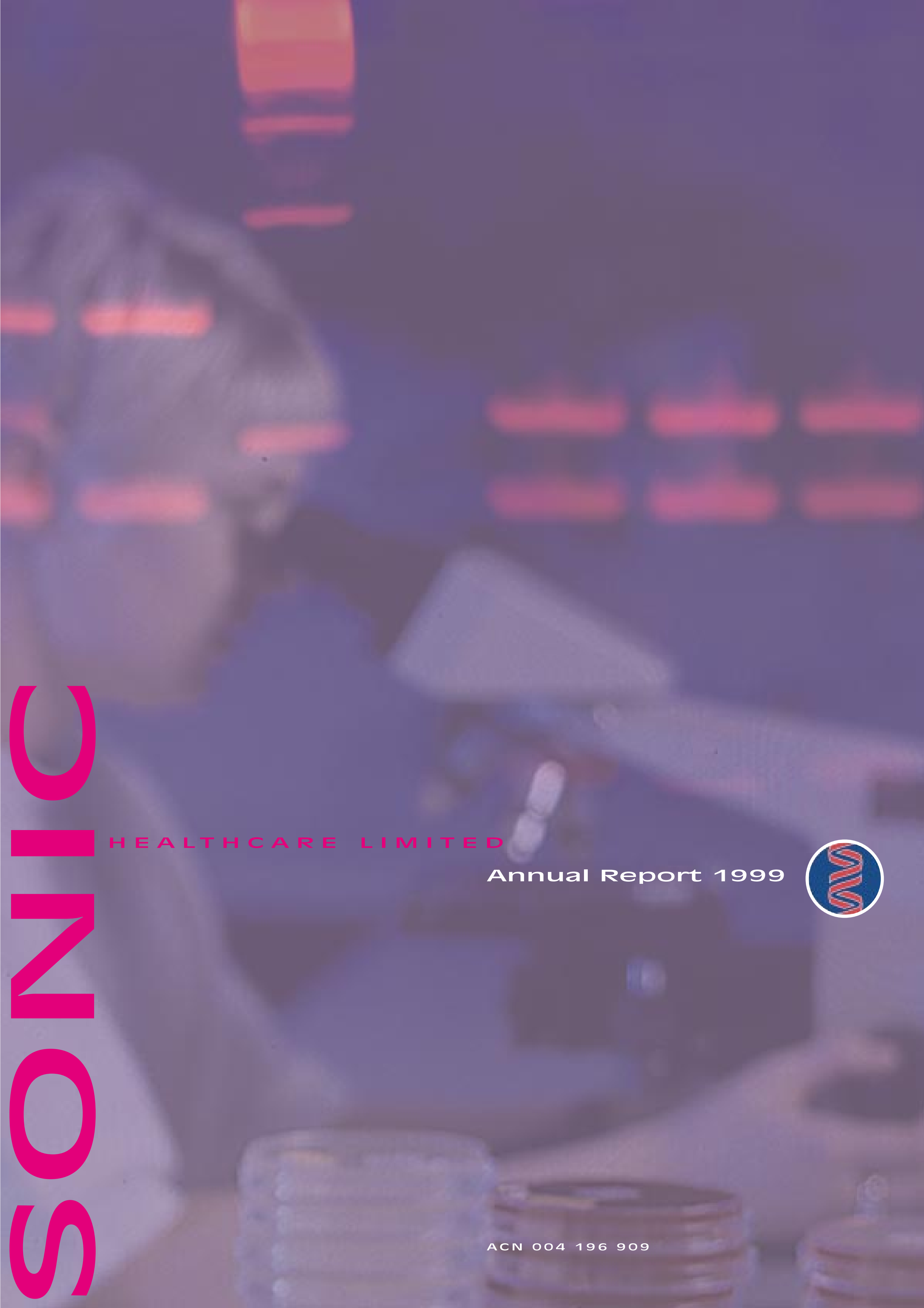


SONIC

HEALTHCARE LIMITED

Annual Report 1999

ACN 004 196 909

Contents

SONIC HEALTHCARE LIMITED

Sonic Healthcare Limited is the holding company for the group and is listed on the Australian Stock Exchange. As well as holding shares in its subsidiaries, it is also the owner of the group's property interests.

