,363**	47,603
Interest bearing liabilities	**18,163**	18,736
Provisions	**48,543**	45,200
Current tax liabilities	**3,002**	11,174
Other current liabilities	**1,701**	1,701
Total current liabilities	**122,772**	124,414
Non-current liabilities		
Interest bearing liabilities	**324,262**	284,744
Provisions	**12,676**	13,523
Deferred tax liabilities	**4,257**	1,255
Total non-current liabilities	**341,195**	299,522
Total liabilities	**463,967**	423,936
Net assets	**889,576**	859,701
Equity		
Contributed equity	**918,946**	876,210
Reserves	**982**	982
Accumulated losses	**(30,352)**	(17,491)
Total equity	**889,576**	859,701

Note 29 Investments in controlled entities

	Details of controlled entities	Country of incorporation	Class of share	Beneficial interest % 2005	Beneficial interest % 2004
	Controlled entities of:				
(a)	**Sonic Healthcare Limited**	Australia			
	Douglass Hanly Moir Pathology Pty Limited (i) (iii)	Australia	Ord	100	100
	Southern Pathology Services Pty Limited (i) (iii)	Australia	Ord	100	100
	Clinpath Laboratories Pty Limited (i) (iii)	Australia	Ord	100	100
	Lifescreen Australia Pty Limited (i) (iii)	Australia	Ord	100	100
	Sonic Healthcare (New Zealand) Limited (iii)	New Zealand	Ord	100	100
	Sonic Healthcare Asia Limited (iii)	Hong Kong	Ord	100	100
	Sonic Imaging Pty Limited (i) (iii)	Australia	Ord	100	100
	Sonic Clinical Institute Pty Limited (iii)	Australia	Ord	100	100
	Sonic Healthcare Holdings Limited (iii)	United Kingdom	Ord	100	100
	Sonic Healthcare Services Pty Limited (i) (iii)	Australia	Ord	100	100
	Sonic Finance Holdings Limited (iii)	United Kingdom	Ord	100	100
	Independent Practitioner Network Limited (iv)	Australia	Ord	72.16	19.63
(b)	**Douglass Hanly Moir Pathology Pty Limited (iii)**				
	Diagnostic Pathology Pty Limited	Australia	Ord	100	100
	Barratt & Smith Pathology Pty Limited (i)	Australia	Ord	100	100
	Barratt & Smith Pathology Trust (ii)	Australia	Units	100	100
	Hanly Moir Pathology Pty Limited (i)	Australia	Ord	100	100
	Hanly Moir Pathology Trust (ii)	Australia	Units	100	100
	Sonic Medlab Holdings Australia Pty Limited (i)	Australia	Ord	100	100
	Stat Laboratories Pty Limited	Australia	Ord	100	100
	Subilabs Pty Limited	Australia	Ord	100	100
	Bunbury Pathology Pty Limited	Australia	Ord	100	100
	Sonic Investment & Finance Partnership	Australia		2	2
(c)	**Sonic Healthcare (New Zealand) Limited (iii)**				
	Diagnostic Medlab Limited	New Zealand	Ord	100	100
	Medlab Central Limited	New Zealand	Ord	100	100
	Valley Diagnostic Laboratories Limited	New Zealand	Ord	100	100
	Medlab South Limited	New Zealand	Ord	100	100
	New Zealand Radiology Group Limited	New Zealand	Ord	100	100
	Canterbury Medical Imaging Limited	New Zealand	Ord	100	100
	Palmerston North X-Ray Partnership	New Zealand		80	80
(d)	**Sonic Medlab Holdings Australia Pty Limited (iii)**				
	Sonic Pathology (Queensland) Pty Limited (i)	Australia	Ord	100	100
	Sonic Pathology (Victoria) Pty Limited (i)	Australia	Ord	100	100
(e)	**Sonic Pathology (Queensland) Pty Limited (iii)**				
	Sullivan Nicolaides Pty Limited (i)	Australia	Ord	100	100
	L & A Services Pty Limited (i)	Australia	Ord	100	100
	Bradley Services Unit Trust (ii)	Australia	Units	100	100
	Northern Pathology Pty Limited (i)	Australia	Ord	100	100
	Biotech Laboratories Pty Limited	Australia	Ord	100	100
(f)	**Sonic Pathology (Victoria) Pty Limited (iii)**				
	Consultant Pathology Services Pty Limited (i)	Australia	Ord	100	100
	Diagnostic Services Pty Limited (i)	Australia	Ord	100	100
	Melbourne Pathology Pty Limited (i)	Australia	Ord	100	100
	Melbourne Pathology Services Pty Limited	Australia	Ord	100	100
	Melbourne Pathology Service Trust (ii)	Australia	Units	100	100

Note 29 Investments in controlled entities (continued)

Details of controlled entities		Country of incorporation	Class of share	**Beneficial interest % 2005**	Beneficial interest % 2004
(g)	**Diagnostic Medlab Limited (iii)**				
	Laboratory Data Systems Limited	New Zealand	Ord	100	100
	Diagnostic Medlab Services Limited	New Zealand	Ord	100	100
(h)	**Sonic Healthcare Asia Limited (iii)**				
	Double Court Company Limited	Hong Kong	Ord	100	100
	Dynamic Mate Limited	Hong Kong	Ord	100	100
(i)	**Sonic Imaging Pty Limited (iii)**				
	IRG Co Pty Limited (i)	Australia	Ord	100	100
	Hunter Valley X-Ray Pty Limited	Australia	Ord	100	100
	Hunter Imaging Services Trust (ii)	Australia	Units	100	100
	HIG Distributions Pty Limited	Australia	Ord	100	100
	Nuclear Medicine Co Pty Limited	Australia	Ord	100	100
	Sports Imaging Co Pty Limited	Australia	Ord	100	100
	Castlereagh Co Pty Limited (i)	Australia	Ord	100	100
	Queensland X-Ray Pty Limited (i)	Australia	Ord	100	100
	Sonic Nominees Pty Limited (i)	Australia	Ord	100	100
	Redlands X-Ray Services Pty Limited	Australia	Ord	100	100
	SKG Radiology Pty Limited	Australia	Ord	100	100
	Maga Pty Limited	Australia	Ord	100	100
	Sprague Kam Trust (ii)	Australia	Units	100	100
(j)	**Queensland X-Ray Pty Limited (iii)**				
	Ultrarad No 2 Trust (ii)	Australia	Units	100	100
	Ultrarad Holdings Pty Limited	Australia	Ord	100	100
	E. Radiology (Aust) Pty Limited	Australia	Ord	100	100
(k)	**Sonic Nominees Pty Limited (iii)**				
	Pacific Medical Imaging Pty Limited (i)	Australia	Ord	100	100
	Paedu Pty Limited (i)	Australia	Ord	100	100
	Castlereagh Services Pty Limited (i)	Australia	Ord	100	100
	Sunton Pty Limited (i)	Australia	Ord	100	100
	Illawarra X-Ray Pty Limited	Australia	Ord	100	100
(l)	**Sonic Healthcare Holdings Limited (iii)**				
	The Doctors Laboratory Limited (iii)	United Kingdom	Ord	100	100
	Cytogenetic DNA Services Limited	United Kingdom	Ord	100	100
	Roadhaven Limited	United Kingdom	Ord	100	100
	Sonic Healthcare Germany GmbH	Germany	Ord	100	100
(m)	**The Doctors Laboratory Limited (iii)**				
	Omnilabs Limited	United Kingdom	Ord	100	100
	Omnilabs (UK) Limited	United Kingdom	Ord	100	100
	Omnilabs Ireland Limited	Ireland	Ord	100	100
(n)	**Sonic Finance Holdings Limited (iii)**				
	Sonic Finance Limited	United Kingdom	Ord	100	100
	Sonic Finance & Investments Limited	United Kingdom	Ord	100	100
	Sonic Investment & Finance Partnership	Australia		98	98

Note 29 Investments in controlled entities (continued)

	Details of controlled entities	Country of Incorporation	Class of share	Beneficial interest % 2005	Beneficial interest % 2004
(o)	**Sonic Healthcare Germany GmbH**				
	Alpha Vermögensverwaltung GmbH	Germany	Ord	55.9	55.9
	Syscomp Biochemische Dienstleistungen GmbH	Germany	Ord	55.9	55.9
(p)	**Independent Practitioner Network Limited (iv)**				
	Foundation Healthcare Limited (iv)	Australia	Ord	100	-
	Foundation Medical Centres Pty Limited (iv)	Australia	Ord	100	-
	Foundation Medical Centres (Qld) Pty Limited (iv)	Australia	Ord	100	-
	Kedron Park 24 Hour Medical Centre Pty Limited	Australia	Ord	100	-
	Taringa 24 Hour Medical Centre Pty Limited	Australia	Ord	100	-
	Foundation Medical Centres (NSW) Pty Limited (iv)	Australia	Ord	100	-
	Foundation Healthcare (Vic) Pty Limited (iv)	Australia	Ord	100	-
	Cliveden Hill Holdings Pty Limited	Australia	Ord	100	-
	Foundation Medical Centres (Vic) Pty Limited	Australia	Ord	100	-
	La Trobe University Medical Centre Pty Limited	Australia	Ord	100	-
	Joodie Holdings No. 2 Pty Limited (iv)	Australia	Ord	100	-
	Auburn Road Family Medical Centre Pty Limited	Australia	Ord	100	-
	Edgecliff Medical Centre No. 2 Pty Limited	Australia	Ord	100	-
	Daraban Pty Limited	Australia	Ord	100	-
	Sunshine Employment Pty Limited	Australia	Ord	100	-
	Marrickville Medical Centre No. 2 Pty Limited	Australia	Ord	100	-
	Medihelp General Practice Limited	Australia	Ord	100	-
	Medihelp Services Pty Limited	Australia	Ord	100	-
	Medihelp BWMG Pty Limited	Australia	Ord	100	-
	Medihelp Brackenridge Pty Limited	Australia	Ord	100	-
	Medihelp Sunshine Coast Pty Limited	Australia	Ord	100	-
	Lifecare Franchise Developments Pty Limited	Australia	Ord	100	-
	Lifecare Services Pty Limited	Australia	Ord	100	-
	Southcare Physiotherapy Pty Limited	Australia	Ord	100	-
	Kinetikos Services Pty Limited	Australia	Ord	100	-
	Re-Start Consulting Pty Limited	Australia	Ord	100	-

(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 28.

