SONIC HEALTHCARE ANNUAL REPORT 2001

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Sonic Healthcare
Annual Report 2001

Sonic is the largest medical diagnostics company in Australasia, providing quality pathology and radiology services to the community. Sonic has captured the market's attention through the corporatisation, consolidation and rationalisation of the pathology industry and, over the past eight years, its market capitalisation has grown from $10 million to almost $2 billion.

Since 1993, the revenue of Sonic has risen from $25 million to over

$625 million

In this period of exceptional growth there have been four clear groups of winners, our staff, the doctor, our patients, the shareholder. These are the people who have contributed to this growth and these are the people whose interests we serve...

Our staff are our most valuable asset. Management recognises that the success that the company has enjoyed is due to the quality of service provided by its people. Sonic employs over 9,000 people in its operations in Australia, New Zealand and Hong Kong. Approximately 20% of Sonic's equity is held by its staff.

Much of Sonic's success is due to the delivery of outstanding service by its staff of 9,000

Sonic has played a leading role in the rationalisation of the Pathology and Radiology markets and employs over 300 specialist medical practitioners. Doctors in clinical practice are our principal customers as patient referrals are in their hands. Through its philosophy of "medical management" and its comprehensive diagnostic service, Sonic aims to help doctors in the management of their patients.

Sonic provides diagnostic and professional support to over *15,000* doctors

sonic/THE DOCTOR

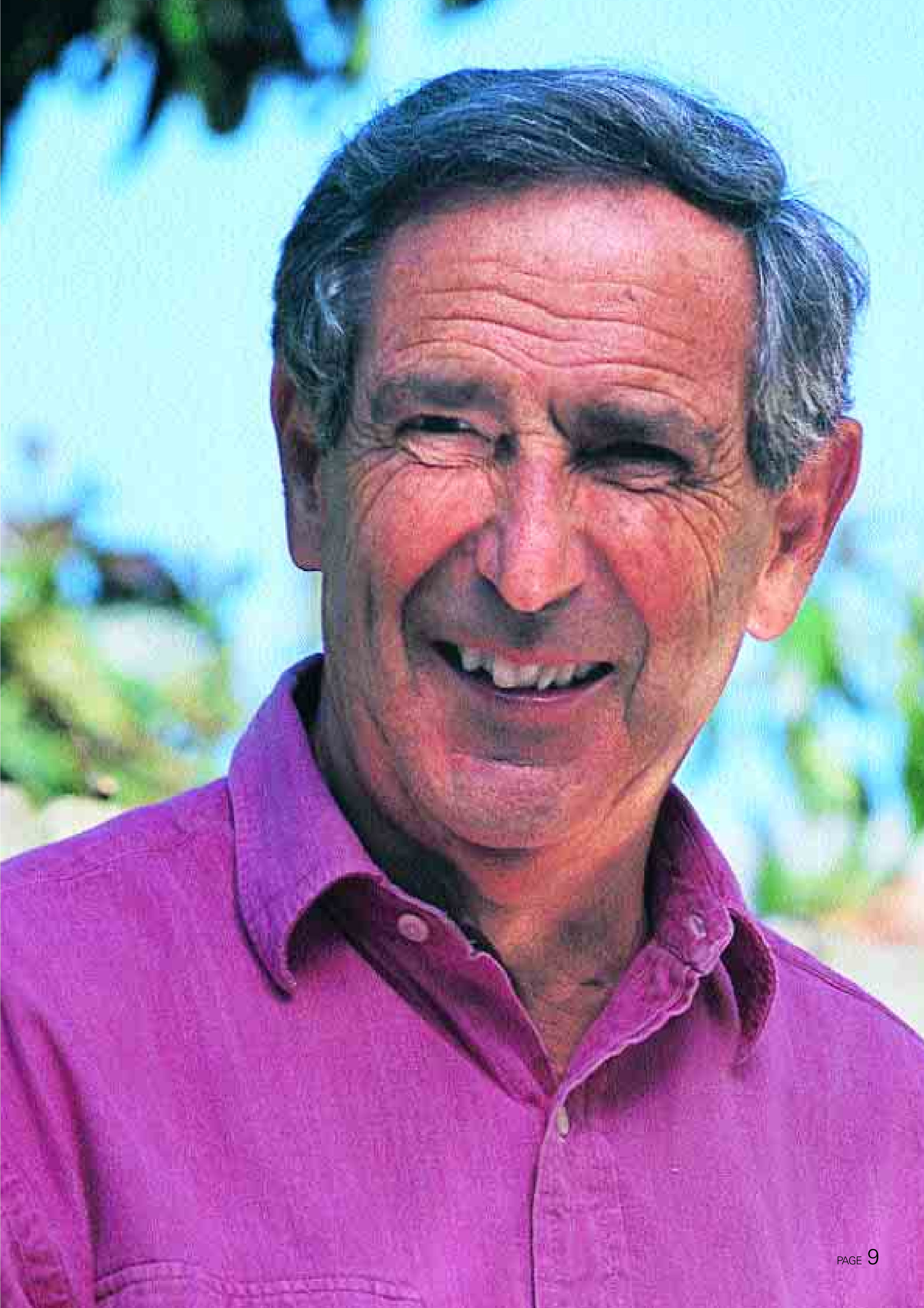
Our patients enjoy the benefits of the highest possible quality diagnostic testing and service provided through the largest medical diagnostic network in Australia and New Zealand.

This year we have provided pathology and radiology services to over *10 million* patients

sonic/OUR PATIENTS

A shareholder who invested $1,000 in 1992 would be over $50,000 wealthier today based on Sonic's share price at 30 June 2001. In that period, Sonic has risen from relative obscurity to be ranked number 61 in size on the Australian Stock Exchange list of top 100 companies. This performance has created a solid platform from which future shareholder value will be created.

Since 1992 the value of the Sonic share price has risen by over 5,000%

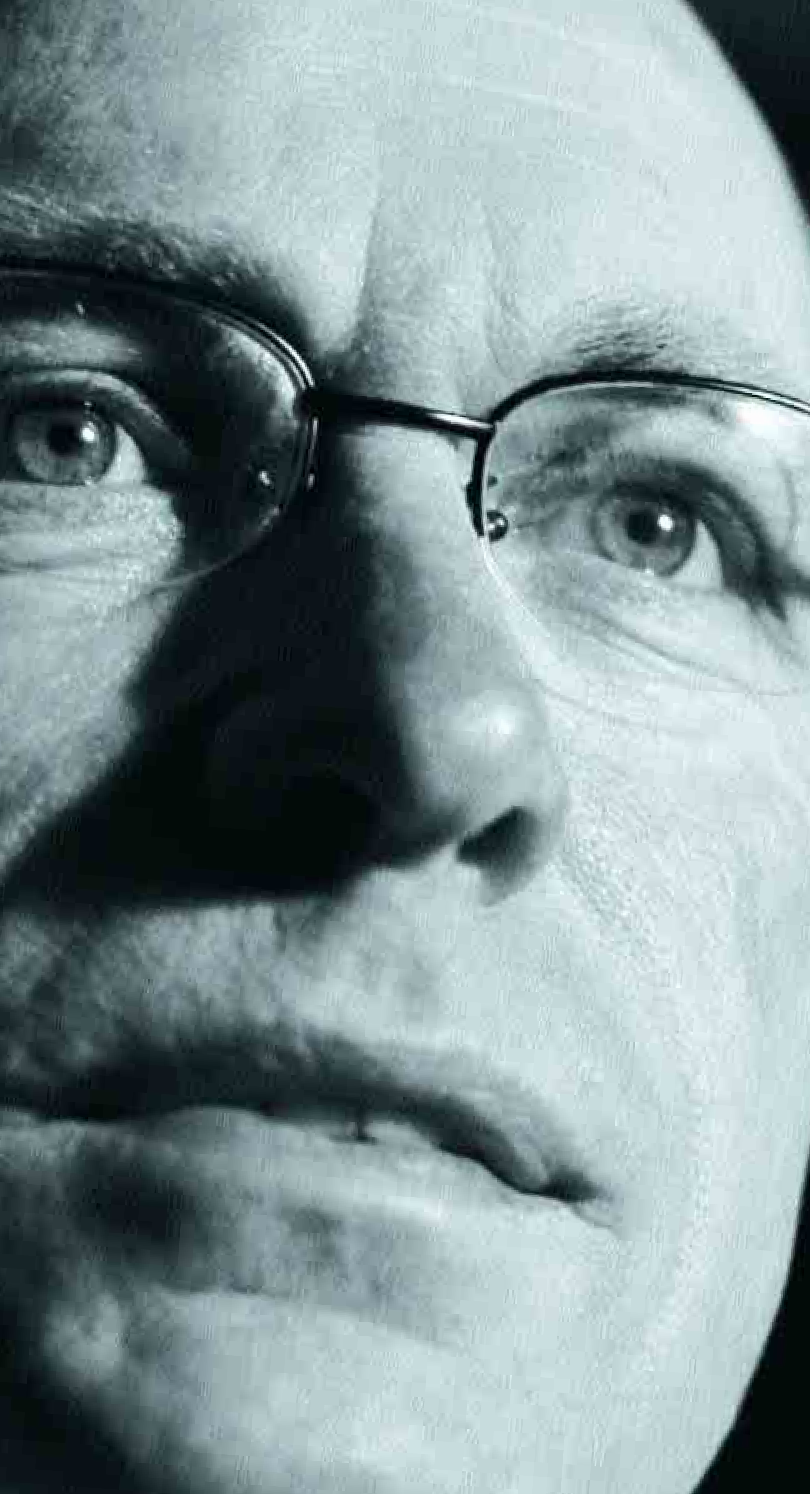


It is a great pleasure for me to report on Sonic's operational progress over the 2001 financial year. From the standpoint of each of its stakeholders, the company achieved outstanding results.

- **Shareholders** would be delighted with Sonic's financial results and the growth in shareholder value achieved over the year. When measured by earnings per share (EPS) growth, Sonic reported a 27% increase in normalised (before amortisation of intangibles) EPS over the previous year.
- **Customers**, including doctors, their patients and hospitals, were provided exceptional service by Sonic's pathology and radiology practices throughout Australia, New Zealand and in Hong Kong. The company's services were provided to more than 10 million patients over the year – a remarkable statistic and a commendable feat.
- **Staff**, Sonic's growth and strength over the past few years have provided many advantages for the more than 9,000 people now employed by Sonic. In addition to job stability, the expanded organisation now provides a much wider spectrum of opportunities for career advancement. The management of Sonic continue to focus attention on its people, work conditions, job fulfilment and the provision of a happy, informal and inclusive work environment.

The company's achievements in 2001 have not only driven the financial result for the year, but have also provided a solid base upon which to build the company's medium to long term strategy.

This year Sonic's revenue rose to over $625 million, an increase of 85% on 2000



DR COLIN GOLDSCHMIDT – **MANAGING DIRECTOR**

The major accomplishments for the year may be summarised as follows:

- Revenue and earnings growth in excess of 60%
- Expansion of profit margins
- Significant acquisitions in both radiology and pathology
- Acceleration of integration initiatives
- Strengthening of brands
- Strategic positioning for future growth.

Sonic's exceptionally strong revenue growth was attributable to its successful ongoing acquisition strategy, supported by solid organic market growth.

Sonic entered the diagnostic imaging market during the year with the acquisitions of Pacific Medical Imaging and Queensland X-Ray. The proposed acquisition of SKG Radiology was announced during the year and is scheduled for completion prior to December 2001. These three outstanding radiology organisations will give Sonic approximately 15% of the private radiology market and will provide the company with a substantial platform for future expansion.

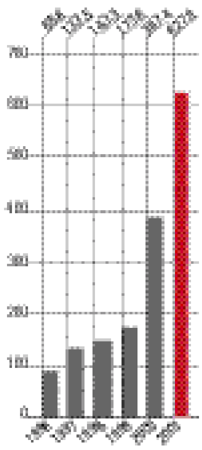
A number of smaller pathology acquisitions were completed during the year and in the early part of the 2002 year. These included regional acquisitions in Queensland and New South Wales as well as Clinipath and Bunbury Pathology in Western Australia. The Western Australian acquisitions are Sonic's first entry into this state and will provide the opportunity for potential collaboration and synergy with Perth-based SKG Radiology.

The dramatic growth of the company over the last two years, from annual revenues of $174 million to more than $625 million this year, has posed an enormous challenge to Sonic's management team. It is a tribute to the dedication of all staff, especially those involved at senior management level, that the group has successfully adapted to such enormous change over such a short period of time.

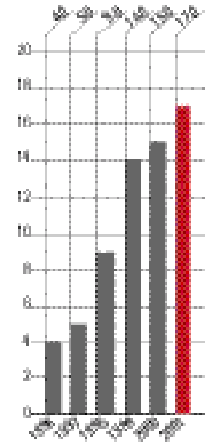
The company continued to show improving efficiencies in its operational performance, posting an EBITA margin of 18.3%. This compares with a margin of 17.2% in the previous year (after normalising for the timing of the SGS Medical Group acquisition in December 1999). The margin expansion is a result of improved efficiencies in individual entities, particularly the ex-SGS companies, together with benefits resulting from the Sonic Amalgamation Team (SAT) program.

A major endeavour through the 2001 financial year has been a structured integration initiative aimed at extracting synergies between Sonic's various diagnostic entities. The first year of the five-year SAT program has now been completed with major benefits now flowing from the processes of centralisation, standardisation and benchmarking within the wider group. The company aims to capture inter-company synergies at pathology–pathology, radiology–radiology and pathology–radiology levels and I am confident that incremental benefits will continue to flow from these valuable activities over the next four to five years.