DOUGLASS HANLY MOIR PATHOLOGY

Douglass Hanly Moir Pathology Pty Ltd is the largest of the pathology practices in the group and operates in metropolitan Sydney and north as far as Newcastle. This practice's principal laboratory, the largest in Australia, is located in the group's North Ryde facility which also serves as Sonic's Head Office.

BARRATT & SMITH PATHOLOGY

Barratt & Smith operates in Western Sydney and also rural NSW. Its principal laboratory is located in Penrith to the west of Sydney, with subsidiary labs located in Orange, Wagga, Dubbo and Mildura.

CAPITAL PATHOLOGY

Capital Pathology operates in the ACT and surrounding regions. Capital's 'state of the art' laboratory is owned by the group and is located in the Canberra suburb of Deakin.

CLINPATH LABORATORIES

Clinpath Laboratories operates in South Australia with its main laboratory located in Kent Town, a suburb of Adelaide.

SONIC CLINICAL TRIALS

Sonic Clinical Trials services the pharmaceutical industry by providing pathology testing for pharmaceutical companies trialling new drugs. This division incorporates an exclusive association with Covance Central Laboratory Services Inc. which is the world's largest co-ordinator of clinical trials with laboratories based in Indianapolis, Geneva and Cape Town.

SOUTHERN PATHOLOGY

Operates throughout the south coast of NSW with its main laboratory located in Wollongong.

LIFESCREEN AUSTRALIA

Lifescreen is a specialist health testing business servicing the life insurance industry. The business provides health evaluation, including pathology services, for life insurance applicants and operates in every state.

SCIGEN

A biotechnology company based in Singapore with an exciting range of state-of-the-art generic biopharmaceuticals soon to be launched in the Asia-Pacific region. Sonic has an equity interest in the company and the right to move to 58% through the injection of $8 million of working capital.

Managing Director's Report

On September 10, 1999, Sonic Healthcare announced that it had reached agreement in principle to acquire the pathology and radiology interests of the SGS Medical Group in Australia and New Zealand. The transaction is by far the largest ever contemplated by Sonic and will launch the company into a new and exciting phase of its development.

The SGS transaction is arguably the most important event in Sonic's corporate history. It will create the largest diagnostic group in Australasia, with annual revenues in excess of $500 million and a staff complement of more than 6,000, including 200 specialist medical practitioners. The strategic value of the acquisition is substantial, enabling the company to significantly broaden its geographical base of operations. Sonic will gain immediate presence in several new Australian markets – Queensland, Victoria and Tasmania – and the transaction will give the company a major presence in New Zealand for the first time.

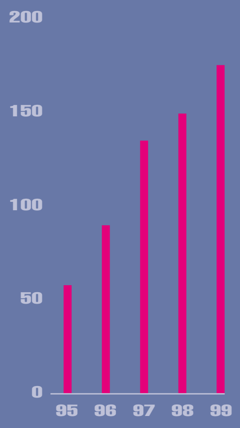
Sonic's operating businesses by region will comprise the following:

New South Wales	Douglass Hanly Moir Pathology Barratt & Smith Pathology Southern Pathology
Australian Capital Territory	Capital Pathology
Queensland	Sullivan Nicolaides Pathology Northern Pathology
Victoria	Melbourne Pathology
South Australia	Clinpath Laboratories
Tasmania	Diagnostic Services
New Zealand	Diagnostic Medical Laboratories Medlab Central Valley Diagnostic Medlab South New Zealand Radiology Group

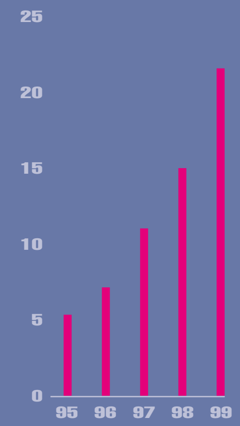
This exciting expansion will allow Sonic to build on its successes to date. The combined group will be able to realise significant benefits from pooling of resources, large-scale standardisation and centralisation of operations, sharing of professional and competitive information, and from the advantages of economies of scale. The result will be better career advancement for Sonic's staff, better service for Sonic's customers and better financial returns for Sonic's shareholders.

The acquisition will be structured in such a way that Sonic will acquire 100% of the SGS Medical Group's New Zealand businesses and approximately 80% of the Australian businesses at settlement. The balance of the minority equity in the Australian businesses will be acquired within three years through an additional issue of approximately 22 million Sonic shares to minority partners. The headline purchase price of $514 million includes deferred vendor finance of $45 million and the deferred equity issues to minority parties. At the time of writing this report, the proposed acquisition remains conditional on shareholder approval, final documentation and successful debt and equity raisings. (A copy of the detailed release to the ASX describing the proposed SGS Medical Group acquisition can be found on our website – www.sonichealthcare.com.au.)