(ii) Trust deeds do not require preparation of audited financial statements.

(iii) These entities and the entities they control (as described in the table above) comprise the wholly owned group of which Sonic Healthcare Limited is the ultimate parent entity.

(iv) Pursuant to Class Order 98/1418, relief has been granted to Independent Practitioner Network Limited and its wholly owned entities from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports. As a condition of the Class Order, Independent Practitioner Network Limited and its wholly owned entities (the "Closed Group") entered into a Deed of Cross Guarantee on 20 June 2003. The effect of this deed is that Independent Practitioner Network Limited has guaranteed to pay any deficiency in the event of a wind up of any controlled entity in the Closed Group. The controlled entities have also given a similar guarantee in the event that Independent Practitioner Network Limited is wound up.

Note 29 Investments in controlled entities (continued)

Acquisitions of entities

The consolidated entity acquired business assets and entities during the year for a total consideration of $80,518,000 (2004: $65,995,000). In summary, the acquisitions during the 2005 financial year were:

	Acquisition date
Southlakes X-Ray and Cardiovascular Centre	July 2004
Independent Practitioner Network Limited	August 2004
Wollongong Medical Imaging	October 2004
Accord Pathology	November 2004
Endeavour Medical Centres	November 2004

The following businesses and entities were acquired during the 2004 financial year:

Omnilabs Pathology group	July 2003
Southside Diagnostic Services Group (SDSG)	December 2003
Schottdorf Group	June 2004

Note 29 Investments in controlled entities (continued)

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Consideration – cash paid in current year	**83,635**	55,038	**44,306**	-
Less: Cash of entities acquired	**(3,117)**	(9,671)	**(3,082)**	-
Total cash consideration	**80,518**	45,367	**41,224**	-
Deferred consideration – recognised as Amounts owing to vendors (Note 20)	**-**	14,158	**-**	-
Consideration – shares in the company (Note 25(b))	**-**	1,500	**-**	-
Consideration – transaction costs not settled in cash in the current financial year	**-**	560	**-**	-
Value of options issued to Sonic's partners in the Schottdorf business	**-**	4,410	**-**	-
Total consideration	**80,518**	65,995	**41,224**	-
Fair value of identifiable net assets of controlled entities acquired:				
Property, plant and equipment	**12,233**	9,543	**7,859**	-
Debtors & other receivables	**10,490**	38,080	**8,360**	-
Inventory	**1,426**	5,009	**912**	-
Prepayments	**1,080**	419	**1,046**	-
Future income tax benefits	**4,476**	25,237	**3,504**	-
Trade creditors	**(9,104)**	(26,495)	**(7,131)**	-
Provision for tax	**738**	(1,285)	**738**	-
Borrowings	**(15,248)**	(76,047)	**(15,248)**	-
Lease and hire purchase liabilities	**(478)**	(4,287)	**(478)**	-
Deferred income tax liabilities	**(205)**	-	**(108)**	-
Other liabilities	**(1,207)**	(5,987)	**(1,207)**	-
Surplus leased space	**(6,322)**	-	**(4,480)**	-
Employee provisions	**(3,957)**	(2,360)	**(2,614)**	-
	(6,078)	(38,173)	**(8,847)**	-
Add: Minority interests share	**1,605**	12,117	**1,605**	-
Less: Provision for restructuring	**(2,190)**	(1,731)	**(100)**	-
Less: Investment held in prior period (IPN)	**(35,807)**	-	**(35,807)**	-
	(42,470)	(27,787)	**(43,149)**	-
Goodwill	**122,988**	93,782	**84,373**	-

Reconciliation of cash paid to Statements of cash flows

Consideration – cash paid for acquisitions in the financial year	**83,635**	55,038	**44,306**	-
Consideration – cash paid to vendors for acquisitions in previous financial years	**40,893**	10,321	**-**	-
Less: Cash of entity acquired	**(3,117)**	(9,671)	**-**	-
Payment for purchase of controlled entities net of cash acquired	**121,411**	55,688	**44,306**	-

Note 30 Commitments for expenditure

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
(a) Capital commitments				
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**7,399**	7,992	**1,911**	-
Later than one year but not later than 5 years	**1,896**	105	**-**	-
	9,295	8,097	**1,911**	-
(b) Lease commitments				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**67,251**	49,897	**87**	-
Later than one year but not later than 5 years	**138,823**	92,569	**174**	-
Later than 5 years	**38,086**	20,839	**-**	-
	244,160	163,305	**261**	-
Representing:				
Cancellable operating leases	**287**	285	**-**	-
Non-cancellable operating leases	**235,885**	154,293	**261**	-
Future finance charges on finance leases	**7,988**	8,727	**-**	-
	244,160	163,305	**201**	-
(i) Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**64,812**	46,074	**-**	-
Later than one year but not later than 5 years	**138,083**	87,380	**-**	-
Later than 5 years	**37,976**	20,839	**-**	-
Less: Amount provided for surplus lease space under non-cancellable operating leases	**(4,986)**	-	**-**	-
Commitments not recognised in the financial statements	**235,885**	154,293	**-**	-
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases not recognised in the financial statements	**30,364**	9,387	**-**	-
(ii) Finance leases				
Commitments in relation to finance leases and hire purchase agreements are payable as follows:				
Within one year	**24,661**	27,939	**-**	-
Later than one year but not later than 5 years	**43,404**	49,029	**-**	-
Later than 5 years	**761**	-	**-**	-
Minimum lease payments	**68,826**	76,968	**-**	-
Less: Future finance charges	**(7,988)**	(8,727)	**-**	-
Total lease and hire purchase liabilities	**60,838**	68,241	**-**	-
Representing lease and hire purchase liabilities:				
Current (Note 17)	**21,049**	24,231	**-**	-
Non-current (Note 22)	**39,789**	44,010	**-**	-
	60,838	68,241	**-**	-

The weighted average interest rate implicit in the leases is 6.54% (2004: 6.80%)

Note 30 Commitments for expenditure (continued)

(c) Remuneration commitments

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
Within one year	**41,571**	41,888	**-**	-
Later than one year but not later than 5 years	**43,559**	46,956	**-**	-
Later than 5 years	**330**	438	**-**	-
	85,460	89,282	**-**	-

Note 31 Contingent liabilities

Sonic Healthcare Limited and certain controlled entities, as disclosed in Note 28, are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

Note 32 Secured borrowings

Following the refinancing of Sonic's senior debt facility in December 2004 with a new unsecured facility of $700 million, secured bank loans to companies within the consolidated entity has reduced to $71,223,000 (2004: $465,470,000). Previously bank loans were secured by fixed and floating charges over the assets and undertakings of the company and its wholly owned subsidiaries (other than interests in any contracts the charging of which is prohibited by their terms), and also by registered mortgages over all real property of the company and those subsidiaries.

Currently, the secured bank loans are attributable to non-wholly owned subsidiaries and represent:

- Bank loans of the Schottdorf Group outstanding at 30 June 2005 of $56,712,000 (2004: $79,039,000) that are secured by the assets and undertakings of the Schottdorf Group.
- Commercial bills of IPN of $14,500,000 outstanding at 30 June 2005 that are secured by a fixed and floating charge over the assets of IPN.

The non-current amounts owing to the vendors of The Doctors Laboratory group of $1,177,000 (2004: $28,532,000) were secured by a Bank Guarantee issued under Sonic's secured senior debt facility, drawings under which were secured as detailed above. On 31 October 2004, the Bank Guarantee expired and consequently the amounts owing are now unsecured.

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

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

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Receivables – non-current	**776**	4,499	**-**	143,952
Other financial assets – investments	**-**	45,763	**-**	1,035,782
Property, plant and equipment	**20,991**	238,711	**-**	25,200
Total non-current assets pledged as security	**21,767**	288,973	**-**	1,204,934

Note 33 Director and executive disclosures

(a) Directors

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

Chairman – non-executive
B.S. Patterson

Executive directors
Dr C.S. Goldschmidt
C.D. Wilks
Dr P.J. Dubois
C.J. Jackson
Dr H.F. Scotton

Non-executive directors
R.P. Campbell
L.J. Panaccio (appointed 30 June 2005)

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

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

Name	Position
D. Byrne	Chief Executive Officer, The Doctors Laboratory
Dr A. Lloyd	Sonic Chief Systems Officer
Dr B. Schottdorf	Executive Chairman, The Schottdorf Group
R.E. Shreeve	Managing Director, Independent Practitioner Network Limited
F. Tuck	Chief Executive Officer, Diagnostic Medlab (retired 28 February 2005)

(c) Remuneration of directors and executives

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

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

Executive remuneration and other terms of employment are reviewed annually by the Managing Director having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance-related bonuses and fringe benefits. Executives are also eligible to participate in the Sonic Healthcare Limited Employee Option Plan. Further information on this is set out in Note 35.