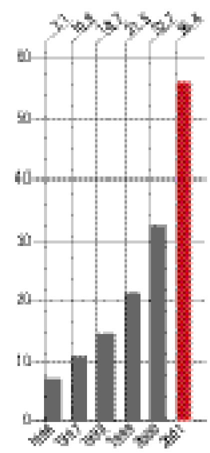
Gross Revenue
($ MILLION)



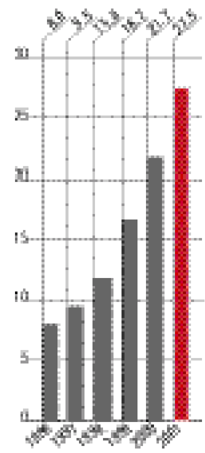
Dividends Paid
(CENTS)



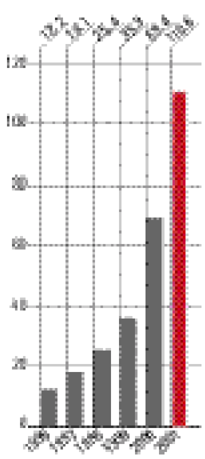
Normalised Net Profit After Tax ($ MILLION)
(before Intangibles Amortisation)



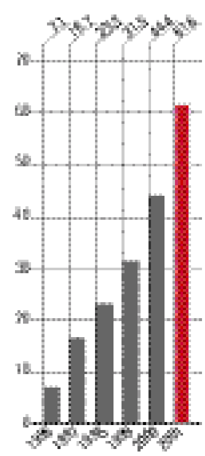
Normalised Diluted Earnings Per Share
(CENTS)
(before Intangibles Amortisation)



Normalised EBIT
($ MILLION)
(before Intangibles Amortisation)



Net Operating Cashflow
($ MILLION)



The strategy to brand the company as a medical diagnostics company, with a distinctive "Medical Management" philosophy, continues to set Sonic apart from its competitors. It is my belief that relationships with Sonic's customers – doctors, patients, and hospitals – will continue to strengthen if our management personnel, our management style and our culture are aligned and sympathetic with the particular requirements of the medical profession. I am proud to say that Sonic continues to forge new ground in this area and that we have cemented a management philosophy within the company which provides significant differentiation in the eyes of our customers.

Sonic Healthcare is an amalgamation of several pathology and radiology companies operating throughout Australia, New Zealand and, more recently, Hong Kong. The adoption of a common culture across the company was identified as a vital element for the company's ongoing success. After extensive consultation with thousands of our people, the company has crystallised and ratified a set of Sonic Core Values. I am particularly proud of these succinct values – they are applicable to all job descriptions and will no doubt be the guiding operational and behavioural lights for all Sonic staff, current and future.

The Sonic Core Values define a culture that galvanises our staff to:

- Commit to service excellence
- Treat each other with respect and honesty
- Demonstrate responsibility and accountability
- Strive for continuous improvement
- Maintain confidentiality

In 2000, Sonic entered into a strategic alliance with Foundation HealthCare Limited (Foundation) in order to provide a collaborative partnership for the mutual benefit of each company. Foundation's rapid penetration of the primary care healthcare market has resulted in increasing benefits to Sonic through the placement of pathology and radiology facilities within Foundation medical centres and this trend is likely to continue during the 2002 year.

SciGen Pte Limited, the company's Singapore-based bio-pharmaceutical subsidiary, continued the development of its promising product portfolio. The focus during the year was to progress the registration of its key products in target markets, in particular the company's unique Hepatitis B vaccine which is expected to be registered in at least two Asian markets in 2002. During the course of the year, Sonic announced that it was considering its options with respect to driving value for shareholders out of its investment in SciGen, including an IPO. Whilst the capital markets are currently not receptive to new listings, Sonic will continue to monitor its options in this regard. As part of this process, the Board of SciGen has appointed Mark Compton as the new CEO of the SciGen business. Mark was previously the CEO of Alpha Healthcare and has an extensive technical background in pharmacology and experience in public company management. Saul Mashaal, the founder and previous CEO, will become Vice-Chairman and focus on business development.

I wish to conclude this report by offering my personal thanks to all Sonic staff for their dedication and tireless work throughout the year. Sonic's staff have diligently provided consistent, high-quality pathology and radiology services to millions of patients. It is the fine service, the efficiency and the smart operating systems established by Sonic's people that have driven the growth of shareholder value over the past year and will do so for years to come.

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 2001.

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 R.P. Campbell

Dr M.M. Barratt

Mr C.D. Wilks

Mr C.J. Jackson

Dr M.F. Robinson

Mr M.D. Boyd was appointed as a director on 14 September 2000 and has continued in office until the date of this report.

Dr P.J. Dubois and Dr H.F. Scotton were appointed as directors on 31 July 2001 and have continued in office until 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.

Dividends

On 7 September 2001, the Board declared a final dividend of 13 cents per share, fully franked (at 30%) to be paid on 23 October 2001 with a record date of 2 October 2001. An interim dividend of 4 cents per share fully franked (at 34%) was paid on 13 March 2001.

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

	2001	2000
Interim dividend paid	$8,082,000	$4,918,000
Final dividend payable	$29,683,000	$20,391,000
Total dividend for the year	$37,765,000	$25,309,000

A final dividend of 12 cents per ordinary share was paid on 22 September 2000 in respect of the year ended 30 June 2000, out of profits of that year as recommended by the directors in last year's Directors' Report.

Review of operations

Sonic's 2001 result can be attributed as follows:

	Pathology $'000	Radiology $'000	SciGen $'000	Total $'000
Revenue	554,856	71,783	1,256	627,895
Earnings before interest, tax, depreciation and amortisation (EBITDA)	117,516	18,666	(4,256)	131,926
EBITDA Margin %	21.2%	26.0%	–	21.0%

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

REVENUE

Revenue for the year increased by 61% from $388,812,000 to $627,895,000 reflecting the following factors:

- A full year of the SGS Medical Group and Hitech Pathology acquisitions that were completed during the 2000 year.
- The acquisitions of the Pacific Medical Imaging radiology group (January 2001), the Queensland X-Ray radiology group (April 2001) and Consultant Pathologists – Townsville (February 2001).
- Strong organic growth of 5.2% (excluding acquisitions).

Sonic's organic growth rate (5.2%) is believed to be ahead of industry growth, reflecting increased market share.

Significant market share growth has been achieved in the Sydney metropolitan area, Illawarra, the ACT, and Adelaide. This has been driven by the service excellence and outstanding reputation of Sonic's subsidiary practices, together with gains achieved through Sonic's strategic alliance with Foundation HealthCare Limited. Market shares (excluding acquisitions) in Queensland, where there are two major players, have remained relatively constant.

Some market share has been lost in Victoria as a consequence of merger-related issues, and from 1 July 2001, the purchase of Australian Hospital Care by a competitor. Management and cost restructures have been instituted in Melbourne and these are expected to bring Sonic's Victorian operations to benchmark margins by 2003.

PROFIT

The net profit (after outside equity interests) for the consolidated entity for the year was $26,179,000 (2000: $18,725,000), after deducting income tax expense of $29,486,000 (2000: $18,613,000). Net profit after tax and before intangibles amortisation attributable to Sonic shareholders increased by 72% to $56,445,000 (2000: $32,733,000). Fully diluted earnings per share (pre intangibles amortisation) increased 27% from 21.7 cents to 27.5 cents.

Underlying operating margins increased from 17.2% to 18.3% (a 6.4% improvement), after removing distortions caused by the timing and margin differentials of acquired businesses (for example the SGS Medical Group, with margins of approximately 14%, was part of Sonic for seven months of the 2000 year, but 12 months of the 2001 year). This improvement in operating margins has been delivered by the rationalisation strategies implemented following the SGS acquisition and is particularly strong given the significant "one-off" detrimental impact of the 2000 Olympic Games.

The Sonic Amalgamation Teams ("SAT"s) which were established soon after the SGS acquisition to extract rationalisation strategies through a distributed management structure, have worked effectively and tirelessly to improve the efficiency of the group. Areas of focus include purchasing, centralisation of testing, equipment standardisation and benchmarking. This process is still only in its early stages and benefits are expected to continue to flow for at least the next 4–5 years.

Net interest expense has increased by 66% to $24,716,000 as a consequence of the debt funding components of acquisitions. Appropriate interest rate hedging arrangements are in place for these facilities.

The relatively high effective tax rate of 53% (2000: 46%) is essentially a function of the non-deductible intangibles amortisation but has also been impacted by the restatement of tax balances for the change in the Australian corporate tax rate.

SciGen

SciGen Pte Ltd (SciGen) is a Singapore based bio-pharmaceutical company in which Sonic has progressively increased its interest to its current holding of 59.5%. As SciGen became a subsidiary on 3 July 2000, the result for the year, which is in line with budget, has been consolidated into Sonic's accounts. In the prior period, an equity accounted share of losses was booked. The consolidation process results in the full loss for the year of $4,442,000 reducing the group's result. The minority component of SciGen's loss, which amounts to $1,799,000 is included in the Net Profit Attributable to Outside Equity Interests.

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 1992, prior to which he was the Medical Director of Douglass Hanly Moir Pathology. He joined the company after completing his Australian Pathology Fellowship training in Sydney in 1986.

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:

RADIOLOGY ACQUISITIONS

During the 2001 year, Sonic completed the acquisitions of the Pacific Medical Imaging group (January 2001) and the Queensland X-Ray group (April 2001). Sonic is also in the process of acquiring the SKG Radiology group, with settlement expected in November 2001. These acquisitions demonstrate Sonic's positioning and focus on becoming Australasia's premier medical diagnostics company.

Each of the three acquisitions involves a significant earn-out (deferred purchase price based on financial performance). Current expectations of the future financial effect of these acquisitions (in total) are as follows:

			Split of Purchase Price	
Estimated Annualised Revenue for 2002	EBITDA[1]	Estimated Purchase Price[2]	Sonic Ordinary Shares	Cash[3]
$ 244.0M	$ 69.8M	$ 490.5M	39%	61%

1 Earnings before interest, tax, depreciation and amortisation.
2 Purchase price may change depending on results for the 2002 financial year.
3 Note that cash includes debt assumed as part of the acquisition.

Pacific Medical Imaging (PMI) is Australia's third-largest radiology group with annual revenues of approximately $90 million. The majority of its operations are located in NSW, but it also has strategic presences in Hong Kong and New Zealand. Sonic had also acquired the New Zealand Radiology Group (NZRG), based in Auckland, as part of the SGS Medical Group transaction and the PMI New Zealand practices will now work together with NZRG.

The Queensland X-Ray group (QXR) was the largest private radiology practice in Australia and is the dominant operator in the Queensland market. Annualised revenue is approximately $90 million. QXR's professional standing and management quality is outstanding and will provide the benchmark for Sonic's diagnostic imaging practices.

SKG Radiology (SKG) is the largest private radiology practice in Western Australia, operating primarily in the greater Perth area. Annual revenue is approximately $60 million.

All of Sonic's radiology practices have geographic overlap with its pathology operations and there is significant potential for the businesses to complement each other, both in providing cost savings and in top line expansion by co-branding and marketing efforts. The customer for both radiology and pathology services is the same, being the referring doctor.

ALLIANCE WITH FOUNDATION HEALTHCARE LIMITED

In July 2000, Sonic announced that it had formed a strategic alliance with Foundation HealthCare Limited (Foundation), the fastest growing general practice operator in Australia. As part of the alliance, Sonic invested $27,267,000 during the year to acquire and maintain an approximate 10% interest in Foundation's listed equity. Sonic's Managing Director, Dr C.S. Goldschmidt was appointed to the board of Foundation and Mr M.D. Boyd, Foundation's Chairman, joined Sonic's board. Both have been appointed in non-executive roles.

Under the terms of the alliance, Sonic has been granted the first right of refusal to establish pathology and radiology operations in Foundation Medical centres, at commercial rentals.

The alliance enables Sonic to aggressively grow its diagnostic businesses whilst maintaining its independence in the healthcare sector.

Christopher David Wilks

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

Mr Wilks is a management consultant with a background in chartered accounting and investment banking. He was previously a partner in a private merchant bank and has held positions on the boards of a number of public companies. Mr Wilks has been a director of Sonic since 1989 and is also a member of the Audit Committee.

SciGen

During the year Sonic increased its ownership in SciGen to 59.5% for an additional investment of $4.4 million. SciGen became a subsidiary of Sonic from 3 July 2000 and has therefore been consolidated into Sonic's accounts for the first time.

CAPITAL RAISING

On 31 August 2000, Sonic raised $102 million via an issue of ordinary shares to the institutional market at an issue price of $6.80 per share. The funds raised were used to reduce debt, giving Sonic the ability to pursue strategic expansion opportunities.

ACQUISITION OF SGS MEDICAL GROUP MINORITY INTERESTS

The SGS Medical Group acquisition was structured such that Sonic initially owned approximately 70–80% of the Australian based entities, with the balance to be acquired in time through the issue of a pre-agreed number of Sonic shares. The minorities in two of the practices converted to Sonic shares with effect from 1 July 2000. The third group converted with effect from 1 January 2001. A share of this entity's profit is therefore included in Net Profit Attributable to Outside Equity Interests. The acquisition of the minority interests required the issue during the year of 17,785,190 Sonic ordinary shares.