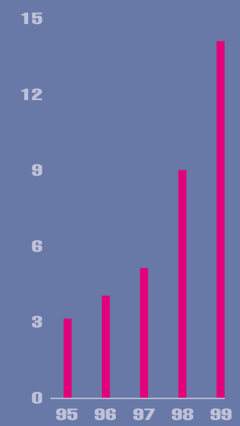
In the midst of these exciting times, I am delighted to present to shareholders my report for the 1998/9 year and to highlight the key achievements of another extremely positive year for our company.



Gross Revenue ($M)



Net Profit After Tax ($M) (before goodwill and abnormals)



Dividends Paid (c) (before abnormals)

Managing Director's Report

The financial year under review produced an exceptionally strong financial outcome – undoubtedly the best result in Sonic's history. Earnings per share grew by 51% on revenue growth of only 18%, reflecting the successful operational strategies aimed at further expansion of profit margins. Sonic's EBITA (earnings before interest, tax and amortisation of intangibles) as a percentage of revenue increased from 17.2% in 1997/8 to 20.7% this financial year, a Sonic record, while net profit after tax increased by 52% to $17.5 million. The Board's decision to declare a total fully-franked dividend of 14 cents per share for the year is consistent with its policy of ensuring that shareholders receive a reasonable yield on their investment, as well as capital growth.

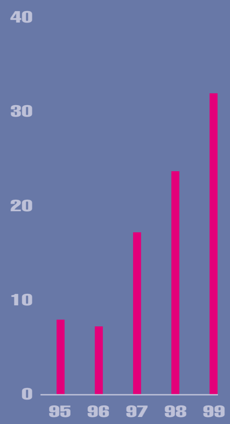
Over the past years, the Company has delivered consistent margin expansion through a number of strategies. A primary focus has been to identify synergistic acquisitions and to capture benefits through the elimination of overlapping services. Other strategies aimed at improving efficiency include centralisation of the less frequently performed tests and the standardisation of systems throughout the group. These measures have been fundamental to Sonic's management plan and will continue to drive earnings-per-share growth into the future. With the SGS Medical Group achieving lower EBITA margins than Sonic, the challenge over the next 3-5 years will be to expand the group margins, using the same strategies which have proven so successful for Sonic over the past years.

The acquisition of the pathology division of Alpha Healthcare Limited in January, 1999 certainly met the criteria for adding value to Sonic through rationalisation of services. Alpha operated two pathology operations, one in Sydney, the other on the South Coast of New South Wales (Southern Pathology). Within a few days of settlement, Alpha's Sydney-based laboratory was physically integrated into Sonic's Douglass Hanly Moir Pathology laboratory. This merger was accomplished with minimal disruption to staff and customers and, although minor rationalisation benefits were realised in the 1998/9 year, we anticipate the bulk of merger benefits will flow in the 1999/2000 year. The acquisition of the highly regarded Southern Pathology practice provides Sonic with coverage in a new geographical territory and we are delighted to have such a respected operation join the Sonic group.

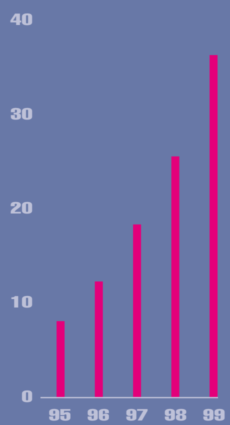
All of Sonic's operating subsidiaries performed exceptionally well through the year. Douglass Hanly Moir continued to show strong organic volume growth in the Sydney area and continued to demonstrate the efficiencies and service benefits associated with a large-scale pathology operation. The patient volumes processed through the North Ryde facility move ever closer to the ten-thousand-per-day level and I am pleased to say that the laboratory facility itself, and the proud staff who operate it, are capable of taking the operation through many more record-breaking days. Clinpath Laboratories, Capital Pathology and Barratt & Smith Pathology have all made significant contributions to the overall success of the group through the year. Each practice has succeeded in lifting both revenues and margins in the face of tough competition.