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

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

Note 33 Director and executive disclosures (continued)

(ii) Details of remuneration

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

Directors of Sonic Healthcare Limited

B.S. Patterson
Chairman, Non-executive Director
Remuneration for the year to 30 June 2005 was $50,000 of Director fees (2004: $50,000). Superannuation contributions required by the Superannuation Guarantee Charge legislation are deducted from gross director's fees as appropriate.

R.P. Campbell
Non-executive Director
Remuneration for the year to 30 June 2005 was $50,000 of Director fees (2004: $50,000). Superannuation contributions required by the Superannuation Guarantee Charge legislation are deducted from gross director's fees as appropriate.

Dr C.S. Goldschmidt
Managing Director
Remuneration for the year to 30 June 2005 included cash salary of $584,890, cash bonus of $526,000, non-monetary benefits of $145,525 and superannuation contributions of $19,585. The total of these components of remuneration was $1,276,000. In addition fully paid up ordinary shares and options over unissued ordinary shares of Sonic Healthcare Limited were granted during and since the end of the financial year under the Executive Incentive Plan approved by shareholders at the 2004 Annual General Meeting. The assessed fair value at the date of grant has been allocated equally over the service period up to the vesting dates. The calculated value of these options and shares for the 12 months to 30 June 2005 is $2,589,426. Cash bonuses are granted at the time of half year and full year results announcements based on the reported core earnings per share of the consolidated entity.

Remuneration for the year to 30 June 2004 included cash salary of $583,341, cash bonus of $876,000, non-monetary benefits of $129,892 and superannuation contributions of $19,002. The total of these components of remuneration was $1,608,235. As a consequence of a restructure of Dr C.S. Goldschmidt's package this comparative bonus figure related to an 18 month rather than 12 month period. During the 2004 year, following approval by shareholders at the 2003 Annual General Meeting, the expiry date of 3,000,000 fully vested pre-existing executive director options held beneficially by Dr C.S. Goldschmidt were extended. This extension was valued at $1,530,000 and technically formed part of Dr C.S. Goldschmidt's 2004 remuneration. However, all 3,000,000 of these options were subsequently exercised within the original exercise period, and hence no value was received by Dr C.S. Goldschmidt from the extension in relation to those options.

C.D. Wilks
Finance Director
Remuneration for the year to 30 June 2005 included cash salary of $448,415, cash bonus of $284,040 and superannuation contributions of $11,585. The total of these components of remuneration was $744,040. In addition fully paid up ordinary shares and options over unissued ordinary shares of Sonic Healthcare Limited were granted during and since the end of the financial year under the Executive Incentive Plan approved by shareholders at the 2004 Annual General Meeting. The assessed fair value at the date of grant has been allocated equally over the service period up to the vesting dates. The calculated value of these options and shares for the 12 months to 30 June 2005 is $1,397,665. Cash bonuses are granted at the time of half year and full year results announcements based on the reported core earnings per share of the consolidated entity.

Remuneration for the year to 30 June 2004 included cash salary of $453,465, cash bonus of $472,360, non-monetary benefits of $1,476 and superannuation contributions of $11,002. The total of these components of remuneration was $938,303. As a consequence of a restructure of C.D. Wilks' package this comparative bonus figure relates to an 18 month rather than 12 month period. During the 2004 year, following approval by shareholders at the 2003 Annual General Meeting, the expiry date of 1,500,000 fully vested pre-existing executive director options held beneficially by C.D. Wilks were extended. This extension was valued at $765,000 and technically formed part of C.D. Wilks' 2004 remuneration. However, 1,300,000 of these options were subsequently exercised within the original exercise period, and hence no value was received by C.D. Wilks from the extension in relation to those options.

Note 33 Director and executive disclosures (continued)

Dr P.J. Dubois
Director
Remuneration for the year to 30 June 2005 included cash salary and fees of $379,518, and non-monetary benefits of $1,830. Total remuneration was $381,348.

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

C.J. Jackson
Director
Remuneration for the year to 30 June 2005 included cash salary and fees of $433,588, non-monetary benefits of $8,859 and superannuation contributions of $16,691. Total remuneration was $459,138.

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

Dr H.F. Scotton
Director
Remuneration for the year to 30 June 2005 included cash salary and fees of $247,364 and superannuation contributions of $95,980. Total remuneration was $343,344.

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

Remuneration for directors of Sonic Healthcare Limited for the year to 30 June 2005 is analysed below:

	2005	2004
	$	$
Cash salary and fees	**2,193,775**	2,141,229
Cash bonuses	**810,040**	1,348,360
Non-monetary benefits	**156,214**	145,271
Superannuation	**143,841**	133,184
	3,303,870	3,768,044

The comparative figures include aggregate remuneration of $160,216 for Dr M.M. Barratt and Dr M.F. Robinson who retired as directors on 27 November 2003.

The total of these components excludes the calculated value relating to the executive director shares and options of $3,987,091 (2004: $2,295,000).

Specified executives of the consolidated entity

R.E. Shreeve
Managing Director, Independent Practitioner Network Limited
Remuneration for the period from acquisition of IPN to 30 June 2005 included cash salary of $407,013, cash bonus of $375,000, and superannuation contributions of $9,654. The total of these components of remuneration was $791,667. Options over unissued ordinary shares in Independent Practitioner Network Limited were issued to R.E. Shreeve in August 2002. The assessed fair value at the date of grant has been allocated equally over the service period up to the vesting dates. The calculated value of these options for the period from Sonic's acquisition of IPN to 30 June 2005 was $67,584.

Dr B. Schottdorf
Executive Chairman, The Schottdorf Group
Remuneration for the year to 30 June 2005 included cash salary of $977,887, cash bonus of $167,398 and non-monetary benefits of $27,822. Total remuneration was $1,173,107.

Note 33 Director and executive disclosures (continued)

D. Byrne

Chief Executive Officer, The Doctors Laboratory

Remuneration for the year to 30 June 2005 included cash salary of $423,514, cash bonus of $123,305 (granted December 2004 based on TDL's performance pursuant to a contract of employment), non-monetary benefits of $66,111, and superannuation contributions of $122,308. The total of these components of remuneration was $735,238. In addition 14,216 fully paid ordinary shares were issued during the financial year as a bonus pursuant to a contract of employment. The market value of these shares at the time of issue was $129,366. Further details regarding the valuation of shares issued and details of the contract are set out in subsequent sections of this note.

Remuneration for the year to 30 June 2004 included cash salary of $414,192, cash bonus of $121,921 (granted December 2003 based on entity performance pursuant to a contract of employment), non-monetary benefits of $60,949, and superannuation contributions of $61,487. The total of these components of remuneration was $658,549. In addition 17,687 fully paid ordinary shares were issued during the 2004 financial year as a bonus pursuant to a contract of employment. The market value of these shares at the time of issue was $121,863.

Dr A. Lloyd

Chief Systems Officer, Sonic Healthcare

Remuneration for the year to 30 June 2005 included cash salary of $302,693, cash bonus of $50,000, non-monetary benefits of $323, and superannuation contributions of $76,349. The total of these components of remuneration was $429,365. Options over unissued shares in Sonic Healthcare Limited were issued to Dr A. Lloyd in prior years. The calculated value of these options for the 12 months to 30 June 2005 was $8,219. Further details regarding the values disclosed for options, and details of options vested and exercised in the financial year, are set out in the subsequent sections of this note.

Remuneration for the year to 30 June 2004 included cash salary of $280,168, non-monetary benefits of $19,856, and superannuation contributions of $75,766. The total of these components of remuneration was $300,024. Options over unissued shares in Sonic Healthcare Limited were issued to Dr A. Lloyd in prior years. The calculated value of these options for the 12 months to 30 June 2004 was $21,587.

F. Tuck

Chief Executive Officer, Diagnostic Medlab

Remuneration for the period from the beginning of the financial year until the date of retirement on 28 February 2005 comprised cash salary and fees of $168,142, non-monetary benefits of $49,920, accrued entitlements paid out on termination of $93,829 and superannuation contributions of $23,959. Total remuneration was $335,850.

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

Remuneration for the specified executives of the consolidated entity for the year to 30 June 2005 is analysed below:

	2005	2004*
	$	$
Cash salary	**2,279,249**	1,444,345
Cash bonuses	**715,703**	182,930
Non-monetary benefits	**144,176**	174,529
Accrued entitlements paid out on termination	**93,829**	-
Superannuation	**232,270**	179,154
	3,465,227	1,980,958

* The specified executives in the current period differ from those specified in the comparative period.

The total of these components excludes the calculated value of shares and options of $205,169 (2004: $214,307).

Note 33 Director and executive disclosures (continued)

(iii) Service agreements

Remuneration arrangements for Dr C.S. Goldschmidt and C.D. Wilks were revised effective 1 July 2003 following a detailed review by the Remuneration Committee and subsequent approval by shareholders at the 2004 Annual General Meeting. The key terms of the revised arrangements are set out below:

Dr C.S. Goldschmidt

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

Short term incentives:

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

Long term incentive:

- Issue of 1,000,000 options exercisable at $7.50 (within 5 years) if core earnings per share are at least 10% higher than the previous year. If this growth is not achieved in one year but is made up in a subsequent year, then the previously forfeited options will be released. This arrangement is to run for five consecutive years. Subject to satisfying the performance conditions the issues relating to the first four years of the arrangement were approved at the November 2004 Annual General Meeting. Share option issues relating to the final year of the arrangement will be subject to renewal of shareholder approval.