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 5 July 2001, Sonic announced its intention to merge with SKG Radiology for a combination of Sonic shares (approximately 35% of the purchase price) and cash.
- On 9 July 2001, Sonic acquired the business of Illawarra Medical Laboratories, a Wollongong based pathology practice with annual revenue of approximately $5 million. This practice has been merged into Sonic's Southern Pathology operation, as the two practices operate in the same geographical area.
- On 3 August 2001, Sonic completed the acquisition of the medical diagnostic operations of Foundation. These operations included the Clinipath/Bunbury pathology practices in Western Australia, Latrobe Network Pathology in Melbourne (since merged into Sonic's Melbourne Pathology practice) and a small radiology practice in Brisbane (since merged into Queensland X-Ray.) Total annual revenue of these practices is approximately $21 million.
- On 10 August 2001, Sonic announced that its Dividend Reinvestment Plan (DRP), which had recently been approved by shareholders, would apply to the final dividend for the 2001 year. The shares issued under the DRP will be allotted at a 5% discount to the weighted average market price of Sonic's shares during the 5 days following the record date.
- On 3 September 2001, Sonic acquired the pathology assets of Cairns Pathology Laboratory for a combination of Sonic shares and cash. The annual revenue of this practice is approximately $5.5 million.

Likely developments and expected results of operations

Sonic has announced its intention to continue to pursue prudent expansion in diagnostic imaging (radiology) by acquiring quality practices.

Radiology margin expansion will be targeted on two levels, between radiology practices and between radiology and pathology operations. Joint marketing and branding are expected to contribute significantly to future revenue growth.

Management is also highly focused on the achievement of synergies from the SGS Medical Group and subsequent pathology acquisitions. Specific strategies to achieve these benefits are in place and the results will contribute to 2002 and future year's profits. Small "bolt-on" pathology acquisitions which offer marginal profit contributions will continue to be targeted.

Dr Michael Barratt
M.B., B.S., F.R.C.P.A.

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

Sonic is in the early stages of investigating opportunities to expand into a number of overseas pathology markets, where its workflow, computer and management systems could add value to existing entities in those markets. This is a medium-term strategy and is dependent on identifying appropriate specific opportunities over time.

With regard to the company's investment in SciGen, whilst SciGen has enormous upside potential and has been progressing well with the development and registration of its extensive product portfolio, the investment no longer fits with Sonic's strategic plan to focus on diagnostics. Accordingly, Sonic is considering its alternatives, including the possibility of a separate listing of SciGen. In the meantime, Sonic will continue to fund SciGen's cash flow shortfall, which is budgeted to be lower in 2002.

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 be likely to result in unreasonable prejudice to the consolidated entity.

Share Options

SHARES UNDER OPTION

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

Sonic Healthcare Limited Employee Option Plan Options:

Number of Options	Issue Price of Shares	Expiry Date
297,500	$1.47	18 September 2002
1,062,500	$3.37	15 December 2003
4,500,000	$5.50	20 April 2005
2,573,000	$5.59	20 February 2005
8,433,000		

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

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

On 24 August 2001, Sonic announced it intention to grant approximately 3,750,000 options pursuant to its Employee Option Plan, as well as 250,000 options out of a total of 1,000,000 options to be issued to staff of Queensland X-Ray (QXR) pursuant to Sonic's agreement with the vendors of QXR. The options will have an exercise price of $7.63 and are subject to continuity of employment periods.

Executive Director Options:

No options were granted to executive directors during the year ending 30 June 2001. At 30 June 2001, 4,500,000 options were outstanding to two executive directors of Sonic Healthcare Limited as granted on 20 April 2000, following approval by shareholders at the 1999 Annual General Meeting. Each option is convertible into one ordinary share as set out below on or before 20 April 2005 at a fixed price of $5.50 per share:

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

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

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

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

SHARES ISSUED ON THE EXERCISE OF OPTIONS

A total of 2,147,500 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 2001 on the exercise of options granted under the Sonic Employee Option Plan and a further 427,500 shares have been issued since that date, but prior to the date of this report. The amounts paid on issue of those shares were:

No amounts are unpaid on any of these shares.

No. of Options	Amounts Paid
250,000	70 cents
627,500	72.5 cents
673,000	82.5 cents
902,000	$1.47
122,500	$3.37
2,575,000	

Directors' and Executives' emoluments

The Remuneration Committee, consisting of two non-executive directors, advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

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

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

Remuneration of non-executive directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

The Board continuously monitors its performance and the performance of the Board committees. Performance related bonuses are available to executives. Bonuses are not payable to non-executive directors.

Details of the nature and amount of each element of the emoluments of each director of Sonic Healthcare Limited and each of the five officers of the company and the consolidated entity receiving the highest emoluments are set out in the following tables.

NON-EXECUTIVE DIRECTORS OF SONIC HEALTHCARE LIMITED

Name	Director's Fee $
B.S. Patterson (Chairman)	50,000
R.P. Campbell	50,000
M.D. Boyd	39,808

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

EXECUTIVE DIRECTORS OF SONIC HEALTHCARE LIMITED

Name	Base Fee $	Directors' Fees $	Other Benefits $	Bonus $	Super-anuation $	Total $
Dr C.S. Goldschmidt Managing Director	188,688	50,000	78,195	418,000	16,416	751,299
C.D. Wilks Finance Director	177,345	50,000	8,400	222,000	–	457,745
Dr M.M. Barratt Director	89,260	50,000	7,748	–	8,416	155,424
C.J. Jackson Director	154,487	50,000	7,711	–	78,388	290,586
Dr M.F. Robinson Director	229,728	50,000	17,929	–	29,474	327,131

During the financial year there were no share options granted to the executive directors.

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

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

Bonuses paid to Dr C.S. Goldschmidt and Mr C.D. Wilks are determined by the Remuneration Committee and are dependent upon the performance of the consolidated entity.

Dr Michael Robinson
M.D., F.R.A.C.F., F.R.C.P.A., F.A.I.M.

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

OTHER EXECUTIVES OF THE CONSOLIDATED ENTITY

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

Name	Base Salary $	Other Benefits $	Bonus $	Super-annuation $	Total $
S. Mashaal Chief Executive Officer SciGen Pte Ltd	448,683	49,461	30,522	–	528,666
Dr G. Armellin Chief Executive Officer Capital Pathology	273,653	–	20,000	8,416	302,069
Dr L. Bott Chief Executive Officer Southern IML Pathology	240,182	32,389	–	11,737	284,308
P. Alexander Group Financial Controller	161,538	–	50,000	8,416	219,954
F. Tuck Chief Executive Officer Diagnostic Medlab	138,263	25,553	23,702	13,826	201,344

Effective from 17 September 2001, Mr S. Mashaal was appointed as Vice Chairman of SciGen and Mr M. Compton was appointed as Chief Executive Officer.

SHARE OPTIONS GRANTED TO DIRECTORS AND EXECUTIVES

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

Information on Directors

DIRECTORS' PROFILES

The Directors' profiles are set out on pages 14 to 23 of this report.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS AS AT 24 SEPTEMBER 2001

Directors' Name	Class of Shares	Number of Shares	Interest	Options
B.S. Patterson	Ordinary	3,816,646	Beneficially	–
Dr C.S. Goldschmidt	Ordinary	575,000 225,000	Personally Beneficially	3,125,000 –
R.P. Campbell	Ordinary	–	–	–
Dr M.M. Barratt	Ordinary	1,300,000	Beneficially	–
C.D. Wilks	Ordinary	300,000 189,500	Personally Beneficially	1,625,000 –
C.J. Jackson	Ordinary	517,590	Personally	–
Dr M.F. Robinson	Ordinary	200,000	Personally	–
M.D. Boyd	Ordinary	24,458,704	Beneficially	–
Dr P.J. Dubois	Ordinary	616,486	Personally	–
Dr H.F. Scotton	Ordinary	175,996	Personally	–

Dr Philip Dubois

M.B., B.S., F.R.C.R., F.R.A.C.R.

Dr Dubois is the Chairman of Queensland X-Ray, one of the largest radiology groups in Australia. He is currently Clinical Associate Professor of Radiology at the University of Queensland Medical School and is also Vice President of the Australian Diagnostic Imaging Association and a councillor with the Royal Australian and New Zealand College of Radiologists. Dr Dubois serves on numerous committees including the Diagnostic Economic Standing Committee, Fees Committee ADIA, Diagnostic Imaging Peak Management Committee and the Nuclear Imaging Consultative Committee.

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 2001, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees Audit		Remuneration	
	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	12	–	2	2	2
Dr C.S. Goldschmidt	12	12	–	–	–	–
C.D. Wilks	12	12	2	2	–	–
Dr M.M. Barratt	12	12	–	–	–	–
C.J. Jackson	11	12	2	2	–	–
Dr M.F. Robinson	10	12	–	–	–	–
R.P. Campbell	11	12	2	2	2	2
M.D. Boyd	7	8	–	–	–	–

* for the period office was held.

Insurance of officers

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

The directors' and officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the company or related entity) incurred in their position as a director or executive officer unless the conduct involves a wilful 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.

Rounding of amounts

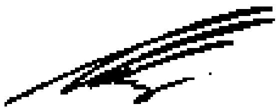
The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand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

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

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

Dr C.S. Goldschmidt
Director



C.D. Wilks
Director

Sydney, 28 September 2001

Dr Hugh Scotton

M.B., B.S., F.R.A.N.Z.R., D.D.U., M.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 elected Chairman of Pacific Medical Imaging, incorporating radiology groups in the Hunter, Sydney and Illawarra in 1999.

This statement outlines the main corporate governance practices that were in place throughout the financial year, unless otherwise stated. These practices are dealt with under the following headings: Board of Directors and its Committees, identifying and managing business risks, ethical standards and the role of shareholders.

1. Board of Directors and its Committees

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

COMPOSITION OF THE BOARD

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

Name	Age	Position	Expertise
Mr Barry Patterson	60	Chairman	Non-Executive Director Company Management
Dr Colin Goldschmidt	47	Managing Director	Pathology Industry and Company Management
Mr Chris Wilks	43	Executive Director	Finance, Accounting, Banking and Secretarial
Dr Michael Barratt	63	Executive Director	Pathology Industry and Company Management
Mr Colin Jackson	53	Executive Director	Finance and Company Management
Dr Michael Robinson	53	Executive Director	Pathology Industry and Company Management
Dr Philip Dubois	55	Executive Director	Radiology Industry and Company Management
Dr Hugh Scotton	59	Executive Director	Radiology Industry and Company Management
Mr Peter Campbell	56	Non-Executive Director	Finance and Accounting, Computing and Company Management
Mr Michael Boyd	36	Non-Executive Director	Finance and Accounting, Company Management and the Healthcare Industry

INDEPENDENT PROFESSIONAL ADVICE

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

REMUNERATION COMMITTEE

The role of the Remuneration Committee is to review and make recommendations to the Board on remuneration packages and policies applicable to senior executives and directors themselves. This role also includes responsibility for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. The Remuneration Committee, when deemed necessary, obtains independent advice on the appropriateness of remuneration packages.

The members of the Remuneration Committee during the year were:

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

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

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

The Remuneration Committee meets twice a year or as required.

Further details of directors' remuneration, superannuation and retirement payments are set out in note 32 to the financial statements.

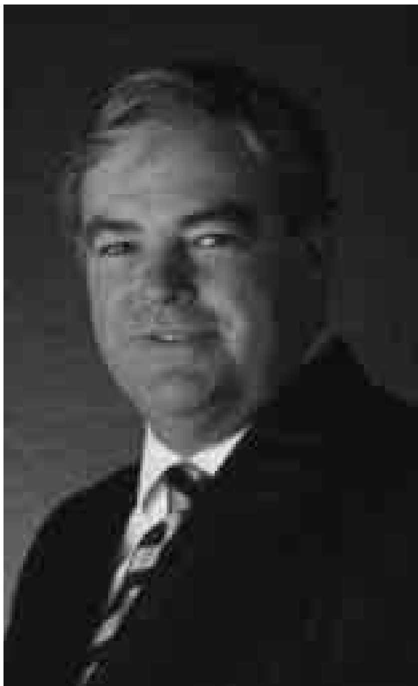
AUDIT COMMITTEE

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

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

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

Mr Campbell is a Chartered Accountant with his own practice based in Sydney. Mr Campbell is also the Chairman of Lifecare Limited, a listed public company operating in the physiotherapy field. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Taxation Institute of Australia and is a registered Company Auditor. Mr Campbell is the Chairman of the Audit Committee and a member of the Remuneration Committee.



The members of the Audit Committee are:

Mr R.P. Campbell (Chairman)
Mr B.S. Patterson
Mr C.D. Wilks
Mr C.J. Jackson

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

The responsibilities of the Audit Committee include:

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

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

Audit Planning

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

Prior to Announcement of Results

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

Half-Year and Annual Reporting

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

As Required

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

2. Identifying and managing business risks

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

3. Ethical standards

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

4. The role of shareholders

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

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

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

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

Michael Denis Boyd

B.Comm (Univ.W.A.) ACA, A.S.I.A., F.A.I.C.D.

Mr Boyd is a Chartered Accountant, the Chairman of Foundation HealthCare Limited and a Director of LifeCare Health Limited ("LifeCare"). Mr Boyd is a major shareholder in both these companies and a substantial shareholder in Sonic via his interests in Jardvan Pty Ltd.