The managers of all five operating pathology entities have met regularly over the year as the Sonic Executive Committee. The cooperative planning and benchmarking inherent to this committee have been instrumental in raising the standard of operations and lifting performance throughout the group. It is fundamental to our future strategy that this committee continues to drive internal synergies to their logical conclusions of better customer service and greater shareholder value. I am optimistic that, following the SGS acquisition, Sonic will continue to derive great value from the initiatives canvassed at and executed by the expanded Sonic Executive Committee.

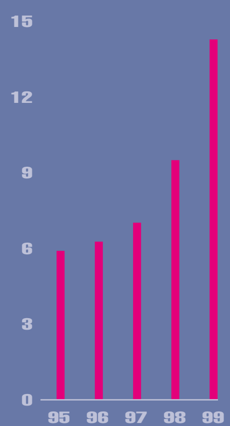
The acquisition of Lifescreen Australia has proven to be very successful. Sonic has now operated this business for two years and has turned a loss-making venture into one which is now profitable and showing strong growth. Sonic Clinical Trials, another division of Sonic which provides pathology services to the pharmaceutical industry in the setting of new drug trials, is also growing rapidly. The interaction with US-based Covance Inc. has been both exciting and mutually beneficial, and I am optimistic that the strengthening bond between the two companies will yield significant value for our Clinical Trials division into the future.



Net Operating Cashflow ($M)



Normalised EBIT ($M) (before goodwill and abnormals)



Earnings Per Share (c)

During the financial year, Sonic made an investment in an exciting Singapore-based biotechnology company, SciGen. This company has secured the exclusive Asia-Pacific rights to a mature “pipeline” of six, state-of-the-art generic biopharmaceuticals – human growth hormone, human insulin, interferon, hepatitis B vaccine, the triple vaccine and a combined hepatitis B/triple vaccine. For a staged investment of $8 million, Sonic will move to gain majority control of SciGen. The products held by SciGen are all new-generation biopharmaceuticals, with enormous potential for market penetration in the Asia-Pacific region. The management of SciGen will remain in the experienced hands of CEO Saul Mashaal and his staff and, with initial product launches imminent, we are excited at the potential benefits that may accrue to Sonic shareholders from this new venture.

As we stand on the threshold of a new era in our relatively short corporate history, it is worth reflecting on our past performance. In less than seven years, Sonic has advanced from a small public company with revenues of $30 million and a market capitalisation of under $10 million, to an organisation (post the SGS Medical Group acquisition) with potential revenues in excess of $500 million and market capitalisation in the order of $1 billion. I believe that we have succeeded because we have consistently delivered exceptionally good pathology service to a broad range of medical customers. We have operated ethically at all times and have been steadfastly true to the tenets of the medical profession. We have shunned corporate bureaucracy and have remained at heart a dynamic and progressive company.

More than all else, we have been fortunate to have an exceptionally talented and committed team of people, dedicated to the greater good of the company. I can only offer my sincere thanks to all Sonic staff for their most significant contributions to our successes to date. Within the company, the enthusiasm for the future is almost palpable. We now look forward to an exciting new phase in our corporate development, a phase which I am confident will bring further rewards to staff, customers and shareholders alike.

C.S. Goldschmidt
Managing Director

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, 1999.

1. Directors

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

Mr M.D. Boyd – Chairman
Dr C.S. Goldschmidt – Managing Director
Mr B.S. Patterson
Mr R.P. Campbell
Dr M.M. Barratt
Mr C.D. Wilks

2. Principal Activities of the Economic Entity

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

3. Dividends

On 18 August 1999, the Board declared a final dividend of 11 cents fully franked (at 36%) to be paid on 17 September 1999 with a Record Date of 6 September 1999. An interim dividend of 3 cents per share was paid on 17 March 1999. Total dividends for the year therefore are;

Interim Dividend paid on 17 March 1999	$3,695,000
Final Dividend paid on 17 September 1999	$13,594,000
Total Dividend for the Year	$17,289,000

A final dividend of 7 cents per ordinary share was paid on 21 September 1998 for the year ended 30 June 1998, out of profits of that year as recommended by the Directors in last year's Directors' Report.

4. Review of Operations

Operating Revenue

Operating revenue for the year increased by 18% from $147,279,000 to $173,647,000 reflecting the acquisition of the businesses of Southern Pathology Services and Australian Diagnostic Laboratories in January 1999. This was supplemented by strong organic growth, and a Medicare schedule fee increase of approximately 2.5% in November, 1998.