C.D. Wilks

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

Short term incentives:

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

Long term incentive:

- Issue of 540,000 options exercisable at $7.50 (within 5 years) if core earnings per share are at least 10% higher than the previous year. If this growth is not achieved in one year but is made up in a subsequent year, then the previously forfeited options will be released. This arrangement is to run for five consecutive years. Subject to satisfying the performance conditions the issues relating to the first four years of the arrangement were approved at the November 2004 Annual General Meeting. Share option issues relating to the final year of the arrangement will be subject to renewal of shareholder approval.

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

D. Byrne

Following the acquisition of The Doctors Laboratory (TDL) in the UK in April 2002, a 5 year service contract was established with the following key terms:

- Initial base salary of £150,000 per annum, plus superannuation and other benefits to be reviewed annually on 1 September each year.
- Cash and equity bonus arrangements relating to the performance of TDL.
- Twelve month notice period by either party.

Note 33 Director and executive disclosures (continued)

Dr B. Schottdorf
Following the acquisition of The Schottdorf Group, a rolling service contract was established with the following key terms:
- Base salary of €579,000.
- Cash bonus arrangement relating to the performance of the Schottdorf Group.
- Twelve month notice period by either party.

(d) Equity instrument disclosures relating to directors and executives

(i) Options provided as remuneration

Executive Director Options
During the financial year 1,000,000 options over unissued ordinary shares in Sonic Healthcare Limited and 20,000 fully paid up ordinary shares were issued to Dr C.S. Goldschmidt, and 540,000 options and 10,750 shares issued to C.D. Wilks under the Executive Incentive Plan. These performance related grants represented the short term and long term incentive awards in relation to the 2004 financial year.

Since the end of the financial year, but prior to the date of this report, an identical grant of fully paid up ordinary shares and options over unissued ordinary shares has been made to Dr C.S. Goldschmidt and C.D. Wilks under the Executive Incentive Plan. This performance related grant represented the short term and long term incentive awards in relation to the 2005 financial year.

Sonic Healthcare Limited Employee Option Plan
During the current and prior financial year no options over unissued ordinary shares of Sonic Healthcare Limited were granted under the Sonic Healthcare Limited Employee Option Plan to any specified executives or directors.

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

Independent Network Limited Employee Share Option Scheme and Independent Practitioner Network Limited Options
No options were granted or exercised during the financial year under either of these option plans.

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

Note 33 Director and executive disclosures (continued)

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

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
20 April, 2000	20 February, 2005	$5.41	$1.36 - $1.43	Options issued in three tranches vesting over 30 month, 42 month and 54 month periods
20 June, 2001	20 April, 2006	$7.38	$1.82 - $1.92	
16 July, 2002	16 May, 2007	$4.66	$0.96 - $1.02	
23 September, 2004	23 July, 2009	$9.56	$1.91 - $2.09	

Further information on options is set out in Note 35.

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

Name	Exercise price	Number of options vested during the year
Dr A. Lloyd	$7.38	12,500

(ii) Shares issued on exercise of options

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

Name	Exercise price	Number of ordinary shares issued on exercise of options during the year
Dr C.S. Goldschmidt	$5.32	3,000,000
C.D. Wilks	$5.32	1,300,000

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

(iii) Shares provided as remuneration
Executive Directors
Fully paid up ordinary shares of Sonic Healthcare Limited were granted during and since the end of the financial year under the Executive Incentive Plan.

Name	Number of fully paid ordinary shares granted during the financial year	Number of fully paid ordinary shares granted after the financial year
Dr C.S. Goldschmidt	20,000	20,000
C.D. Wilks	10,750	10,750

Specified Executives
During the financial year D. Byrne was issued 14,216 fully paid ordinary shares as a bonus pursuant to his employment contract. The value shown for these shares in his remuneration disclosure represents the market value of the shares on the date of issue.

Note 33 Director and executive disclosures (continued)

(iv) Option and share holdings

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

Name	Balance at the start of the year	Granted during the year as remuneration	Granted during the year as acquisition consideration	Exercised during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors						
Dr C.S. Goldschmidt	3,000,000	1,000,000	-	3,000,000	1,000,000	Nil
C.D. Wilks	1,500,000	540,000	-	1,300,000	740,000	200,000
Specified executives						
Dr B. Schottdorf	0	-	1,500,000	-	1,500,000	Nil
Dr A. Lloyd	50,000	-	-	-	50,000	37,500

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

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

Name	Balance at the start of the year	Issued during the year on the exercise of options	Shares provided as remuneration	Other changes during the year	Balance at the end of the year
Directors					
B.S. Patterson	3,816,646	-	-	-	3,816,646
Dr C.S. Goldschmidt	950,000	3,000,000	20,000	(950,000)	3,020,000
C.D. Wilks	623,000	1,300,000	10,750	(350,000)	1,583,750
Dr P.J. Dubois	120,000	-	-	2,379	122,379
C.J. Jackson	517,590	-	-	(27,000)	490,590
Dr H.F. Scotton	180,634	-	-	-	180,634
Specified executives					
D. Byrne	132,460	-	14,216	-	146,676
F. Tuck	74,943	-	-	-	74,943

Note 33 Director and executive disclosures (continued)

(e) Other transactions with specified directors and specified executives

(i) Directors of Sonic Healthcare Limited

During the financial year rental payments have been made by the consolidated entity to director related entities, including unit trusts, private companies and spouses. The rental transactions were based on commercial terms and conditions and at market rates. The aggregate amount recognised in the financial statements was $1,097,672 (2004: $1,093,848). The specified directors who had an interest in the rental transactions in the current or preceding financial year were:

- C.J. Jackson
- Dr M.F. Robinson (for the period until his retirement on 27 November 2003)
- Dr H.F. Scotton

(ii) Specified executives of the consolidated entity

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

- Purchase of IT support for $639,440 (2004: $552,148)
- Purchase of software and hardware for $320,435 (2004: Nil), and
- Consultancy services to the value of $245,390 (2004: $2,334,423)

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

Note 34 Remuneration of auditors

During the year the auditor of the parent entity and its related practices earned the following remuneration:

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
PricewaterhouseCoopers – Australian firm				
Audit or review of financial reports of the entity or any entity in the consolidated entity	**409,832**	228,527	**80,000**	80,000
Accounting and advisory services	**22,290**	38,000	**-**	-
Total audit and accounting/advisory services	**432,122**	266,527	**80,000**	80,000
Taxation compliance services	**-**	34,770	**-**	2,950
Taxation advice	**-**	251,824	**104,814**	132,928
Total taxation advice and compliance services	**-**	286,594	**104,814**	135,878
Total remuneration	**432,122**	553,121	**184,814**	215,878
Related practices of PricewaterhouseCoopers Australian firm (including overseas PricewaterhouseCoopers firms)				
Audit or review of the financial reports of the entity or any entity in the consolidated entity	**280,794**	189,144	**-**	-
Accounting and advisory services	**9,390**	213,875	**-**	-
Total audit and accounting/advisory services	**290,184**	403,019	**-**	-
Taxation compliance services	**5,549**	53,468	**-**	-
Taxation advice	**51,068**	146,765	**-**	-
Total taxation advice and compliance services	**56,617**	200,233	**-**	-
Total remuneration	**346,801**	603,252	**-**	-

Statutory audit and tax compliance services are subject to periodic competitive tender processes involving the major Chartered Accounting firms. Accounting and advisory services include due diligence and acquisition related projects, financing advice and services in connection with the liquidation and deregistration of controlled entities as part of restructuring the consolidated entity. Taxation advice is mainly in respect of acquisition and financing related issues. The non-audit services provided are not considered to be of a nature which could give rise to a conflict of interest or loss of independence for the external auditors. During the 2005 year Sonic appointed Ernst & Young as the primary tax advisors for the Sonic group, for both compliance services and tax advice, replacing PricewaterhouseCoopers.

Note 35 Employee benefits

(a) Employee benefits and related on-costs

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Provision for employee benefits:				
Current (Note 19)	**60,114**	51,233	**-**	-
Non-current (Note 24)	**15,266**	14,326	**-**	-
	75,380	65,559	**-**	-

(b) Employee numbers

	Consolidated 2005 Number	Consolidated 2004 Number	Parent entity 2005 Number	Parent entity 2004 Number
Employees at the end of the financial year measured on a full time equivalent basis	**9,954**	8,625	**-**	-

(c) Sonic Healthcare Limited Employee Option Plan

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

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

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. No option holder has any right under the options to participate in any other share issue of the company or of any other entity. No accounting entries are made in relation to the value of options granted to eligible employees over unissued shares of Sonic Healthcare Limited until options are exercised, with amounts received on the exercise of options recognised as share capital.