Statements of **financial performance**

for the year ended 30 June 2001

	Note	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Revenue from ordinary activities	2	**627,895**	388,812	**51,086**	37,980
Labour and related costs		**309,365**	191,864	**3,852**	3,275
Depreciation and amortisation expenses of physical assets	3	**21,331**	12,285	**701**	642
Consumables used		**86,995**	54,920	**59**	14
Share of net loss of associates accounted for using the equity method		**–**	1,455	**–**	–
Other expenses from ordinary activities		**98,294**	58,217	**2,628**	1,278
Profit from ordinary activities before income tax expense, borrowing costs and amortisation of intangibles		**111,910**	70,071	**43,846**	32,771
Borrowing costs expense	3	**26,031**	15,540	**218**	1,582
Amortisation of intangibles	3	**30,266**	14,008	**–**	–
Profit from ordinary activities before income tax expense		**55,613**	40,523	**43,628**	31,189
Income tax expense	4	**(29,486)**	(18,613)	**(5,607)**	(1,952)
Profit from ordinary activities after income tax expense		**26,127**	21,910	**38,021**	29,237
Net (loss)/profit attributable to outside equity interest		**(52)**	3,185	**–**	–
Net profit attributable to members of Sonic Healthcare Limited		**26,179**	18,725	**38,021**	29,237
Net exchange differences on translation of financial report of foreign controlled entities	24	**142**	(706)	**–**	–
Total revenues, expenses and valuation adjustments attributable to members of Sonic Healthcare Limited recognised directly in equity		**142**	(706)	**–**	–
Total changes in equity other than those resulting from transactions with owners as owners		**26,321**	18,019	**38,021**	29,237
Basic earnings per share (cents per share)	35	**12.9**	12.7		
Diluted earnings per share (cents per share)	35	**12.7**	11.9		
Normalised (pre intangible amortisation) Diluted earnings per share (cents per share)	35	**27.5**	21.7		

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

Statements of **financial position**

as at 30 June 2001

	Note	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Current assets					
Cash assets	36(a)	**21,676**	11,022	**50**	140
Receivables	6	**109,039**	72,389	**26,494**	23,390
Inventories	7	**11,561**	10,481	**–**	–
Total current assets		**142,276**	93,892	**26,544**	23,530
Non-current assets					
Receivables	8	**3,424**	1,281	**215,804**	116,054
Other financial assets	9	**29,635**	5,535	**385,477**	135,522
Property, plant and equipment	10	**165,297**	94,736	**24,328**	22,833
Intangible assets	11	**915,922**	519,377	**–**	–
Deferred tax assets	12	**15,239**	10,819	**146**	88
Total non-current assets		**1,129,517**	631,748	**625,755**	274,497
Total assets		**1,271,793**	725,640	**652,299**	298,027
Current liabilities					
Payables	13	**55,110**	33,515	**1,627**	904
Interest bearing liabilities	14	**42,316**	25,781	**–**	–
Current tax liabilities	15	**10,251**	11,152	**4,727**	1,937
Provisions	16	**80,309**	63,167	**29,683**	22,330
Other	17	**37,132**	23,739	**–**	–
Total current liabilities		**225,118**	157,354	**36,037**	25,171
Non-current liabilities					
Payables	18	**5,454**	–	**–**	–
Interest bearing liabilities	19	**424,266**	293,024	**–**	–
Deferred tax liabilities	20	**1,584**	72	**–**	–
Provisions	21	**6,951**	6,428	**–**	–
Other	22	**–**	27	**2,532**	2,528
Total non-current liabilities		**438,255**	299,551	**2,532**	2,528
Total liabilities		**663,373**	456,905	**38,569**	27,699
Net assets		**608,420**	268,735	**613,730**	270,328
Equity					
Parent entity interest					
Contributed equity	23	**622,529**	279,383	**622,529**	279,383
Reserves	24	**418**	276	**982**	982
Accumulated losses		**(22,062)**	(10,475)	**(9,781)**	(10,037)
Total parent entity interest		**600,885**	269,184	**613,730**	270,328
Outside equity interest in controlled entities	25	**7,535**	(449)	**–**	–
Total equity		**608,420**	268,735	**613,730**	270,328

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 2001

	Note	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**639,563**	386,684	**–**	–
Payments to suppliers and employees (inclusive of goods and services tax)		**(519,997)**	(308,577)	**(7,499)**	(4,725)
		119,566	78,107	**(7,499)**	(4,725)
Dividends received		**–**	–	**24,845**	17,400
Interest received		**1,316**	695	**14,261**	5,886
Other revenue		**–**	–	**9,686**	6,275
Borrowing costs		**(19,639)**	(13,563)	**(218)**	(1,582)
Income taxes paid		**(39,618)**	(20,824)	**(2,875)**	(379)
Net cash inflow from operating activities	36(b)	**61,625**	44,415	**38,200**	22,875
Cash flows from investing activities					
Payment for purchase of controlled entity, net of cash acquired	27	**(132,996)**	(336,394)	**(58,740)**	(52,581)
Payments for property, plant and equipment		**(21,017)**	(24,353)	**(2,196)**	(3,712)
Payments for investments		**(27,269)**	(2,480)	**(27,269)**	(2,701)
Loans to controlled entities		**–**	–	**(24,670)**	(63,146)
Proceeds from sale of property, plant and equipment		**2,066**	1,214	**–**	–
Repayment of loans by related parties		**–**	–	**551**	–
Repayment of loans by other entities		**–**	476	**–**	–
Loans to other entities		**(3,000)**	–	**–**	–
Loans to associates		**–**	(592)	**–**	(551)
Net cash (outflow) from investing activities		**(182,216)**	(362,129)	**(112,324)**	(122,691)
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities		**104,063**	166,299	**104,063**	166,299
Share issue transaction costs		**(1,559)**	(3,270)	**(1,559)**	(3,270)
Proceeds from borrowings		**187,209**	331,427	**–**	15,000
Loans from controlled entities		**–**	–	**4**	1,370
Repayment of borrowings		**(115,567)**	(146,267)	**–**	(61,000)
Repayment of lease and hire purchase liabilities		**(10,969)**	(4,998)	**–**	–
Dividends paid		**(28,474)**	(18,551)	**(28,474)**	(18,551)
Dividends paid to outside equity interests in controlled entities		**(3,538)**	(1,232)	**–**	–
Net cash inflow from financing activities		**131,165**	323,408	**74,034**	99,848
Net increase (decrease) in cash held		**10,574**	5,694	**(90)**	32
Cash at the beginning of the financial year		**11,022**	5,345	**140**	108
Effects of exchange rate changes on cash		**80**	(17)	**–**	–
Cash at the end of the financial year	36(a)	**21,676**	11,022	**50**	140

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

Notes to the **financial statements**

for the year ended 30 June 2001

Contents

Notes to the **financial statements**

for the year ended 30 June 2001

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.

As a result of applying the revised Accounting Standard AASB 1018 *Statement of Financial Performance*, revised AASB 1034 *Financial Report Presentation and Disclosures* and AASB 1040 *Statement of Financial Position* for the first time, a number of comparative amounts were re-presented or reclassified to ensure comparability with the current reporting period.

(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 2001 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.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post acquisition profits or losses of associates is recognised in the consolidated statement of financial performance, and its share of post acquisition movements in reserves is recognised in consolidated reserves. The cumulative post acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

(b) Income tax

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

(c) Foreign currency translation

(i) Transactions

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

(ii) Foreign controlled entity

As all 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.

(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.

Note 1 Summary of significant accounting policies (continued)

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

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

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

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

(e) Revenue recognition

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

(f) Receivables

All trade debtors are recognised at the amounts receivable as they are generally settled within 45 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 for any doubtful debts 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 a market-determined, risk-adjusted discount rate.

(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*.

The directors obtain valuations to support the carrying value of land and buildings in accordance with the requirements of the Corporations Act 2001 at least every three years.

Change in accounting policy for the measurement of land and buildings and leasehold improvements

The above policy was adopted with effect from 1 July 2000. The previous policy was to assess the land and buildings and leasehold improvements at three-yearly intervals. The changed policy has not had a material effect in the current or previous financial year, nor is it expected to have a material effect in subsequent financial years.

Note 1 Summary of significant accounting policies (continued)

The changed policy has been adopted to comply with AASB 1041 *Revaluation of Non-Current Assets*, released in December 1999 which applied for the first time for the year ended 30 June 2001.

In changing from a revaluation to cost policy, the carrying balances of land and buildings as at 30 June 2000 were deemed to be the cost, as permitted by AASB 1041 on initial application of the standard. No adjustments have been made to the accounts as a result of the change in accounting policy.

Owned and leased property, plant and equipment is recorded in the financial statements at cost. There has been no change in this accounting policy.

(j) Investments

(i) Controlled Entities and Associates

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

(ii) Listed and Unlisted Securities

Interests in listed and unlisted securities (other than controlled entities and associates) 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 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 incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

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

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

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

(m) Intangible assets and expenditure carried forward

(i) Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over 20 years, being the period during which the benefits are expected to arise. The cost of acquisition is discounted as described in note 1(d) where settlement of any part of cash consideration is deferred.

(ii) Brand Names, Licences and Authorities

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

Note 1 Summary of significant accounting policies (continued)

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

(n) Trade and other creditors

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

(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 other debtors or other creditors at each reporting date.

(q) Employee entitlements

(i) Wages and salaries, annual leave

Liabilities for wages and salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(ii) Long service leave

A liability for long service leave is recognised, and is 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 interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(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
- 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 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

- Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company by the weighted average number of ordinary shares outstanding during the financial year.

Note 1 Summary of significant accounting policies (continued)

- Diluted earnings per share

  Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

- Normalised diluted earnings per share

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

(v) 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.

	Consolidated		Parent Entity	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000
Note 2 Revenue				
Revenue from operating activities				
Medical services revenue	**621,531**	384,663	**–**	–
Revenue from outside the operating activities				
Management fees received or due and receivable from controlled entities	**–**	–	**7,150**	4,182
Dividends from controlled entities	**–**	–	**26,845**	24,400
Interest received or due and receivable from:				
Controlled entities	**–**	–	**14,025**	5,762
Other entities	**1,316**	695	**236**	124
Gross proceeds on sale of property, plant and equipment	**2,066**	1,214	**–**	–
Rental income:				
Controlled entities	**–**	–	**2,536**	2,093
Other entities	**1,660**	1,120	**–**	–
Other income	**1,322**	1,120	**294**	1,419
	6,364	4,149	**51,086**	37,980
Revenue from ordinary activities	**627,895**	388,812	**51,086**	37,980

Note 3 Operating profit

Net gains and expenses

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

Net gains

Net gain on disposal of property, plant and equipment	**–**	124	**–**	–

Note 3 Operating profit (continued)

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Expenses				
Borrowing costs				
Finance charges on capitalised leases and hire purchase agreements	**2,429**	1,046	**–**	–
Controlled entities	**–**	–	**212**	185
Other entities	**23,602**	14,494	**6**	1,397
Total borrowing costs	**26,031**	15,540	**218**	1,582
Bad and doubtful debts:				
Trade debtors	**5,138**	2,092	**–**	–
Amortisation of:				
Goodwill	**26,357**	11,604	**–**	–
Brand names, licences and authorities	**3,909**	2,404	**–**	–
Leased assets	**7,396**	4,410	**–**	–
Total amortisation	**37,662**	18,418	**–**	–
Depreciation of:				
Plant and equipment	**12,320**	7,048	**76**	44
Buildings	**1,615**	827	**625**	598
Total depreciation	**13,935**	7,875	**701**	642
Net amount provided for employee entitlements	**24,246**	16,284	**–**	–
Net loss on disposal of property, plant and equipment	**147**	–	**–**	–
Operating lease rental expense	**25,316**	16,093	**18**	11

	Consolidated 2001 $	Consolidated 2000 $	Parent Entity 2001 $	Parent Entity 2000 $
Remuneration of auditors				
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditor of the parent entity – PricewaterhouseCoopers Australian firm	**189,000**	132,000	**83,250**	70,000
Other auditors of controlled entities Related practices of the auditor of the parent entity – overseas PricewaterhouseCoopers firms	**74,452**	73,000	**–**	–
	263,452	205,000	**83,250**	70,000
Remuneration for other services:				
Auditor of the parent entity – PricewaterhouseCoopers Australian firm	**446,952**	42,009	**84,887**	32,409

Note 4 Taxation

	Consolidated		Parent Entity	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000
The income 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 expense	**55,613**	40,523	**43,628**	31,189
Income tax calculated @ 34% (2000: 36%)	**18,908**	14,588	**14,834**	11,228
Minority interests' share of pre-tax profit of trading trusts	**(553)**	(917)	**–**	–
Tax effect of permanent differences:				
Amortisation of intangibles	**10,291**	5,043	**–**	–
Other items (net)	**231**	18	**189**	23
Rebateable dividends	**–**	–	**(9,127)**	(8,784)
Share of net losses of SciGen	**–**	524	**–**	–
Quarantined losses of foreign subsidiary	**1,535**	–	**–**	–
Deductible expenditure capitalised in investment costs	**(2,103)**	(361)	**(269)**	–
Non assessable income	**–**	–	**–**	(511)
Income tax adjusted for permanent differences	**28,309**	18,895	**5,627**	1,956
Net adjustment to deferred income tax liabilities and assets to reflect the decrease in Australian company tax rate to 34%/30%	**1,052**	(32)	**(20)**	(4)
Effect of lower tax rates on overseas income	**(199)**	5	**–**	–
Under/(over) provision in prior year	**324**	(255)	**–**	–
Income tax expense	**29,486**	18,613	**5,607**	1,952

Adjustment to deferred income tax balances

Legislation reducing the Australian company tax rate from 36% to 34% in respect of the 2000-2001 income tax year and then to 30% from the 2001-2002 income tax year was passed during the year ended 30 June 2000. As a consequence deferred tax balances were remeasured during the years using the appropriate new rates, depending on the timing of the reversal.

	Consolidated		Parent Entity	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000

Note 5 Dividends provided for or paid

Final dividend of 13 cents (2000: 12 cents) per fully paid share				
Franked @ 30%			**29,683**	–
Franked @ 34%			**–**	20,391
Interim dividend of 4 cents (2000: 3 cents) per fully paid share				
Franked @ 34%			**8,082**	–
Franked @ 36%			**–**	4,918
Underprovision from prior year			**–**	38
			37,765	25,347
Franking credits available for the subsequent financial year based on a tax rate of 30% (2000: – 34%)	**52,261**	36,941	**4,726**	5,286

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

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

The Government introduced legislation into Parliament on 28 June 2001 which will require companies to convert their existing Class C franking account balances from an underlying tax rate of 34% to an underlying tax rate of 30% on 1 July 2001. The above accounts have been converted to the new tax rate at 30 June 2001.