Operating Profit

The net profit for the consolidated entity for the year was $17,451,000 (1998 $11,477,000) after deducting income tax expense of $12,273,000 (1998 $8,178,000). Basic earnings per share increased by 51% from 9.4 cents to 14.2 cents. Net profit after tax increased by 52% and operating margins increased from 17.2% to 20.7% as a result of increased volumes and efficiency initiatives.

Year 2000

The consolidated entity's assessment of overall exposure to the Year 2000 issue and the budget required to address it have not changed materially from the disclosures made to date to the Australian Stock Exchange.

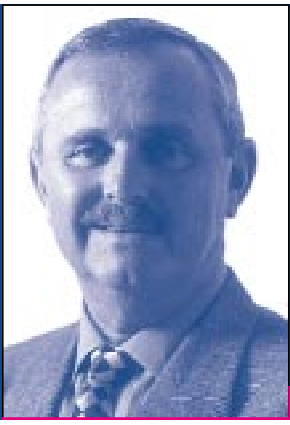
The majority of our mission critical systems have now been rectified for Year 2000 compliance with testing (the final step in the process) to occur over the next few months.

Significant progress has been made in developing contingency plans to cater for the failure of both internal and external dependencies. These plans are based around the infrastructure of the consolidated entity, which includes five major laboratories (plus several peripheral laboratories) each of which perform basically the same functions but with differing systems and instruments. This enables pathology tests to be sent to, and performed at, another laboratory in the group.

Mr Michael Boyd
Chairman
BComm ACA ASIA FAICD

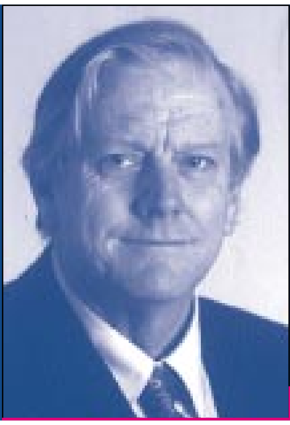
Dr Colin Goldschmidt
Managing Director
MB BCh FRCPA FAICD

Mr Peter Campbell
FCA FTIA
MAICD



Mr Barry Patterson
ASMM MIMM
FAICD

Mr Christopher Wilks
BComm ASA FCIS
FCIM FAICD



Dr Michael Barratt
MB BS FRCPA

5. Significant Changes in State of Affairs

The significant changes in the state of affairs of the consolidated entity during the course of the year include the following:

- The businesses of Southern Pathology Services and Australian Diagnostic Laboratories were acquired from Alpha Healthcare Limited on 23 January 1999. The acquisition was financed by bank debt and cash on hand. The annualised revenue of the acquired practices was approximately $25 million. The business of Australian Diagnostic Laboratories was immediately merged into the operations of Douglass Hanly Moir Pathology.
- The business of Exelpath Mobile Paramedical Services was acquired on 25 September 1998 and was immediately merged into the operations of Lifescreen Australia.
- On 2 March 1999 an interest of 18.125%, with an option to move to control, was acquired in SciGen Pte Ltd, a Singaporean based biopharmaceutical company. The option has been partially exercised and at 30 June 1999 Sonic's interest was 29%. The acquisition is being funded from working capital.
- 812,000 shares have been issued during the year in respect of options exercised under the Sonic Healthcare Limited Employee Option Plan.

6. Events Subsequent to Balance Date

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

- The entity's interest in SciGen Pte Ltd increased to 37.7% in July 1999.
- On 10 September 1999 the Company advised the Australian Stock Exchange (ASX) that it had reached agreement in principle with Geneva-based SGS Société Générale de Surveillance SA (SGS) and its minority partners to acquire the interests of the SGS Medical Group in Australia and New Zealand for A$514 million, including deferred cash and share components. Further detail regarding the proposed acquisition can be found in the Managing Director's Report.

7. Likely Developments

The consolidated entity's management intends to continue to explore synergistic expansion opportunities both within and outside Australia. In addition, further rationalisation benefits within the group have been identified and targeted.

The investment in SciGen Pte Ltd is likely to generate losses in the short term with the expectation of significant profits in the medium to long term. The quantum of these losses is not expected to be material to the results of the consolidated entity.