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

Grant date	Expiry date	Exercise price	Balance at start of the year Number	Issued during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number
Consolidated and parent entity - 2005							
20/4/00	20/2/05	$5.41	1,484,450	-	(1,213,200)	(271,250)	**-**
20/6/01	20/4/06	$7.38	3,383,500	-	(896,250)	(205,800)	**2,281,450**
16/7/02	16/5/07	$4.66	1,184,000	-	(345,750)	(176,750)	**661,500**
15/4/03	15/2/08	$6.30	695,000	-	-	(45,000)	**650,000**
23/09/04	23/07/09	$9.51	-	10,000	-		**10,000**
23/09/04	23/07/09	$9.56	-	370,000	-	-	**370,000**
Total			6,746,950	380,000	(2,455,200)	(698,800)	**3,972,950**
Consolidated and parent entity - 2004							
15/2/99	15/12/03	$3.26	778,000	-	(736,500)	(41,500)	-
20/4/00	20/2/05	$5.41	2,065,500	-	(576,050)	(5,000)	1,484,450
20/6/01	20/4/06	$7.38	3,434,400	-	(43,500)	(7,400)	3,383,500
16/7/02	16/5/07	$4.66	1,200,000	-	-	(16,000)	1,184,000
15/4/03	15/2/08	$6.30	695,000	-	-	-	695,000
Total			8,172,900	-	(1,356,050)	(69,900)	6,746,950

Note 35 Employee benefits (continued)

(d) Queensland X-Ray (QXR) options

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

Grant date	Expiry date	Exercise price	Balance at start of the year	Issued during the year	Exercised during the year	Forfeited during the year	Balance at end of the year
			Number	Number	Number	Number	Number
Consolidated and parent entity - 2005							
16/7/02	16/5/07	$4.66	490,000	-	(180,000)	-	**310,000**
7/4/03	7/2/08	$6.01	80,000	-	-	-	**80,000**
19/2/04	19/12/08	$7.57	215,000	-	-	-	**215,000**
			785,000	-	(180,000)	-	**605,000**
Consolidated and parent entity - 2004							
16/7/02	16/5/07	$4.66	490,000	-			490,000
7/4/03	7/2/08	$6.01	80,000	-	-	-	80,000
19/2/04	19/12/08	$7.57	-	215,000	-	-	215,000
Total			570,000	215,000	-	-	785,000

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

(e) Executive Director options

Disclosures relating to Executive Director options are set out in Note 33. No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

(f) Independent Practitioner Network Limited Employee Share Option Scheme

An employee share option scheme has been established where Independent Practitioner Network Limited may, at the discretion of its Board of Directors, grant options over the ordinary shares in Independent Practitioner Network Limited to directors, executives and certain members of IPN's staff. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of Independent Practitioner Network Limited. The options are issued for a term of 5 years and a certain proportion of the options become exercisable beginning on the first anniversary of the date of grant. The options cannot be transferred and will not be quoted on the Australian Stock Exchange. At the reporting date, the following tranches have been issued, of which 1,032,00 are exercisable.

Grant date	Expiry date	Weighted average exercise price	Balance at 26 August 2004	Issued during the year	Exercised during the year	Forfeited during the year	Balance at end of the year
			Number	Number	Number	Number	Number
Controlled entity - 2005							
22/8/02	21/8/07	$0.132	570,000	-	-	(190,000)	**380,000**
23/11/02	30/11/07	$0.085	760,000	-	-	-	**760,000**
23/11/02	30/3/07	$0.085	500,000	-	-	-	**500,000**
23/11/02	31/12/06	$0.085	500,000	-	-	-	**500,000**
23/11/02	31/10/06	$0.085	500,000	-	-	(500,000)	**-**
23/11/02	28/2/07	$0.085	500,000	-	-	(500,000)	**-**
Total			3,330,000	-	-	(1,190,000)	**2,140,000**

Note 35 Employee benefits (continued)

(g) Information regarding the exercise of options

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

Current Year – 2005			
Exercise date	Exercise price	Fair value per share at issue date	Consolidated & Parent entity Number
12/7/04	$5.41	$9.37	66,000
12/7/04	$7.38	$9.37	15,000
9/8/04	$5.41	$9.45	62,500
9/8/04	$7.38	$9.45	20,000
11/8/04	$5.41	$9.55	8,000
6/9/04	$5.41	$9.15	59,700
6/9/04	$7.38	$9.15	100,500
6/9/04	$5.32[1]	$9.15	3,000,000
5/10/04	$5.41	$9.79	18,500
5/10/04	$7.38	$9.79	35,000
8/10/04	$5.41	$9.78	2,500
8/10/04	$7.38	$9.78	5,500
14/10/04	$7.38	$9.94	10,000
15/10/04	$7.38	$10.05	5,500
5/11/04	$5.41	$10.38	233,750
5/11/04	$7.38	$10.38	27,500
29/11/04	$5.41	$11.40	166,500
29/11/04	$7.38	$11.40	71,500
9/12/04	$5.41	$11.09	67,250
9/12/04	$7.38	$11.09	31,500
22/12/04	$5.41	$12.20	105,000
22/12/04	$7.38	$12.20	77,000
17/1/05	$5.41	$11.80	73,000
17/1/05	$7.38	$11.80	87,000
17/1/05	$4.66	$11.80	74,500
17/1/05	$4.66[2]	$11.80	45,000
8/2/05	$5.41	$11.71	74,000
8/2/05	$7.38	$11.71	128,250
8/2/05	$4.66	$11.71	122,500
8/2/05	$4.66[2]	$11.71	30,000
18/2/05	$5.41	$12.19	276,500
18/2/05	$7.38	$12.19	42,000
18/2/05	$4.66	$12.19	34,500
3/3/05	$7.38	$11.78	29,000
3/3/05	$4.66	$11.78	23,000
3/3/05	$5.32[1]	$11.78	1,300,000
3/3/05	$4.66[2]	$11.78	10,000
29/3/05	$7.38	$11.81	28,500
29/3/05	$4.66	$11.81	27,000
18/4/05	$7.38	$11.85	81,000
18/4/05	$4.66	$11.85	16,500
11/5/05	$7.38	$11.48	45,000
11/5/05	$4.66	$11.48	37,750
11/5/05	$4.66[2]	$11.48	5,000
6/6/05	$7.38	$12.02	49,000
6/6/05	$4.66	$12.02	10,000
6/6/05	$4.66[2]	$12.02	20,000
29/6/05	$7.38	$12.78	7,500
29/6/05	$4.66[2]	$12.78	70,000
			6,935,200

Previous Year – 2004			
Exercise date	Exercise price	Fair value per share at issue date	Consolidated & Parent entity Number
18/7/03	$5.41	$6.80	7,000
25/7/03	$5.41	$6.70	2,500
5/8/03	$3.26	$6.71	5,000
5/8/03	$5.41	$6.71	22,500
15/8/03	$3.26	$6.97	115,500
15/8/03	$5.41	$6.97	3,000
22/8/03	$3.26	$6.95	60,500
4/9/03	$3.26	$6.60	80,000
4/9/03	$5.41	$6.60	7,500
17/9/03	$3.26	$6.64	183,750
17/9/03	$5.41	$6.64	5,500
16/10/03	$3.26	$6.92	3,750
16/10/03	$5.41	$6.92	10,000
10/11/03	$3.26	$6.84	18,500
10/11/03	$5.41	$6.84	32,500
19/11/03	$3.26	$6.80	40,000
19/11/03	$5.41	$6.80	4,500
5/12/03	$3.26	$7.02	123,500
5/12/03	$5.41	$7.02	22,500
15/12/03	$3.26	$7.00	106,000
15/12/03	$5.41	$7.00	29,500
6/1/04	$5.41	$6.90	37,500
2/2/04	$5.41	$7.38	52,000
6/2/04	$5.41	$7.23	7,500
26/2/04	$5.41	$7.71	46,500
26/2/04	$7.38	$7.71	5,000
3/3/04	$5.41	$7.80	32,500
29/3/04	$5.41	$8.03	106,500
22/4/04	$5.41	$8.88	53,500
22/4/04	$7.38	$8.88	15,000
13/5/04	$5.41	$8.75	46,750
13/5/04	$7.38	$8.75	13,000
4/6/04	$5.41	$8.96	26,800
4/6/04	$7.38	$8.96	500
29/6/04	$5.41	$8.72	19,500
29/6/04	$7.38	$8.72	10,000
			1,356,050

[1] Executive Director options
[2] QXR options

Note 35 Employee benefits (continued)

The fair value of shares issued on the exercise of options is the price of the company's shares on the Australian Stock Exchange at close of business on the day prior to the exercise of options.

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Aggregate proceeds received from directors/ employees on the exercise of options and recognised as issued capital	**38,504**	5,839	**38,504**	5,839
Fair value of shares issued to directors/employees on the exercise of options as at their issue date	**72,586**	9,885	**72,586**	9,885

Note 36 Related parties

(a) Parent company directors and specified executives

Disclosures relating to parent company directors and specified executives are set out in Note 33.

In addition, during the financial year, administration and warehousing fees were charged by a controlled entity to Silex Systems Limited and SciGen Limited (until February 2005), entities with common parent company directors. These transactions were based on commercial terms and conditions and at market rates.

(b) Transactions with entities related to directors of subsidiaries

During the financial year rental payments have been made by the consolidated entity to subsidiary director related entities, including unit trusts, private companies and spouses. The rental transactions were based on commercial terms and conditions and at market rates. The aggregate amount recognised in the financial statements was $442,882 (2004: $458,366). The directors of subsidiaries within the consolidated entity who had an interest in the rental transactions in both the current and prior year were:

M. Prentice
G. Bryant
J. Roberts
D. Hope (resigned 10 February 2004)

During the year ending 30 June 2005, The Doctors Laboratory Limited (a member of the consolidated entity) provided pathology laboratory services to S. Ungar, a director of The Doctors Laboratory Limited. The total value of these referrals was $145,614 (2004: $155,343). The transactions were on normal terms and conditions and at market rates.