Note 6 Receivables – current

Trade debtors	**85,312**	59,119	**–**	–
Less: Provision for doubtful debts	**(3,963)**	(2,934)	**–**	–
	81,349	56,185	**–**	–
Accrued revenue	**11,674**	8,703	**–**	–
Dividends receivable from controlled entities (note 34)	**–**	–	**24,000**	22,000
Amounts receivable from associates	**–**	592	**–**	551
Amount receivable from controlled entities (note 34)	**–**	–	**2,350**	733
Amount owing from other entities	**231**	–	**–**	–
Sundry debtors	**11,835**	3,387	**33**	7
Prepayments	**3,950**	3,522	**111**	99
	109,039	72,389	**26,494**	23,390

Significant Terms and Conditions

Trade debtors are required to be settled within 30 days.

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

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000

Note 7 Inventories

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Consumable stores at cost	**11,561**	10,481	–	–

Note 8 Receivables – non-current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Other entities	**3,506**	848	**82**	82
Less: Provision for doubtful debts	**(82)**	(82)	**(82)**	(82)
	3,424	766	**–**	–
Controlled entities (note 34)	**–**	–	**215,804**	116,054
Prepayments	**–**	515	**–**	–
	3,424	1,281	**215,804**	116,054

Significant Terms and Conditions

The terms and conditions of amounts advanced by the ultimate parent entity during the year are detailed in note 34.

Note 9 Other financial assets – non-current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Investments traded on organised markets				
Shares in other corporations – at cost	**27,267**	–	**27,267**	–
Other (non-traded) investments				
Shares in associates – at cost (note 28)	**–**	5,462	**–**	6,917
Investments in other entities – at cost	**2,501**	206	**777**	43
Less: Provision for write down to recoverable amount	**(133)**	(133)	**(43)**	(43)
Investments in other entities – at recoverable amount	**2,368**	73	**734**	-
Shares in controlled entities – at cost (note 27)	**–**	–	**369,176**	140,305
Less: Provision for diminution in value	**–**	–	**(11,700)**	(11,700)
Shares in controlled entities – at recoverable amount	**–**	–	**357,476**	128,605
	29,635	5,535	**385,477**	135,522

Shares in associates

On 3 July 2000, Sonic Healthcare Limited acquired additional shares in SciGen Pte Limited bringing its ownership of SciGen to 58%, and making SciGen a controlled entity of Sonic. Further investments took Sonic's ownership to 59.5% at balance date. Refer notes 27 and 28.

Traded shares in other corporations

On 25 August 2000, Sonic Healthcare purchased shares in Foundation HealthCare Limited representing a 10% share in the company. On 22 June 2001, additional shares were purchased bringing Sonic's ownership interest to approximately 9.3%.

Investments in other entities

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

Non-current assets pledged as security

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

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000

Note 10 Property, plant and equipment

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Freehold land and buildings - at cost	**55,081**	52,547	**26,174**	24,681
Accumulated depreciation	**(4,527)**	(2,725)	**(2,769)**	(2,144)
	50,554	49,822	**23,405**	22,537
Plant and equipment - at cost	**157,879**	93,864	**1,110**	408
Accumulated depreciation	**(100,309)**	(63,947)	**(187)**	(112)
	57,570	29,917	**923**	296
Leased plant and equipment capitalised	**81,724**	25,321	**–**	–
Accumulated amortisation	**(24,551)**	(10,324)	**–**	–
	57,173	14,997	**–**	–
Total property, plant and equipment, at written down value	**165,297**	94,736	**24,328**	22,833
Recent Valuations of Land and Buildings				
Aggregate recent valuations of freehold land and buildings based on:				
Independent valuation - October 1999	**19,100**	19,100	**–**	–
Independent valuation - June 2000	**30,875**	30,875	**30,875**	30,875
Carried at recent values	**9,281**	6,747	**2,277**	784
	59,256	56,722	**33,152**	31,659

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

Reconciliations of Property, plant and equipment

	Land & Buildings $'000	Plant & Equipment $'000	Leased Plant & Equipment $'000	Total $'000
Consolidated				
Carrying amount at 1 July 2000	49,822	29,917	14,997	94,736
Additions	2,347	18,670	10,138	31,155
Disposals	–	(2,213)	–	(2,213)
Additions through acquisition of entity (note 27)	–	23,516	39,434	62,950
Depreciation/amortisation expense (note 3)	(1,615)	(12,320)	(7,396)	(21,331)
Carrying amount at 30 June 2001	**50,554**	**57,570**	**57,173**	**165,297**

Note 10 Property, plant and equipment (continued)

	Land & Buildings $'000	Plant & Equipment $'000	Total $'000
Parent			
Carrying amount at 1 July 2000	22,537	296	22,833
Additions	1,493	703	2,196
Disposals	–	–	–
Depreciation/amortisation expense (note 3)	(625)	(76)	(701)
Carrying amount at 30 June 2001	**23,405**	**923**	**24,328**

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Note 11 Intangible assets				
Goodwill - at cost	**766,623**	360,620	**–**	–
Accumulated amortisation	**(55,899)**	(29,405)	**–**	–
	710,724	331,215	**–**	–
Brand names, licences and authorities - at cost	**211,646**	190,558	**–**	–
Accumulated amortisation	**(6,448)**	(2,396)	**–**	–
	205,198	188,162	**–**	–
	915,922	519,377	**–**	–

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

Note 12 Deferred tax assets – non-current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Future income tax benefit	**15,239**	10,819	**146**	88

Note 13 Payables – current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Trade creditors	**25,835**	17,222	**–**	–
Sundry creditors and accruals	**29,275**	16,293	**1,627**	904
	55,110	33,515	**1,627**	904

Note 14 Interest bearing liabilities – current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Secured				
Bank loans (note 31)	**21,416**	15,415	**–**	–
Lease liabilities (notes 29 & 31)	**18,430**	6,728	**–**	–
Hire purchase agreements (notes 29 & 31)	**2,470**	388	**–**	–
Vendor loan (note 31)	**–**	3,250	**–**	–
	42,316	25,781	**–**	–

Note 15 Current tax liabilities

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Income tax payable	**10,251**	11,152	**4,727**	1,937

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000

Note 16 Provisions – current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Restructuring	**10,897**	11,508	**–**	1,939
Dividends	**29,683**	20,391	**29,683**	20,391
Employee entitlements (note 21)	**39,729**	31,268	**–**	–
	80,309	63,167	**29,683**	22,330

The restructuring provisions relate to the acquisitions of Alpha Healthcare's pathology division, the SGS Medical Group, Hitech Pathology Pty Limited, the Pacific Medical Imaging Group and the Queensland X-Ray Group. The provisions are for costs to be incurred in the rationalisation of the acquired entities to achieve targeted synergies, plus surplus rental premises. The rationalisation strategies are in place and will continue to yield benefits in 2002 and later years.

Note 17 Other – current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Amounts owing to vendors	**37,105**	22,341	**–**	–
Other loans	**27**	1,398	**–**	–
	37,132	23,739	**–**	–

Note 18 Payables – non-current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Sundry creditors and accruals	**5,454**	–	**–**	–

Note 19 Interest bearing liabilities – non-current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Secured				
Bank loans (note 31)	**385,925**	283,116	**–**	–
Lease liabilities (notes 29 & 31)	**35,371**	9,049	**–**	–
Hire purchase agreements (notes 29 & 31)	**2,970**	859	**–**	–
	424,266	293,024	**–**	–

Note 20 Deferred tax liabilities – non-current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Deferred income tax liability	**1,584**	72	**–**	–

Note 21 Provisions – non-current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Employee entitlements	**6,951**	6,428	**–**	–
Total employee entitlements				
Current (note 16)	**39,729**	31,268	**–**	–
Non-current	**6,951**	6,428	**–**	–
	46,680	37,696	**–**	–

	Consolidated 2001	Consolidated 2000	Parent Entity 2001	Parent Entity 2000
Employee numbers				
Employees at the end of the financial year	**8,669**	7,149	**–**	–

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000

Note 22 Other – non-current

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Amount owing to controlled entities	**–**	–	**2,532**	2,528
Other loans	**–**	27	**–**	–
	–	27	**2,532**	2,528

Note 23 Contributed equity

(a) Share capital

	Note	Parent Entity 2001 Shares '000	Parent Entity 2000 Shares '000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
Fully paid ordinary shares	**(b)**	**227,515**	167,801	**622,529**	279,383
Former share option reserve included in equity				**195**	195
Former share premium account included in equity				**33,667**	33,667
				33,862	33,862

(b) Movements in ordinary share capital:

Date	Details	Note	Number of shares	Issue price	$'000
1/7/99	Opening balance		123,264,101		58,967
1/12/99	Shares issued as partial consideration for the SGS Medical Group		9,728,539	4.10	39,887
1/12/99	Shares issued to institutional investors		30,000,000	5.50	165,000
1/12/99	Less: Transaction costs arising on share issue				(3,270)
17/4/00	Shares issued as partial consideration for Hitech Pathology Pty Ltd		3,793,707	4.7447	18,000
	Shares issued under Sonic Employee Option Plan	**(d)**	1,014,500		799
30/6/00	Balance		167,800,847		279,383
7/9/00	Shares issued to institutional investors		15,000,000	6.80	102,000
7/9/00	Less: Transaction costs arising on share issue				(1,559)
2/11/00	Shares issued as partial consideration for Stat Laboratories		217,391	6.90	1,500
12/12/00	Shares issued for acquisition of minority interests in the SGS Medical Group		8,694,585	4.10	35,648
12/1/01	Shares issued as partial consideration for the acquisition of PMI		9,515,686	6.72	63,945
1/2/01	Shares issues as partial consideration for the acquisition of Townsville Pathology		167,059	6.80	1,136
21/3/01	Shares issued for acquisition of minority interests in the SGS Medical Group		8,377,379	4.10	34,347
21/3/01	Shares issued for acquisition of minority interests in the SGS Medical Group		713,226	5.70	4,066
11/4/01	Shares issued as partial consideration for the acquisition of QXR		14,880,952	6.72	100,000
	Shares issued under Sonic Employee Option Plan	**(d)**	2,147,500		2,063
30/6/01	Balance	**(a)**	**227,514,625**		**622,529**

Note 23 Contributed equity (continued)

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

There is no current on-market buy-back.

(d) Options

A total of 2,147,500 (2000: 1,014,500) ordinary shares were issued during the year ended 30 June 2001 on the exercise of options granted under the Sonic Employee Option Plan for a total consideration of $2,063,000 (2000: $799,000).

The total market value of the shares at their issue dates was $15,400,240 (2000: $5,376,395). The following shares were issued in relation to options exercised under the plan:

2001 Number	2000 Number	Exercise Price
250,000	80,000	70 cents
627,500	511,500	72.5 cents
673,000	387,500	82.5 cents
597,000	35,500	$1.47

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

2001 Number	2000 Number	Exercise Price	Expiry Date
–	250,000	70 cents	1 October 2000
–	627,500	72.5 cents	20 October 2000
–	697,500	82.5 cents	14 December 2000
602,500	1,199,500	$1.47	18 September 2002
1,185,000	1,225,000	$3.37	15 December 2003
4,500,000	4,500,000	$5.50	20 April 2005
2,573,000	2,728,000	$5.59	20 February 2005

No options were granted under the Sonic Employee Option Plan to eligible employees of Sonic Healthcare Limited and its controlled entities for the year ended 30 June 2001.

Note 23 Contributed equity (continued)

(d) Options

Of the options outstanding at year end:

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

No options were granted to directors of Sonic Healthcare Limited for the year ended 30 June 2001. At balance date, 4,500,000 options are outstanding, granted to two executive directors of Sonic Healthcare Limited on 20 April 2000, following approval by shareholders at the 1999 Annual General Meeting. Each option is convertible into one ordinary share as set out below on or before 20 April 2005 at a fixed price of $5.50 per share:

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

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

Up to 100% may be exercised after 36 months from the date of grant

A total of 427,500 ordinary shares have been issued in the period 1 July 2001 to 24 September 2001 on the exercise of options granted under the Sonic Employee Option Plan.

Note 24 Reserves

	Consolidated		Parent Entity	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000
Asset revaluation	**982**	982	**982**	982
Foreign currency translation reserve	**(564)**	(706)	**–**	–
	418	276	**982**	982
Foreign currency translation reserve				
- balance at beginning of year	**(706)**	–	**–**	–
- net exchange difference on translation of foreign controlled entities	**142**	(706)	**–**	–
- balance at end of year	**(564)**	(706)	**–**	–

Nature and Purpose of Reserves

(a) 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.

(b) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities, Sonic Healthcare (New Zealand) Limited, Sonic Healthcare Asia Limited and SciGen Pte Ltd, are taken to the foreign currency translation reserve, as described in accounting policy note 1(c)(ii).

Note 25 Outside equity interests in controlled entities

	Consolidated	
	2001 $'000	2000 $'000
Interest in		
Share capital	**10,945**	–
Reserves	**–**	–
Retained profits	**(3,410)**	(449)
	7,535	(449)

Note 26 Deed of cross guarantee

The "Closed Group" (refer note 27) are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended by Class Order 98/2017 and 00/0321) issued by the Australian Securities and Investments Commission.