During the financial year, several entities within The Doctors Laboratory group (part of the consolidated entity) have transacted with Varleigh UK Limited (an entity incorporated in the UK) in which directors of an entity in the consolidated entity, namely D. Byrne, R. Prudo and S. Ungar, have significant shareholdings. The nature and aggregate amounts of the transactions are as detailed in Note 33 (e)(ii).

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

Note 36 Related parties (continued)

(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 29.

Transactions between Sonic and other entities in the wholly-owned group during the years ended 30 June 2005 and 30 June 2004 consisted of:

- loans advanced to and by Sonic
- loans repaid to and by Sonic
- the payment of interest on the above loans
- the payment of dividends to Sonic
- the payment of a management fee to Sonic
- the payment of rental to Sonic
- the payment of a debt facility guarantee fee to Sonic
- payments to Sonic in respect of shares issued under the Sonic Healthcare Limited Employee Option Plan
- transactions between Sonic and its wholly-owned Australian controlled entities under the accounting tax sharing agreement as described in Note 5
- the acquisition of property, plant and equipment by Sonic (2004 financial year only)
- the issue of shares for debt (2004 financial year only)

The property, plant and equipment was acquired by Sonic at cost in the 2004 financial year.

Loans between Sonic Healthcare Limited and its Australian wholly owned subsidiaries became non-interest bearing from 30 June 2004.

Otherwise the above transactions were made on normal commercial terms and conditions and at market rates.

	Parent entity	
	2005	2004
	$'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	**292**	21,033
Dividend revenue	**90,714**	63,070
Interest expense	**1,317**	8,648
Management fees	**1,100**	972
Rental income	**2,952**	2,893
Debt facility guarantee fee	**2,618**	1,566
Aggregate amounts receivable from wholly-owned controlled entities by the company at balance date:		
Receivables (current)	**-**	1,258
Receivables (non-current)	**170,610**	143,952
Aggregate amounts payable to wholly-owned controlled entities by the company at balance date:		
Interest bearing liabilities (non-current)	**-**	334,518
Payables (non-current)	**364,726**	-

Note 36 Related parties (continued)

(d) Other related parties

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with each class of other related parties:				
Interest Revenue:				
Controlled entities	**-**	-	**532**	-
Other income:				
Controlled entities	**-**	-	**80**	-
Aggregate amounts brought to account in relation to other transactions with each class of other related parties:				
Loans advanced to:				
Controlled entities	**-**	-	**10,000**	**-**

The above transactions were made on normal commercial terms and conditions and at market rates. The average interest rate on the loans during the year was 8.9% (2004: Nil).

	Consolidated		Parent entity	
Aggregate amounts receivable from, and payable to, each class of other related parties at balance date:				
Current receivables:				
Controlled entities	**-**	-	**80**	**-**
Non-current receivables:				
Controlled entities	**-**	-	**10,532**	**-**
Current payables:				
Controlled entities	**-**	-	**36**	**-**

(e) Ownership interests in related parties

Interests held in entities within the consolidated entity of which Sonic Healthcare Limited is the ultimate parent entity are set out in Note 29.

Note 37 Earnings per share

	Consolidated 2005 Cents	Consolidated 2004 Cents
Basic earnings per share	**28.5**	21.7
Diluted earnings per share	**28.0**	21.4
Core (pre intangibles amortisation) basic earnings per share	**53.5**	44.0
Core (pre intangibles amortisation) diluted earnings per share	**52.6**	43.4

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

	Consolidated 2005 Shares	Consolidated 2004 Shares
Weighted average number of ordinary shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and core basic earnings per share	**271,932,711**	266,018,205
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share and core diluted earnings per share	**276,973,703**	269,429,507

	Consolidated 2005 $'000	Consolidated 2004 $'000
Reconciliations of earnings used in calculating earnings per share		
Net profit	**89,408**	57,883
Net (profit) attributable to outside equity interest	**(11,944)**	(255)
Earnings used in calculating basic and diluted earnings per share	**77,464**	57,628
Intangibles amortisation expense for the period	**68,090**	59,324
Earnings used in calculating core basic and core diluted earnings per share	**145,554**	116,952

Options as detailed in Notes 33 and 35 that are considered to be dilutive and other dilutive potential ordinary shares are included in the calculations of diluted and core diluted earnings per share, but have not been included in the determination of basic earnings per share.

Details of the options exercised and issued in the period between the reporting date and the date of this report are detailed in Note 40.

Note 38 Statements of cash flows

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
(a) Cash at bank and on hand	**31,914**	17,343	**64**	3

(b) Reconciliation of net cash inflow from operating activities to operating profit after income tax

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Operating profit after income tax	**89,408**	57,883	**92,535**	74,769
Add/(less) non-cash items:				
Depreciation	**34,223**	27,471	**609**	834
Amortisation - leases	**15,371**	14,208	**-**	-
Amortisation - intangibles	**68,090**	59,324	**-**	-
Net (profit)/loss on sale of property, plant and equipment	**996**	267	**-**	(422)
Net (profit) on sale of other non-current assets	**-**	(1,512)	**-**	-
Foreign exchange differences	**(68)**	(12)	**-**	-
Other non-cash items	**(1,730)**	(1,786)	**-**	-
Add/(less) changes in assets and liabilities during the financial year:				
(Increase)/decrease in sundry debtors	**15,979**	1,773	**(85)**	55
(Increase)/decrease in prepayments	**1,245**	(4,556)	**19**	31
(Increase)/decrease in trade debtors and accrued revenue	**(6,493)**	(7,015)	**-**	-
(Increase)/decrease in inventories	**516**	(458)	**-**	-
(Increase)/decrease in future income tax benefit	**7,083**	(1,930)	**(13,074)**	-
Increase/(decrease) in accrued expenses	**(1,539)**	2,245	**1,092**	1,166
Increase/(decrease) in trade creditors	**(6,115)**	5,986	**-**	-
Increase/(decrease) in deferred tax liability	**1,251**	(1,993)	**4,606**	(462)
Increase/(decrease) in provision for income tax	**(4,433)**	2,832	**7,621**	(2,969)
Increase/(decrease) in surplus lease space provision	**(1,336)**	-	**-**	-
Increase/(decrease) in other liabilities	**3**	-	**-**	-
Increase/(decrease) in provision for employee entitlements	**5,864**	3,604	**-**	-
Net cash inflow from operating activities	**218,315**	156,331	**93,323**	73,002

(c) Non-cash financing and investing activities

During the financial year the consolidated entity:

- acquired plant and equipment with an aggregate fair value of $16,452,000 by means of finance leases and hire purchase agreements.
- issued 3,000,000 options relating to the Schottdorf acquisition with a value of $4,410,000. The value of these options was included as part of the consideration paid for the acquisition of the Schottdorf Group, and recorded as a Share Option Reserve in contributed equity (Note 25(a)).

During the financial year ended 30 June 2004 the consolidated entity:

- acquired plant and equipment with an aggregate fair value of $19,014,000 by means of finance leases and hire purchase agreements.
- issued fully paid ordinary shares to the value of $1,500,000 as partial consideration for the acquisition of the Southside Diagnostic Services Group (SDSG).
- issued fully paid ordinary shares to the value of $13,646,000 in relation to the TDL acquisition, as deferred consideration.
- issued 4,065,583 fully paid ordinary shares to the value of $26,223,000 pursuant to the company's Dividend reinvestment Plan in lieu of dividend payments.

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

Note 38 Statements of cash flows (continued)

(d) Standby arrangements and credit facilities

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$'000	$'000	**$'000**	$'000
Entities in the consolidated entity have access to:				
Credit standby arrangements				
- secured loan facilities totalling	**81,220**	699,122	**-**	-
- amount of credit unused	**9,997**	126,080	**-**	-
Lease facilities				
- total facilities	**47,183**	52,918	**-**	-
- amount of facilities unused	**8,203**	42,359	**-**	-

Note 39 Financial instruments

(a) Off-balance sheet derivative instruments

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

Interest rate swap contracts

Of the current and non-current bank loans of the consolidated entity, $587,670,000 (2004: $535,747,000) at balance date bear an average variable interest rate of 6.0% (2004: 5.8%) and the non-current Amounts owing to vendors of $1,177,000 (2004: $28,532,000) bear an average variable interest rate of 4.8% (2004: 5.5%). The remaining $7,945,000 (2004: $8,762,000) of bank loans, governed by a separate loan agreement, is subject to a fixed rate of interest and is therefore not exposed to interest rate risk.

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

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

Swaps in place at balance date cover approximately 43% (2004: 36%) of the variable interest rate loan principals outstanding other than that to which the interest rate caps specifically relate. The fixed interest rates range between 2.295% and 6.595% (2004: 4.03% to 8.70%).

Note 39 Financial instruments (continued)

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

	2005 $'000	2004 $'000
Less than 1 year	**33,261**	92,650
1 – 2 years	**44,124**	25,649
2 – 3 years	**78,185**	35,650
3 – 4 years	**11,631**	50,023
4 – 5 years	**63,615**	-
	230,816	203,972

Interest rate caps

Following Sonic's acquisition, and the subsequent refinancing of its debt, the Schottdorf Group entered into hedging arrangements in the form of interest rate caps to protect part of its variable interest rate loans from exposure to increasing interest rates.

Interest rate caps at balance date cover approximately 6% (2004: Nil) of Sonic's variable interest rate loan principal outstanding and approximately 66% of the Euro denominated debt to which they specifically relates. The Euribor cap rates range between 3.0% and 4.0%, and during the financial year the cap rate has not been reached.

At 30 June 2005, the notional principal amounts and periods of expiry of interest rate caps were as follows:

	2005 $'000	2004 $'000
Less than 1 year	**5,719**	-
1 – 2 years	**5,719**	-
2 – 3 years	**5,719**	-
3 – 4 years	**15,250**	-
	32,407	-

In total 45% of Sonic's variable interest rate loan principals are hedged by the interest rate swap and interest rate cap contracts.

(b) Credit risk exposures

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

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

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

Note 39 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	
		$'000	1 year or less $'000	1 to 5 years $'000	More than 5 years $'000	$'000	Total $'000
30 June 2005							
Assets							
Cash	38(a)	27,528	2,354	-	-	2,032	31,914
Trade debtors	7	-	-	-	-	120,706	120,706
Accrued revenue	7	-	-	-	-	10,785	10,785
Sundry debtors	7	-	-	-	-	13,448	13,448
Amounts owing from other entities	7	38	702	-	-	431	1,171
Other non-current receivables	10	473	-	1,338	-	2,206	4,017
Other financial assets - investments	11	-	-	-	-	11,677	11,677
Total financial assets		28,039	3,056	1,338	-	161,285	193,718
Weighted average interest rate		3.38%	4.56%	5.25%			
Liabilities							
Trade accounts payable	16	-	-	-	-	49,041	49,041
Other accounts payable	16,21	-	-	-	-	53,276	53,276
Interest bearing loans	17, 22	587,670	7,943	-	-	-	595,613
Lease liabilities	17, 22	-	19,974	37,815	637	-	58,426
Amounts owing to vendors	20, 22	1,177	-	-	-	4,728	5,905
Other loans	17, 20	-	-	-	-	312	312
Hire purchase liabilities	17, 22	-	1,075	1,337	-	-	2,412
Interest rate swaps *	39(a)	(230,816)	33,261	197,555	-	-	-
Total financial liabilities		358,031	62,253	236,707	637	107,357	764,985
Weighted average interest rate		5.98%	6.18%	5.33%	7.03%		
Net financial assets / (liabilities)		(329,992)	(59,197)	(235,369)	(637)	53,928	(571,267)

		Floating interest rate	Fixed interest rate maturities		Non-interest bearing	
		$'000	1 year or less $'000	1 to 5 years $'000	$'000	Total $'000
30 June 2004						
Assets						
Cash	38(a)	15,766	-	-	1,577	17,343
Trade debtors	7	-	-	-	105,370	105,370
Accrued revenue	7	-	-	-	9,706	9,706
Sundry debtors	7	-	-	-	29,365	29,365
Amounts owing from other entities	7	29	1,126	-	-	1,155
Other non-current receivables	10	358	-	2,064	2,077	4,499
Other financial assets – investments	11	-	-	-	45,763	45,763
Total financial assets		16,153	1,126	2,064	193,858	213,201
Weighted average interest rate		3.17%	6.0%	6.0%	-	-
Liabilities						
Trade accounts payable	16	-	-	-	52,757	52,757
Other accounts payable	16	-	-	-	47,216	47,216
Interest bearing loans	17, 22	535,747	-	8,762	-	544,509
Lease liabilities	17, 22	-	22,926	41,750	-	64,676
Amounts owing to vendors	20, 22	28,532	-	-	21,587	50,119
Other loans	20	-	-	-	332	332
Hire purchase liabilities	17, 22	-	1,305	2,260	-	3,565
Interest rate swaps *	39(a)	(203,972)	92,650	111,322	-	-
Total financial liabilities		360,307	116,881	164,094	121,892	763,174
Weighted average interest rate		5.79%	7.09%	5.59%	-	
Net financial assets / (liabilities)		(344,154)	(115,755)	(162,030)	71,966	(549,973)

* Notional principal amounts

Note 39 Financial instruments (continued)

(d) Net fair value of financial assets and liabilities

(i) On-balance sheet

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

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

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

(ii) Off-balance sheet

The net fair value of financial assets or financial liabilities which may arise from certain contingencies are disclosed in Note 31. No material losses are anticipated in respect of any contingencies.

Note 40 Events occurring after reporting date

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

- On 22 August 2005 Sonic's directors declared a final dividend for 2005 of 23 cents per ordinary share payable on 19 September 2005. Sonic's dividend reinvestment plan remains suspended for this dividend and until further notice.

- On 23 August 2005 Sonic announced the signing of an agreement to acquire an interest in Clinical Pathology Laboratories, Inc. (CPL), the largest privately owned routine pathology laboratory in the United States of America. The initial acquisition will be of an interest of 82%. The purchase consideration for this interest will be ~US$312 million, including an earn out amount of up to US$20 million to be paid upon achievement of pre-determined earnings targets. As described in the August release, Sonic will progressively acquire the balance of CPL's equity over the year's 2009 to 2012.

- In the period to the date of this report 546,750 options under the Sonic Healthcare Limited Employee Option Plan, 200,000 Executive Director options and 35,000 Queensland X-Ray options have been exercised for a total exercise consideration of $5,060,155 to the consolidated group.

Note 41 International financial reporting standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's (hereafter referred to as "Sonic" in this Note) financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

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

Sonic has analysed all of the AIFRS and has identified the key accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. These choices have been analysed to determine the most appropriate accounting policy for Sonic.

Set out below are the key differences in accounting policies and significant known transitional differences (able to be estimated and identified to date) to the financial report for the year ended 30 June 2005 for both the parent and consolidated entity had they been prepared using AIFRS. Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted. No material impacts are expected in relation to the statements of cash flows.

Proforma impact on the consolidated entity statement of financial position at 30 June 2005 based on adjustments identified to date

	AGAAP $'000	AIFRS adjustments $'000	Notes	AGAAP adjusted for AIFRS $'000
Current assets	212,090	-		212,090
Property, plant and equipment	270,127	(6,048)	(a)	264,079
Intangible assets	1,197,025	72,344	(a)	1,269,369
Deferred tax assets	40,919	(231)	(c)	(40,688)
Other non current assets	16,905	-		16,905
Total assets	1,737,066	66,065		1,803,131
Current liabilities	215,240	-		215,240
Deferred tax liabilities	2,453	3,427	(c)	5,880
Other non current liabilities	636,740	-		636,740
Total liabilities	854,433	3,427		857,860
Net assets	**882,633**	**62,638**		**945,271**
Contributed equity	913,981	7,004	(b)	920,985
Reserves	8,668	(12,226)	(c),(d),(g)	(3,558)
Accumulated (losses)/profits	(38,142)	67,860	(a),(b),(g)	29,718
Outside interests in controlled entities	(1,874)	-		(1,874)
Total equity	**882,633**	**62,638**		**945,271**

Proforma impact on the consolidated entity statement of financial performance based on adjustments identified to date

	Notes	$'000
Net profit reported under AGAAP for year to 30 June 2005		77,464
Decrease in amortisation of intangible assets	(a)	66,549
Decrease in depreciation of property, plant and equipment	(a)	1,213
Restructuring costs expensed	(a)	(5,522)
Share based payment expense	(b)	(4,484)
Income tax expense	(c)	(87)
Net profit reported under AIFRS for year to 30 June 2005		**135,133**

Note 41 International financial reporting standards (IFRS) (continued)

(a) Business combinations and intangible assets

Goodwill

Sonic's current accounting policy is to amortise goodwill over 20 years. Under AIFRS goodwill acquired in a business combination will no longer be amortised, but instead will be subject to impairment testing at each reporting date, and upon the occurrence of triggers that may indicate a potential impairment.

Under the transitional arrangements of AASB 1 there is an option to apply AASB 3 *Business Combinations* prospectively from the transition date to AIFRS. Sonic has chosen this option rather than to restate all previous business combinations. The impact of AASB 3 and associated transitional arrangements on the consolidated group will be as follows:

- all prior business combination accounting will be frozen as at 1 July 2004,
- the value of goodwill will be frozen as at transition date, with $64,154,000 of amortisation expense that has been reported under Australian generally accepted accounting principles (AGAAP) in the consolidated results for 30 June 2005 reversed for AIFRS restatements, and
- provisions for restructuring costs existing at 1 July 2004 where the acquiree had not, at the acquisition date, recognised an existing liability for restructuring, will be released to opening retained earnings as a transition adjustment.

There will be no adjustments in relation to the parent entity's statement of financial position or statement of financial performance.

Business combinations

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

If these standards had been applied to Sonic's acquisition of a majority interest in IPN during the financial year, an identifiable intangible of $1,028,000 not recognised under AGAAP would have been recognised at 30 June 2005, goodwill would have decreased by $1,356,000 and an amortisation expense of $328,000 would have arisen in the restated financial results for the year to 30 June 2005.

Management is still in the process of reviewing the accounting for the Endeavour Healthcare business (acquired 26 November 2004) under AASB 3 and determining whether a component of the goodwill represents other intangibles assets. This review is expected to be completed between the date of this report and the half year report dated 31 December 2005. The impact of this review (if any) on the financial report would be to reduce goodwill with a corresponding increase in intangible assets.

Under AASB 3 provisions for restructure costs where the acquirer had not, at the acquisition date recognised an existing liability for restructure, will no longer be booked as part of acquisition accounting. As a result of this and the reversal of provisions for restructure at transition date, operating expenses for the year to 30 June 2005 would have been $5,522,000 higher. There will be no adjustment to the consolidated entities statement of financial position at 30 June 2005.

There will be no adjustments in relation to the parent entity's statement of financial position or statement of financial performance.