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

(a) Consolidated profit and loss statements of the extended closed group

	2001 $'000	2000 $'000
Revenue from operating activities	**496,282**	198,926
Revenue from outside the operating activities	**6,577**	15,038
Total revenue	**502,859**	213,964
Operating profit before income tax	**55,579**	35,722
Income tax attributable to operating profit	**(25,452)**	(16,027)
Operating profit after income tax	**30,127**	19,695
Outside equity interests in operating profit after income tax	**(1,747)**	–
Retained profits/(losses) at the beginning of the financial year	**(11,979)**	(3,853)
Total available for appropriation	**16,401**	15,842
Dividends provided for or paid	**(37,766)**	(25,347)
Retained profits/(losses) at the end of the financial year	**(21,365)**	(9,505)

(b) Consolidated balance sheets of the extended closed group

	2001 $'000	2000 $'000
Current assets		
Cash assets	**15,044**	3,775
Receivables	**93,170**	30,076
Inventories	**9,092**	4,206
Total current assets	**117,306**	38,057
Non-current Assets		
Receivables	**32,728**	52,698
Other financial assets	**151,643**	224,615
Property, plant and equipment	**114,482**	42,796
Intangible assets	**675,796**	190,895
Deferred tax assets	**13,394**	3,259
Total non-current assets	**988,043**	514,263
Total assets	**1,105,349**	552,320
Current liabilities		
Payables	**43,101**	13,332
Interest bearing liabilities	**32,202**	17,698
Provisions	**76,163**	41,347
Current tax liabilities	**11,386**	11,357
Other current liabilities	**32,211**	13,852
Total current liabilities	**195,063**	97,586

Note 26 Deed of cross guarantee (continued)

	2001 $'000	2000 $'000
Non-current liabilities		
Interest bearing liabilities	**309,074**	181,473
Provisions	**6,919**	2,401
Deferred tax liabilities	**113**	–
Other non-current liabilities	**232**	–
Total non-current liabilities	**316,338**	183,874
Total liabilities	**511,401**	281,460
Net assets	**593,948**	270,860
Equity		
Contributed equity	**617,017**	279,383
Reserves	**(1,704)**	982
Accumulated losses	**(21,365)**	(9,505)
Total equity	**593,948**	270,860

Note 27 Investments in controlled entities

Controlled entities of:

Details of Controlled Entities	Place of Incorporation	Class of Share	Beneficial Interest % 2001	Beneficial Interest % 2000
(a) Sonic Healthcare Limited	Australia			
Douglass Hanly Moir Pathology Pty Ltd (i) (iv)	Australia	Ord	**100**	100
Southern Pathology Services Pty Ltd (i) (iv)	Australia	Ord	**100**	100
Clinpath Laboratories Pty Ltd (i) (iv)	Australia	Ord	**100**	100
Lifescreen Australia Pty Ltd (i) (iv)	Australia	Ord	**100**	100
Hitech Pathology Pty Ltd (iv)	Australia	Ord	**100**	100
Sonic Healthcare (New Zealand) Ltd (iv)	New Zealand	Ord	**100**	100
Sonic Healthcare Asia Ltd (iv)	Hong Kong	Ord	**100**	–
SciGen Pte Ltd	Singapore	Ord	**59.500**	48.575
Sonic Imaging Pty Ltd (iv) (v)	Australia	Ord	**100**	–
(b) Douglass Hanly Moir Pathology Pty Ltd (iv)				
Milberg Investments Ltd (iii)	Gibraltar	Ord	**100**	100
Diagnostic Pathology Pty Ltd (i)	Australia	Ord	**100**	100
Barratt & Smith Pathology Pty Ltd (i)	Australia	Ord	**100**	100
Barratt & Smith Pathology Trust (ii)	Australia	Units	**100**	100
Hanly Moir Pathology Pty Ltd (i)	Australia	Ord	**100**	100
Hanly Moir Pathology Trust (ii)	Australia	Units	**100**	100
Sonic Medlab Holdings Australia Pty Ltd (i)	Australia	Ord	**100**	100
Stat Laboratories Pty Ltd	Australia	Ord	**100**	–

Details of Controlled Entities	Place of Incorporation	Class of Share	Beneficial Interest % **2001**	Beneficial Interest % 2000

Note 27 Investments in controlled entities (continued)

Controlled entities of:

(c) Sonic Healthcare (New Zealand) Ltd (iv)				
Diagnostic Medlab Ltd	New Zealand	Ord	**100**	100
Medlab Central Ltd	New Zealand	Ord	**100**	100
Valley Diagnostic Laboratories Ltd	New Zealand	Ord	**100**	100
Medlab South Ltd	New Zealand	Ord	**100**	100
New Zealand Radiology Group Ltd	New Zealand	Ord	**100**	100
(d) Sonic Medlab Holdings Australia Pty Ltd (iv)				
Sonic Pathology (Queensland) Pty Ltd (i)	Australia	Ord	**100**	100
Sonic Pathology (Victoria) Pty Ltd (i)	Australia	Ord	**100**	100
(e) Sonic Pathology (Queensland) Pty Ltd (iv)				
Sullivan Nicolaides Pty Ltd (v)	Australia	Ord	**100**	85.05
L & A Services Pty Ltd (v)	Australia	Ord	**100**	82.60
Bradley Services Trust (ii)	Australia	Units	**100**	82.69
Northern Pathology Pty Ltd (v)	Australia	Ord	**100**	68.80
Biotech Laboratories Pty Ltd	Australia	Ord	**100**	82.69
(f) Sonic Pathology (Victoria) Pty Ltd (iv)				
Consultant Pathology Services Pty Ltd (v)	Australia	Ord	**100**	70.50
Diagnostic Services Pty Ltd (v)	Australia	Ord	**100**	72.83
Melbourne Pathology Pty Ltd (v)	Australia	Ord	**100**	70.18
Melbourne Pathology Services Pty Ltd	Australia	Ord	**100**	69.87
Melbourne Pathology Services Trust (ii)	Australia	Units	**100**	70.18
(g) Diagnostic Medlab Ltd (iv)				
Laboratory Data Systems Ltd	New Zealand	Ord	**100**	100
Diagnostic Medlab Services Ltd	New Zealand	Ord	**100**	100
(h) Sonic Healthcare Asia Ltd (iv)				
Double Court Company Ltd	Hong Kong	Ord	**100**	–
Dynamic Mate Ltd	Hong Kong	Ord	**100**	–
(i) SciGen Pte Ltd				
SciGen Pty Ltd	Australia	Ord	**100**	–
SciGen Korea Ltd	Korea	Ord	**100**	–

Details of Controlled Entities	Place of Incorporation	Class of Share	Beneficial Interest % **2001**	Beneficial Interest % 2000

Note 27 Investments in controlled entities (continued)

Controlled entities of:

(j) Sonic Imaging Pty Ltd (iv)				
IRG Co Pty Ltd (v)	Australia	Ord	**100**	–
Hunter Valley X-Ray Pty Ltd	Australia	Ord	**100**	–
Hunter Imaging Services Trust (ii)	Australia	Units	**100**	–
HIG Distributions Pty Ltd	Australia	Ord	**100**	–
Nuclear Medicine Co Pty Ltd	Australia	Ord	**100**	–
Sports Imaging Co Pty Ltd	Australia	Ord	**100**	–
Castlereagh Co Pty Ltd (v)	Australia	Ord	**100**	–
Castlereagh Asia Ltd (v)	Australia	Ord	**100**	–
Queensland X-Ray Pty Ltd (v)	Australia	Ord	**100**	–
Sonic Nominees Pty Ltd (v)	Australia	Ord	**100**	–
Redlands X-Ray Services Pty Ltd	Australia	Ord	**100**	–
(k) Queensland X-Ray Pty Ltd (iv) (v)				
Ultrarad No 2 Trust (ii)	Australia	Units	**100**	–
Ultrarad Holdings Pty Ltd	Australia	Ord	**100**	–
(l) Sonic Nominees Pty Ltd (iv)				
Pacific Medical Imaging Ltd (v)	Australia	Ord	**100**	–
Paedu Limited (v)	Australia	Ord	**100**	–
Castlereagh Services Limited (v)	Australia	Ord	**100**	–
Sunton Limited (v)	Australia	Ord	**100**	–
Illawarra X-Ray Pty Ltd	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 26.

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

(iii) There is no requirement under the law of the entity's place of incorporation to prepare audited financial statements.

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

(v) These entities have been added by an Assumption Deed contemplated by Sonic Healthcare Limited's Deed of Cross Guarantee during the financial year and therefore now form part of the Closed Group referred to in (i) above.

Note 27 Investments in controlled entities (continued)

Acquisitions of entities

The consolidated entity acquired assets of the following businesses during the year for a total consideration of $330,280,000 (2000: $393,781,000):

Queensland X-Ray Group
Pacific Medical Imaging Group
Consultant Pathologists (Townsville) business
Stat Laboratories Pty Ltd
SciGen Pte Ltd

Acquisitions during the 2000 financial year were:

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

	Consolidated	
	2001 $'000	2000 $'000
Consideration – cash paid in current year	**137,830**	338,298
Deferred consideration	**32,203**	–
Consideration – cash paid in prior years for SciGen	**7,434**	–
Less: Cash of entities acquired	**(4,834)**	(1,904)
	172,633	336,394
Consideration – shares in the company	**165,081**	57,387
Total consideration	**337,714**	393,781
Fair value of net assets acquired:		
Property, plant and equipment	**62,950**	47,930
Debtors	**16,303**	41,322
Inventory	**251**	4,642
Prepayments	**1,356**	1,754
Future income tax benefits	**1,629**	8,216
Investments	**706**	294
Brand names, licences and authorities	**21,086**	179,063
Trade creditors	**(17,067)**	(18,213)
Provision for tax	**(1,075)**	(4,907)
Deferred income tax liability	**(1,290)**	–
Borrowings	**(14,541)**	(93,202)
Lease and hire purchase liabilities	**(44,514)**	(12,969)
Employee provisions	**(5,834)**	(22,655)
	19,960	131,275
Less: Provision for restructuring	**(5,116)**	(12,233)
	14,844	119,042
Goodwill	**322,870**	274,739
Reconciliation of cash paid to Statements of cash flows		
Consideration – cash paid in current year	**137,830**	338,298
Less: Cash of entity acquired	**(4,834)**	(1,904)
Payment for purchase of controlled entities net of cash acquired	**132,996**	336,394

Note 28 Investments in associates

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

Name of Company	Principal Activity	Ownership Interest		Consolidated Carrying Amount		Parent entity Carrying Amount	
		2001 %	2000 %	**2001 $'000**	2000 $'000	**2001 $'000**	2000 $'000
Other (non-traded)							
SciGen Pte Ltd (incorporated in Singapore)	Biopharmaceuticals	n/a	48.575	n/a	5,462	n/a	6,917

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent entity 2001 $'000	Parent entity 2000 $'000
(a) Movements in carrying amounts of investments in associates				
Carrying amount at the beginning of the financial year	**5,462**	–	**–**	–
Adjustment on adoption of equity accounting	**–**	4,216	**–**	–
Additional investment during the year	**–**	2,701	**–**	–
Share of operating loss after income tax	**–**	(1,455)	**–**	–
Transfer of associate to subsidiary	**(5,462)**	–	**–**	–
Carrying amount at the end of the financial year	**–**	5,462	**–**	–

	Consolidated		Parent Entity	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000
(b) Results attributable to associates				
Operating loss before income tax	**–**	(1,455)	**–**	–
Income tax expense	**–**	–	**–**	-
Operating loss after income tax	**–**	(1,455)	**–**	–
Retained profits attributable to associate at the beginning of the financial year	**–**	–	**–**	–
Accumulated loss attributable to associate at the end of the financial year	**–**	(1,455)	**–**	–

SciGen Pte Ltd became a controlled entity of Sonic Healthcare Limited on 3 July 2000 and therefore is no longer equity accounted as an associate.

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
(c) Investor's share of associate's expenditure commitments				
Licensing agreement commitments payable within 1 year	**–**	308	**–**	–
Licensing agreement commitments payable after 1 year	**–**	2,586	**–**	–
Operating lease commitments payable within 1 year	**–**	138	**–**	–
Operating lease commitments payable after 1 year	**–**	18	**–**	–
Total share of associates expenditure commitments	**–**	3,050	**–**	–

	Consolidated		Parent Entity	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000

Note 29 Commitments for expenditure

(a) Capital Commitments

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

Within one year	**10,347**	1,354	**–**	–
Later than 5 years	**127**	–	**–**	–
	10,474	1,354	**–**	–

(b) Lease Commitments

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

Within one year	**27,998**	20,421	**1**	1
Later than one year but not later than 5 years	**48,035**	32,596	**–**	–
Later than 5 years	**8,177**	3,284	**–**	–
	84,210	56,301	**1**	1
Representing:				
Cancellable operating leases	**298**	–	**–**	–
Non-cancellable operating leases	**75,854**	54,439	**1**	1
Future finance charges on finance leases	**8,058**	1,862	**–**	–
	84,210	56,301	**1**	1

Operating Leases

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

Within one year	**22,532**	19,420	**1**	1
Later than one year but not later than 5 years	**45,248**	31,735	**–**	–
Later than 5 years	**8,074**	3,284	**–**	–
Commitments not recognised in the financial statements	**75,854**	54,439	**1**	1

Finance Leases

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

Within one year	**24,588**	8,032	**–**	–
Later than one year but not later than 5 years	**41,748**	10,658	**–**	–
Later than 5 years	**963**	–	**–**	–
Minimum lease payments	**67,299**	18,690	**–**	–
Less: Future finance charges	**(8,058)**	(1,666)	**–**	–
Total lease and hire purchase liabilities	**59,241**	17,024	**–**	–

	Consolidated		Parent Entity	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000

Note 29 Commitments for expenditure (continued)

Representing lease and hire purchase liabilities:				
Current (note 14)	**20,900**	7,116	**–**	–
Non-current (note 19)	**38,341**	9,908	**–**	–
	59,241	17,024	**–**	–

The weighted average interest rate implicit in the leases is 7.52% (2000: 7.93%).

Note 30 Contingent liabilities

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

Note 31 Secured borrowings

Secured bank loans to companies within the consolidated entity of $407,341,000 (2000: $298,531,000) are secured by fixed and floating charges over all assets and undertakings of the company and its controlled entities, and also by registered mortgages over all real property.

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

	Consolidated	Parent Entity
	2001 $'000	**2001 $'000**
Receivables – non current	**3,392**	**215,804**
Other financial assets - investments	**28,036**	**28,000**
Property, plant and equipment	**98,178**	**24,328**
Total non-current assets pledged as security	**129,606**	**268,132**

In 2000, a vendor loan of $3,250,000 (2001: $Nil) resulting from the purchase of land by a company within the consolidated entity was secured by a first ranking mortgage over the land. This loan was repaid during the current financial year.

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.

	Consolidated		Parent Entity	
	2001 $	2000 $	**2001 $**	2000 $

Note 32 Remuneration of directors and executives

(a) Directors' remuneration

Income paid or payable, or otherwise made available to directors by entities in the consolidated entity and related parties in connection with the management of affairs of the parent entity or its controlled entities.	**4,877,164**	3,094,147	**2,121,993**	1,634,057

Note 32 Remuneration of directors and executives (continued)

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

	Parent Entity	
	2001	2000
$ 20,000 - $29,999	**–**	1
$ 30,000 - $39,999	**1**	–
$ 50,000 - $59,999	**2**	2
$140,000 - $149,999	**–**	1
$150,000 - $159,999	**1**	1
$200,000 - $209,999	**–**	1
$290,000 - $299,999	**1**	–
$320,000 - $329,999	**1**	–
$380,000 - $389,999	**–**	1
$450,000 - $459,999	**1**	–
$620,000 - $629,999	**–**	1
$750,000 - $759,999	**1**	–

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

Details of options granted to directors are set out in note 32(d).

	Consolidated		Parent Entity	
	2001 $	2000 $	**2001 $**	2000 $
(b) Executives' remuneration				
Remuneration received or receivable from entities in the consolidated entity and related parties by Australian based executive officers (including directors) whose remuneration was at least $100,000	**5,370,952**	4,253,492	**1,981,075**	1,549,807

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

	Consolidated		Parent Entity	
	2001	2000	**2001**	2000
$100,000 - $109,999	**–**	3	**–**	–
$130,000 - $139,000	**1**	–	**–**	–
$140,000 - $149,999	**1**	–	**–**	–
$150,000 - $159,999	**2**	2	**1**	1
$160,000 - $169,999	**1**	2	**–**	–
$170,000 - $179,999	**1**	1	**–**	1
$180,000 - $189,999	**2**	1	**–**	–
$190,000 - $199,999	**–**	1	**–**	–
$200,000 - $209,999	**2**	2	**–**	1
$210,000 - $219,999	**1**	1	**–**	–
$220,000 - $229,999	**1**	1	**–**	–
$260,000 - $269,999	**–**	1	**–**	–

Note 32 Remuneration of directors and executives (continued)

	Consolidated		Parent Entity	
	2001	2000	**2001**	2000
$270,000 - $279,000	**–**	1	**–**	–
$280,000 - $289,000	**1**	–	**–**	–
$290,000 - $299,000	**1**	–	**1**	–
$300,000 - $309,000	**1**	–	**–**	–
$320,000 - $329,000	**1**	–	**1**	–
$350,000 - $359,999	**1**	1	**–**	–
$380,000 - $389,999	**–**	1	**–**	1
$450,000 - $459,999	**2**	–	**1**	–
$620,000 - $629,999	**–**	1	**–**	1
$750,000 - $759,999	**1**	–	**1**	–

The total income reported above includes the income of executive directors reported in note 32 (a) and certain pathologists with executive roles. Performance related bonuses have been included where applicable.

(c) Directors' benefits

Mr C.D. Wilks has a beneficial entitlement in a company which provided managerial and administrative services to the consolidated entity. The charges were levied on a commercial basis and amounted to $457,745 (2000: $384,775).

Dr M.F. Robinson has a beneficial entitlement in a partnership which provided managerial and pathology services to a member of the consolidated entity. The charges were levied on a commercial basis and amounted to $227,572 (2000: $127,500).

(d) Options granted

No options were granted to directors or executive officers for the year ended 30 June 2001. 4,500,000 options were granted to executive directors on 20 April 2000 following approval of shareholders at the 1999 Annual General Meeting. Details of the options are included in note 23. The value of options over unissued ordinary shares of Sonic Healthcare Limited granted to any of the directors or executive officers of the consolidated entity as part of their remuneration are not included in the disclosure above. The directors estimate that the fair value of options granted in the year ended 30 June 2000 was in the range of 50 cents to $1.85 each. An exact value is considered to be indeterminable as it is a function of the future prospects of the company and the conditions of the options which include continuity of employment.

Note 33 Segment information

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

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

SciGen Pte Ltd became a controlled entity of Sonic Healthcare Limited on 3 July 2000 and was therefore consolidated in the financial statements for the first time in the current year. SciGen contributed $1,256,000 of revenue and a net loss before tax of $4,442,000 to the consolidated results. SciGen Pte Ltd has total assets of $21,838,000 at 30 June 2001.

Note 34 Related party disclosures

Details in respect of related parties are as follows:

(a) Directors

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

	Date Appointed	Date Resigned
C.D. Wilks	5 December 1989	
M.D. Boyd	28 January 1993	31 December 1999
	14 September 2000	
Dr C.S. Goldschmidt	28 January 1993	
R.P. Campbell	28 January 1993	
B.S. Patterson	12 May 1993	
Dr M.M. Barratt	14 February 1996	
C.J. Jackson	31 December 1999	
Dr M.F. Robinson	31 December 1999	

Directors' remuneration during the year has been disclosed in note 32.

Transactions with Director Related Entities

L. Panaccio and R. Sutherland were directors of an entity in the consolidated entity (Melbourne Pathology Pty Ltd), and were also Directors of 103 Victoria Parade Pty Ltd. On 2 December 1999 Melbourne Pathology Pty Ltd entered into a contract for the sale of land with 103 Victoria Parade Pty Ltd. The land was sold for a value of $3,250,000 and this transaction was considered to be on normal terms and conditions and at market rates. This transaction gave rise to a secured loan payable at 30 June 2000 of $3,250,000 to 103 Victoria Parade Pty Ltd. On 1 March 2001, Melbourne Pathology Pty Ltd settled the loan payable of $3,250,000 and interest accrued at 9.5% p.a. of $385,549. Interest expense included in the operating profit before income tax associated with this loan is $205,626.

During the year 1 July 2000 to 30 June 2001 rental payments have been made 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 $778,373 (2000: $343,979). The directors of entities within the consolidated entity who had an interest in the rental transactions were:

C. Jackson	D. Hope
M. Robinson	M. Prentice
J. Roberts	G. Bryant
R. Sutherland	S. Lade
H. Scotton	

During the financial year, a controlled entity charged administration fees of $24,000 (2000: $42,000) to Silex Systems Limited, an entity which has common directors, namely; Mr B.S. Patterson, Dr C.S. Goldschmidt, Mr C.D. Wilks, Mr R.P. Campbell and Mr M.D. Boyd (for that period in which he was a director of Sonic Healthcare Limited and Silex Systems Limited). The transaction was based on commercial terms and conditions and at market rates.

During the financial year, Sonic Healthcare Limited acquired shares to the value of $27,267,000 in Foundation HealthCare Limited, an entity which has common directors, namely Dr C.S. Goldschmidt and Mr M.D. Boyd (for that period in which he was director of Sonic Healthcare Limited). This transaction was under normal terms and conditions and at market rates.

During the financial year SciGen Pte Ltd, SciGen Pty Ltd and SciGen Korea Ltd, all entities in the consolidated entity, distributed products for Scitech Medical Products Pte Ltd, an entity which has a common director in Mr S. Mashaal. The purchases from Scitech Medical Products Pte Ltd for the year ended 30 June 2001 amounted to $477,000. The purchases of the products are under normal terms and conditions and are considered to be at market rates.

Note 34 Related party disclosures (continued)

(b) Directors' shareholding and options

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

	Sonic Healthcare Limited Sonic Employee Option Plan Options Over Ordinary Shares		Sonic Healthcare Limited Ordinary Shares Fully Paid	
Directors of Parent Entity	**2001**	2000	**2001**	2000
B.S. Patterson	**–**	–	**4,116,646**	4,916,646
R.P. Campbell	**–**	–	**–**	–
Dr C.S. Goldschmidt	**3,300,000**	3,700,000	**900,000**	658,000
C.D. Wilks	**1,750,000**	2,050,000	**489,500**	517,000
C.J. Jackson	**–**	–	**567,590**	–
Dr M.F. Robinson	**–**	–	**200,000**	200,000
Dr M.M. Barratt	**–**	–	**1,300,500**	1,890,000
M.D. Boyd	**–**	n/a	**24,458,704**	n/a

In the year ended 30 June 2001, Mr C.D. Wilks exercised 50,000 options with an exercise price of 70 cents and 250,000 options with an exercise price of $1.47. In the year ended 30 June 2001, Dr C.S. Goldschmidt exercised 200,000 options with an exercise price of 70 cents and 200,000 options with an exercise price of $1.47.

In the year ended 30 June 2000, Mr C.D. Wilks exercised 80,000 options with an exercise price of 70 cents.

Aggregate number of shares of Sonic Healthcare Limited acquired or disposed of by directors of the company or their director related entities:

	2001 Number	2000 Number
Acquisitions		
Ordinary Shares	**1,267,590**	1,000,000
Disposals		
Ordinary Shares	**1,875,000**	1,680,000

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

In 2000, Mr C.J. Jackson had a 4.89% interest in Diagnostic Services Pty Ltd, a controlled entity, which was disposed of in exchange for 567,590 ordinary shares in Sonic Healthcare Limited.

(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 27.

Transactions between Sonic and other entities in the wholly-owned group during the years ended 30 June 2001 and 30 June 2000 consisted of:

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

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

	Parent Entity 2001 $'000	Parent Entity 2000 $'000

Note 34 Related party disclosures (continued)

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	**14,025**	5,762
Dividend revenue	**26,845**	24,400
Interest expense	**212**	185
Provision for doubtful debt recovery/(expense)	**–**	1,419
Management fees	**7,150**	4,182
Rental income	**2,536**	2,093
Aggregate amounts receivable from wholly owned controlled entities by the company at balance date:		
Receivables (current)	**26,350**	22,733
Receivables (non-current)	**215,804**	116,054
Aggregate amounts payable to wholly owned entities by the company at balance date:		
Other (non-current)	**2,532**	2,528

(d) Other related parties

An equity accounted loss of $Nil (2000: $1,455,000) has been recognised in the operating profit before income tax of the consolidated entity, and is attributable to its interest in an associate, SciGen.

Non-current receivables from SciGen of $Nil (2000: $551,000) have been recognised by the company and $Nil (2000: $592,000) by the consolidated entity at balance date.

Aggregate amounts brought to account in relation to other transactions which occurred on commercial terms and conditions and at market rates with SciGen are below. In 2001, transactions have been included in the above related parties information, as SciGen became a controlled entity on 3 July 2001.

	Consolidated		Parent Entity	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000
Cash advance	**–**	500	**–**	500
Recharge of costs incurred on behalf of the associate	**–**	62	**–**	51
Rental	**–**	8	**–**	–
Administration fee	**–**	22	**–**	–

(e) Ownership interests in related parties

Interests held in entities within the consolidated entity are set out in note 27.

	Consolidated 2001	2000

Note 35 Earnings per share

	Consolidated 2001	Consolidated 2000
Basic earnings per share (cents per share)	**12.9**	12.7
Diluted earnings per share (cents per share)	**12.7**	11.9
Normalised (pre intangible amortisation) diluted earnings per share (cents per share)	**27.5**	21.7
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**187,260,636**	147,750,564

Options as detailed in note 23 that are considered to be dilutive are included in the calculations of diluted and normalised diluted earnings per share. The options have not been included in the determination of basic earnings per share.

Diluted and normalised diluted earnings per share have also been calculated with the inclusion of 9,090,605 shares (2000: 17,781,309 shares) issued to minority shareholders in ex-SGS Medical Group controlled entities during the year.

Normalised diluted earnings per share adjusts the figures used in the determination of diluted earnings per share by adding back to net profit the amount of intangible amortisation expense for the period.