Identifiable intangibles

Under AGAAP Sonic has amortised identifiable intangibles over 50 years. On transition to AIFRS indefinite life intangibles will no longer be amortised, but will instead be subject to impairment testing at each reporting date, or upon the occurrence of triggers that may indicate a potential impairment.

Sonic has applied AASB 138 to its identifiable intangibles at 30 June 2004 and concluded that these assets meet the definition of indefinite life assets. Accordingly, the amortised balance of identifiable intangibles will be frozen as at transition date, and associated intangible amortisation expense of $3,936,000 in the consolidated financial result for 30 June 2005 will be reversed for AIFRS restatements.

Note 41 International financial reporting standards (IFRS) (continued)

Software assets of $6,048,000 developed for internal use and recognised under AGAAP as part of fixed assets are defined under AASB 138 as identifiable intangibles. These assets will be reclassified from fixed assets to intangible assets on transition to AIFRS. As a result of this reclassification depreciation expense for the year to 30 June 2005 would have been $1,213,000 lower with a corresponding increase in intangible amortisation expense.

There will be no adjustments in relation to the parent entity's statement of financial position or statement of financial performance.

(b) Share-based compensation benefits

Under AASB 2 *Share-Based Payment*, Sonic is required to recognise an expense for all share-based remuneration. This will result in a change to the current accounting policy under which no expense is recognised for equity-based compensation.

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

Options and shares issued to Directors under the Executive Incentive Plan and options issued to employees under the Sonic Healthcare Limited Employee Option Plan and to QXR employees pursuant to Sonic's agreement with the vendors of QXR have been valued using an appropriate valuation technique and will be charged against profit over the relevant periods, and adjusted as required by the standard.

Under transitional requirements, Sonic will reduce retained earnings at 1 July 2004 by $2,520,000 with a corresponding increase in share option reserve for options issued after 7 November 2002 that remained unvested at the date of transition to AIFRS.

If the policy required by AASB 2 had been applied during the year ended 30 June 2005, the parent and consolidated entity's employee benefits expense would have been $4,484,000 higher. Retained earnings at 30 June 2005 in both the parent and consolidated entity would have been $7,004,000 lower, with a corresponding increase in share option reserve.

(c) Income tax

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

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

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

If AASB 112 had been applied during the year ended 30 June 2005 to the consolidated entity there would have been a decrease in deferred tax assets of $231,000 and an increase in deferred tax liabilities of $3,427,000 on the restated 30 June 2005 balance sheet with adjustments to the FCTR and retained earnings. The consolidated entity's income tax expense in the restated result for the 12 months to 30 June 2005 would have been $87,000 higher.

Following the implementation of tax consolidation under AGAAP the parent entity balance sheet includes the current and deferred tax balances of the tax consolidated group. Under AIFRS, only the current tax balances would be transferred up to the parent entity (the deferred tax balances would remain as asset and liabilities in the balance sheets of the tax consolidated group members). In the restated 30 June 2005 parent entity balance sheet there would have been a decrease in deferred tax assets of $13,074,000, a decrease in deferred tax liabilities of $4,506,000 and an increase in amounts receivable/decrease in amounts payable from controlled entities of $8,138,000.

Note 41 International financial reporting standards (IFRS) (continued)

In aggregate if AASB 112 had been applied during the year ended 30 June 2005 to the parent entity, there would have been a decrease in deferred tax assets of $13,074,000, a decrease in deferred tax liabilities of $4,263,000, an increase in amount receivable/decrease in amounts payable from controlled entities of $8,568,000, and a decrease in retained earnings of $243,000 on the restated 30 June 2005 balance sheet. The parent entity's income tax expense in the restated result for the 12 months to 30 June 2005 would have been $84,000 higher.

(d) Foreign currency translation reserve: cumulative translation differences

Following transitional adjustments arising from the adoption of AASB 112 noted above, Sonic will elect to apply the exemption in AASB 1 that permits the resetting of the FCTR to nil as at the date of transition. As such, on transition, the FCTR will decrease by $7,318,000 with a corresponding increase in retained earnings. The foreign currency translation reserve at 30 June 2005 under AIFRS will have a debit balance of $3,558,000. This election will have no impact on the parent entity.

(e) Revenue disclosures in relation to the sale of non-current assets

Under AIFRS, the net gain or net loss recognised in relation to the sale of a non-current asset is reported as either income or expense. This is in contrast to the current AGAAP treatment under which the gross proceeds from the sale are recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on profit of this difference is nil.

If this policy had been applied during the year ended 30 June 2005, the consolidated revenue from ordinary activities would have been $1,507,000 lower and the consolidated operating expenses have also been $1,507,000 lower. There would have been no impact on net profit.

There will be no impact on the parent entity's statement of financial performance.

(f) Financial instruments

Sonic will be taking advantage of the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* only from 1 July 2005. This allows Sonic to apply previous AGAAP to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report. The consolidated entity enters into interest rate swap agreements. Under AIFRS these will be accounted for as cash flow hedges. The current accounting policy will change so that changes in the fair value of the interest rate swap will be recognised directly in equity until the hedge matures.

(g) Asset revaluation reserve

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

Directors' declaration

For the year ended 30 June 2005

In the directors' opinion:

(a) the financial statements and notes set out on pages 27 to 86 are in accordance with the *Corporations Act 2001,* including:
  (i) complying with Accounting Standards, the *Corporation Regulations 2001* and other mandatory professional reporting requirements; and
  (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 28 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 28.

The directors have been given the declarations by the Managing Director and Finance Director required by section 295A of the *Corporations Act 2002.*

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

Dr C.S. Goldschmidt
Managing Director

C.D. Wilks
Director

Sydney
30 September 2005

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Independent audit report to the members of Sonic Healthcare Limited

Audit opinion

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

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Sonic Healthcare Limited and the Sonic Healthcare Group (defined below) as at 30 June 2005, and of their performance for the year ended on that date,
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

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

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Sonic Healthcare Limited (the company) and the Sonic Healthcare Group (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.
While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.
Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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

PricewaterhouseCoopers

B K Hunter
Partner

Sydney
30 September 2005

Shareholders' information

1. Information relating to shareholders

(a) Distribution Schedule as at 16 September 2005

	No. of Holders Ordinary Shares
1 – 1,000	5,931
1,001 – 5,000	5,474
5,001 – 10,000	639
10,001 – 100,000	436
100,001 and over	118
	12,598
Voting rights – on a show of hands	1 / member
– on a poll	1 / share
Percentage of total holding held by the twenty largest holders	81.98%
Number of holders holding less than a marketable parcel	98

(b) Substantial holders as at 16 September 2005

The company has received substantial shareholding notices to 16 September 2005 in respect of the following holdings:

	No. of Securities	Percentage Held
Commonwealth Bank Group	41,883,003	15.27%
The Capital Group Companies Inc	19,437,131	7.06%
Jardvan Pty Limited	18,458,704	6.80%
Concord Capital Limited	17,004,615	6.27%
UBS Nominees Pty Limited and its related bodies corporate	17,077,773	6.22%

(c) Names of the Twenty Largest Holders of Equity Securities as at 16 September 2005

	No. of Securities	Percentage Held
J P Morgan Nominees Australia Limited	45,978,006	16.69%
Citicorp Nominees Pty Limited	44,941,659	16.31%
National Nominees Limited	40,612,549	14.74%
Westpac Custodian Nominees Limited	29,674,257	10.77%
Jardvan Pty Limited	18,458,704	6.70%
Cogent Nominees Pty Limited	7,141,096	2.59%
RBC Global Services Australia Nominees Pty Limited	5,801,846	2.11%
ANZ Nominees Limited	5,280,539	1.92%
Queensland Investment Corporation	5,106,142	1.85%
Polly Pty Limited	3,816,646	1.39%
HSBC Custody Nominees (Australia) Limited	3,100,755	1.13%
Hamlac Pty Limited	3,000,000	1.09%
AMP Life Limited	2,484,768	0.90%
Westpac Financial Services Limited	2,399,440	0.87%
PSS Board	1,789,923	0.65%
Quintal Pty Limited	1,500,000	0.54%
Ms Estelle Wilks	1,500,000	0.54%
CSS Board	1,197,638	0.43%
Dr Anthony John Clarke	1,070,000	0.39%
Mrs Jennifer Margaret Robson	1,006,152	0.37%
	225,860,120	**81.98%**

Shareholders' information

2. Interests of directors in securities as at 16 September 2005

	Ordinary Shares	Interest
B.S. Patterson	3,816,646	Held beneficially
Dr C. S. Goldschmidt	3,000,000 40,000	Held beneficially Held personally
C.D. Wilks	1,698,000 96,500	Held beneficially Held personally
R.P. Campbell	-	-
Dr P.J. Dubois	120,000 2,379	Held beneficially Held personally
C.J. Jackson	490,590	Held personally
Dr H.F. Scotton	180,634	Held personally
L.J. Panaccio	-	-

3. Unquoted equity securities as at 16 September 2005

	No. on Issue	No. of Holders
Options issued under the Sonic Healthcare Limited Employee Option Plan to take up ordinary shares.	3,462,700	428
Executive director options to take up ordinary shares	3,080,000	2
Queensland X-Ray options to take up ordinary shares	570,000	26
Schottdorf options to take up ordinary shares	3,000,000	2

4. Securities subject to voluntary escrow as at 16 September 2005

	No. on Issue	Date escrow period ends
As at the date of this report the following securities were subject to voluntary escrow:		
Ordinary shares	86,058	5 December, 2005
Ordinary shares	86,061	5 December, 2006

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