Note 36 Statements of cash flows

	Consolidated 2001 $'000	Consolidated 2000 $'000	Parent Entity 2001 $'000	Parent Entity 2000 $'000
(a) Cash at bank and on hand	**21,676**	11,022	**50**	140
(b) Reconciliation of net cash provided by operating activities to operating profit after income tax				
Operating profit after income tax	**26,127**	21,910	**38,021**	29,237
Add/(Less) non cash items:				
Depreciation	**13,935**	7,874	**701**	642
Amortisation - leases	**7,396**	4,410	**–**	–
Amortisation - intangibles	**30,266**	14,008	**–**	–
Net (profit)/loss on sale of property, plant and equipment	**147**	(124)	**–**	–
Foreign exchange differences	**(132)**	–	**–**	–
Share of loss of associate	**–**	1,455	**–**	–
Tax adjustment to goodwill	**(996)**	–	**–**	–
Add/(less) changes in assets and liabilities during the financial year:				
Increase/(decrease) in provision for employee entitlements	**3,218**	4,008	**–**	–
(Increase)/decrease in sundry debtors	**(5,601)**	(1,680)	**(26)**	(740)
(Increase)/decrease in prepayments	**1,183**	(912)	**(12)**	255
Increase/(decrease) in accrued expenses	**5,020**	3,281	**723**	388
Increase/(decrease) in trade creditors	**3,607**	(1,102)	**–**	–
(Increase)/decrease in trade debtors and accrued revenue	**(13,634)**	(219)	**–**	–
(Increase)/decrease in inventories	**(773)**	(2,546)	**–**	–
Increase/(decrease) in other provisions	**(5,558)**	(4,224)	**(1,939)**	(1,480)
(Increase)/decrease in future income tax benefit	**(897)**	453	**(58)**	(88)
Increase/(decrease) in deferred tax liability	**293**	72	**–**	(42)
Increase/(decrease) in provision for income tax	**(1,976)**	(2,249)	**2,790**	1,703
(Increase)/decrease in provision for dividends receivable	**–**	–	**(2,000)**	(7,000)
Net Cash Provided by Operating Activities	**61,625**	44,415	**38,200**	22,875

Note 36 Statements of cash flows (continued)

(c) Non-cash financing and investment activities

During the financial year the consolidated entity:

- acquired the Pacific Medical Imaging group, the Queensland X-Ray group and the business of Consultant Pathologists (Townsville), partly funded through the issue of shares to the value of $165,081,000 to vendors and partly by $30,703,000 of deferred consideration (included in note 17).
- acquired the outstanding minority interests in the SGS Medical Group, funded by the issue of shares to vendors equivalent to $74,060,000.
- acquired Stat Laboratories Pty Ltd, partly funded by the issue of shares to the vendor equivalent to $1,500,000 and partly by $1,500,000 of deferred consideration (included in note 17).
  The above purchase price components are not reflected in the Statement of cash flows.
- acquired property, plant and equipment with an aggregate fair value of $10,138,000 by means of finance leases and hire purchase agreements. As a result, these acquisitions are not reflected in the Statement of cash flows.

During the year ended 30 June 2000; the consolidated entity:

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

	Consolidated		Parent Entity	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000
(d) Standby arrangements and credit facilities				
Entities in the consolidated entity have access to:				
Credit standby arrangements				
- secured loan facilities totalling	**520,000**	63,000	**–**	–
- amount of credit unused	**113,578**	33,525	**–**	–
Lease facilities				
- total facilities	**77,212**	25,083	**–**	–
- amount of facilities unused	**28,201**	14,919	**–**	–
Bank overdraft facilities				
- total facilities	**1,000**	–	**–**	–
- amount of facilities unused	**1,000**	–	**–**	–

Note 37 Financial instruments

(a) Off-balance sheet derivative instruments

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

Interest rate swap contracts

Bank loans of the consolidated entity currently bear an average variable interest rate of 6.4% (2000: 7.8%).

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

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

Swaps currently in place cover approximately 44% (2000: 70%) of the loan principal outstanding. The fixed interest rates range between 5.50% and 7.64% (2000: 5.50% to 7.64%).

At 30 June 2001, the notional principal amounts and periods of expiry of the interest rate swap contracts for the consolidated entity are as follows:

	2001 $'000	2000 $'000
Less than 1 year	**39,867**	26,984
1 – 2 years	**40,660**	39,691
2 – 3 years	**46,420**	40,476
3 – 4 years	**53,420**	46,183
4 – 5 years	**–**	53,183
	180,367	206,517

(b) Credit risk exposures

The carrying amounts of financial assets included in the consolidated balance sheet represent the consolidated entity's maximum exposure to credit risk in relation to these assets. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

The consolidated entity does not have any significant exposure to any individual customer or counterparty other than the Health Insurance Commission (Medicare) in Australia and the Health Funding Authority in New Zealand, both of which are government bodies.

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

(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.

Note 37 Financial instruments (continued)

	Note	Floating interest rate $'000	Fixed interest rate maturities: 1 year or less $'000	Fixed interest rate maturities: 1 to 5 years $'000	Fixed interest rate maturities: Over 5 years $'000	Non Interest bearing $'000	Total $'000
30 June 2001							
Assets							
Cash	36(a)	17,358	–	–	–	4,318	21,676
Trade debtors	6	–	–	–	–	85,312	85,312
Accrued revenue	6	–	–	–	–	11,674	11,674
Sundry debtors	6	–	–	–	–	11,835	11,835
Amounts receivable from other entities	6	–	–	–	–	231	231
Other non current receivables	8	502	–	–	–	3,004	3,506
Total financial assets		17,860	–	–	–	116,374	134,234
Weighted average interest rate		4.55%					
Liabilities							
Trade accounts payable	13	–	–	–	–	25,835	25,835
Other accounts payable	13, 18	2,355	–	–	–	32,374	34,729
Interest bearing loans	14, 19	405,800	478	1,063	–	–	407,341
Lease liabilities	14, 19	251	13,091	37,886	2,031	542	53,801
Amounts owing to vendors	17	–	–	–	–	37,105	37,105
Other loans	17, 22	–	–	–	–	27	27
Hire purchase liabilities	14, 19	–	2,470	2,970	–	–	5,440
Interest rate swaps*		(180,367)	39,867	140,500	–	–	–
Total financial liabilities		228,039	55,906	182,419	2,031	95,883	564,278
Weighted average interest rate		6.14%	6.96%	6.98%	7.52%		
Net financial assets/ (liabilities)		**(210,179)**	**(55,906)**	**(182,419)**	**(2,031)**	**20,491**	**(430,044)**

* Notional principal amounts

Note 37 Financial instruments (continued)

	Note	Floating interest rate $'000	Fixed interest rate maturities: 1 year or less $'000	Fixed interest rate maturities: 1 to 5 years $'000	Fixed interest rate maturities: over 5 years $'000	Non Interest bearing $'000	Total $'000
30 June 2000							
Assets							
Cash	36(a)	8,550	550	–	–	1,922	11,022
Trade debtors	6	–	–	–	–	59,119	59,119
Accrued revenue	6	–	–	–	–	8,703	8,703
Sundry debtors	6	–	–	–	–	3,387	3,387
Amounts receivable from associate	6	–	–	–	–	592	592
Receivables – other entities	8	640	–	–	–	208	848
Total financial assets		9,190	550	–	–	73,931	83,671
Weighted average interest rate		5.50%	6.30%				
Liabilities							
Trade accounts payable	13	–	–	–	–	17,222	17,222
Other accounts payable	13	–	–	–	–	16,293	16,293
Interest bearing loans	14, 19	296,546	415	1,570	–	–	298,531
Lease liabilities	14, 19	–	6,728	9,049	–	–	15,777
Amounts owing to vendors	17, 22	–	7,757	–	–	17,834	25,591
Other loans	17, 22	–	–	–	–	1,425	1,425
Hire purchase	14, 17	–	388	859	–	–	1,247
Interest rate swaps*		(206,517)	26,984	179,533	–	–	–
Total financial liabilities		90,029	42,272	191,011	–	52,774	376,086
Weighted average interest rate		7.66%	6.95%	6.80%			
Net financial assets/ (liabilities)		(80,839)	(41,722)	(191,011)	–	21,157	(292,415)

* Notional principal amounts

(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.

Note 37 Financial instruments (continued)

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

As at 30 June 2001, the market value of the investment in Foundation HealthCare Limited was $27,416,000.

(ii) Off-balance sheet

The net fair value of financial assets or financial liabilities which may arise from certain contingencies are disclosed in note 30. As explained in that note, no material losses are anticipated in respect of any contingencies.

Note 38 Amounts receivable and payable denominated in foreign currencies

	Consolidated		Parent Entity	
	2001 $'000	2000 $'000	**2001 $'000**	2000 $'000
Exposures on items not effectively hedged				
Amounts receivable				
Non-current, not effectively hedged United States dollars	**82**	82	**82**	82

Note 39 Events occurring after reporting date

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

- On 5 July 2001, Sonic announced its intention to merge with SKG Radiology for a combination of Sonic shares (approximately 35% of the purchase price) and cash.
- On 9 July 2001, Sonic acquired the business of Illawarra Medical Laboratories, a Wollongong based pathology practice with annual revenue of approximately $5 million. This practice has been merged into Sonic's Southern Pathology operation, as the two practices operate in the same geographical area.
- On 3 August 2001, Sonic completed the acquisition of the medical diagnostic operations of Foundation. These operations included the Clinipath/Bunbury pathology practices in Western Australia, Latrobe Network Pathology in Melbourne (since merged into Sonic's Melbourne Pathology practice) and a small radiology practice in Brisbane (since merged into Queensland X-Ray.) Total annual revenue of the practices is approximately $21 million.
- On 10 August 2001, Sonic announced that its Dividend Reinvestment Plan (DRP), which had recently been approved by shareholders, would apply to the final dividend for the 2001 year. The shares issued under the DRP will be allotted at a 5% discount to the weighted average market price of Sonic's shares during the 5 days following the record date.
- On 3 September 2001, Sonic acquired the pathology assets of Cairns Pathology Laboratory for a combination of Sonic shares and cash. The annual revenue of this practice is approximately $5.5 million.

Directors' **Declaration**

for the year ended 30 June 2001

The directors declare that the financial statements and notes set out on pages 24 to 61:

(a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2001 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

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

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 27 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 26.

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

Dr C.S. Goldschmidt

Managing Director

C.D. Wilks

Director

Sydney, 28 September 2001

Independent **audit report**

to the members of Sonic Healthcare

Scope

We have audited the financial report of Sonic Healthcare Limited (the company) for the financial year ended 30 June 2001 as set out on pages 24 to 62. The company's directors are responsible for the financial report which includes the financial statements of the company and the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of, or during, the financial year. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Act 2001 in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

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

Audit Opinion

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

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2001 and of their performance for the financial year ended on that date; and
- (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

DS Wiadrowski

D.S. Wiadrowski
Partner

Sydney, 28 September 2001

Shareholders' **Information**

1. Information relating to shareholders

(a) Distribution Schedule as at 24 September 2001

	No. of Holders Ordinary Shares
1 – 1,000	2,493
1,001 – 5,000	1,924
5,001 – 10,000	262
10,001 – 100,000	254
100,001 and over	215
	5,148
Voting rights – on a show of hands	1/member
– on a poll	1/share
Percentage of total holding held by the twenty largest holders	65.60%
Number of holders holding less than a marketable parcel	23

(b) Names of the Twenty Largest Holders of Equity Securities as at 24 September 2001

	No. of Securities	Percentage Held
Citicorp Nominees Pty Limited	26,910,866	11.79%
Jardvan Pty Limited	24,458,704	10.72%
Chase Manhattan Nominees Limited	20,044,054	8.78%
Westpac Custodian Nominees	16,885,823	7.40%
National Nominees Limited	15,654,362	6.86%
Perpetual Nominees Limited	6,540,745	2.87%
Commonwealth Custodial Services Limited	6,276,147	2.75%
Perpetual Trustees Victoria Limited	4,677,296	2.05%
Polly Pty Limited	3,816,646	1.67%
AMP Life Limited	3,494,534	1.53%
Dr Thomas Davis	2,970,485	1.30%
Bardavis Pty Limited	2,970,000	1.30%
MLC Limited	2,411,437	1.06%
Mercantile Mutual Life Insurance Company Limited	2,324,600	1.02%
NRMA Nominees Pty Limited	2,015,000	0.88%
Quintal Pty Limited	2,000,000	0.88%
Queensland Investment Corporation	1,785,692	0.78%
Westpac Life Insurance Services Limited	1,603,500	0.70%
Westpac Financial Services Limited	1,561,287	0.68%
National Australia Financial Management Limited	1,325,371	0.58%
	149,726,549	65.6%

Shareholders' **Information** (continued)

2. Interests of directors in securities as at 24 September 2001

	Ordinary Shares	Interest
B.S. Patterson	3,816,646	Held Beneficially
Dr C.S. Goldschmidt	575,000	Held Personally
	225,000	Held Beneficially
C.D. Wilks	300,000	Held Personally
	189,500	Held Beneficially
Dr M.M. Barratt	1,300,000	Held Beneficially
C.J. Jackson	517,590	Held Personally
Dr M.F. Robinson	200,000	Held Personally
R.P. Campbell	–	–
M.D. Boyd	24,458,704	Held Beneficially
Dr P.J. Dubois	616,486	Held Personally
Dr H.F. Scotton	175,996	Held Personally

3. Unquoted equity securities as at 24 September 2001

	No. on Issue	No. of Holders
Options issued under the Sonic Healthcare Limited Employee Option Plan to take up ordinary shares.	8,433,000	246
No person holds 20% or more of these securities.		
Executive director options to take up ordinary shares	4,500,000	2

Directors

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

Company Secretary

Mr P. J. Alexander

Annual General Meeting

The 2001 annual general meeting of Sonic Healthcare Limited will be held at the Hotel Intercontinental, Sydney, at 10 am on Thursday, 29 November 2001

Principal registered office in Australia

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Fax: 61 2 9878 5066
Website: www.sonichealthcare.com.au

Share Registry

Computershare Registry Services Pty Ltd
Level 5, 115 Grenfell Street, Adelaide
South Australia 5000, Australia
Phone: 61 8 8236 2300
Fax: 61 8 8236 2305
Website: www.computershare.com

Auditor

PricewaterhouseCoopers

Solicitors

Allens Arthur Robinson
Manion McCosker

Bankers

Australia and New Zealand Banking Group Limited
Westpac Banking Corporation
Citibank
ABN-Amro

Stock exchange listings

Sonic Healthcare Limited shares are listed on the Australian Stock Exchange

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PHOTOGRAPHY BY BOB AND MIKE ARMSTRONG