8. Share Options

Shares Under Option

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

Sonic Employee Option Plan Options:

Number of Options	Issue Price of Shares	Expiry Date
250,000	70.0 cents	1 October 2000
720,500	72.5 cents	20 October 2000
945,000	82.5 cents	13 December 2000
1,235,000	$1.47	18 September 2002
1,250,000	$3.37	15 December 2003
4,400,500		

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

Shares Issued on the Exercise of Options

A total of 812,000 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 1999 on the exercise of options granted under the Sonic Employee Option Plan and a further 680,000 shares have been issued since that date, but prior to the preparation of these financial statements. The amounts paid on those shares were:

150,000	@ 70 cents
871,000	@ 72.5 cents
471,000	@ 82.5 cents
1,492,000	

No amounts are unpaid on any of the shares.

9. Directors' and Executives' Emoluments

The Remuneration Committee, consisting of three 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 ($)
M.D. Boyd (Chairman)	50,000
B.S. Patterson	50,000
R.P. Campbell	50,000

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 Salary/ Consulting Fees $	Director's Fees $	Motor Vehicle $	Bonus $	Superannuation $	Other Benefits $	Total $
Dr. C.S. Goldschmidt *Managing Director*	183,613	50,000	89,876	280,000	14,854	–	618,343
C.D. Wilks *Finance Director*	142,812	50,000	8,400	140,000	–	–	341,212
Dr. M.M. Barratt *Director*	139,166	50,000	15,870	–	6,854	6,504	218,394

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

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

Other Executives of the Consolidated Entity

Name	Base Salary $	Motor Vehicle $	Bonus $	Superannuation $	Total $	No. of Share Options Granted
Dr. L. Bott *General Manager* *Barratt & Smith* *Pathology*	202,765	27,574	–	13,000	243,339	40,000
G. Alexander *General Manager* *Clinpath Laboratories*	171,373	–	–	6,854	178,227	40,000
Dr. G. Armellin *General Manager* *Capital Pathology*	230,000	–	–	6,854	236,854	40,000
Dr. S. Andersen *General Manager* *Southern Pathology Services* *(from 23.1.99 to 30.6.99)*	70,898	19,637	1,324	2,768	94,627	20,000
P. Alexander *Group Financial Controller*	100,341	16,782	20,000	6,854	143,977	30,000

"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.

Share Options Granted to Directors and Executives

Options over unissued ordinary shares of Sonic Healthcare Limited granted during or since the end of the financial year to any of the Directors or the five most highly remunerated officers of the consolidated entity as part of their remuneration are included in the tables above.

The options were granted under the Sonic Employee Option Plan on 15 February 1999. Details of the options are included in Note 18. The Directors estimate that the fair value of the options at grant date was in the range of 20 cents to 77 cents each. An exact value is considered to be indeterminable as it is a function of the future prospects of the Company and the conditions of the options, which include continuity of employment.

10. Information on Directors

(a) Directors' Profiles

Michael Denis Boyd

Chairman

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

Mr Boyd is a Chartered Accountant and a Director and major shareholder in LifeCare Corporation Australia Pty Ltd ('LifeCare'), the holding company of various medical and para-medical enterprises in Western Australia. LifeCare is Perth's largest sports medicine, physiotherapy practice and corporate gymnasium provider. Mr Boyd is a substantial shareholder in Sonic via his interests in Jardvan Pty Ltd. Mr Boyd is a member of the Audit Committee and the Remuneration Committee.

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. He joined the company after completing his Australian Pathology Fellowship training in Sydney in 1986. Dr Goldschmidt has been the Medical Director of Douglass Hanly Moir Pathology since 1989.

Peter Campbell

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

Mr Campbell is partner in charge of information technology at Stapleton Partners, Chartered Accountants. The firm is a member of the ACPA International network of 66 firms in 30 countries. Mr Campbell 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.

Barry Sydney Patterson

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

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 also fulfils the role of Company Secretary. Mr Wilks is a member of the Audit Committee.

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.

(b) Directors' Interests in Shares and Options as at 20 September, 1999

Director's Name	Class of Shares	Number of Shares	Interest	Options
M.D.Boyd	Ordinary	(i)	(i)	–
R.P.Campbell	Ordinary	–	–	–
C.S. Goldschmidt	Ordinary	658,000	Beneficially	700,000
B.S.Patterson	Ordinary	(ii)	(ii)	–
C.D.Wilks	Ordinary	517,000	Beneficially	550,000
M.M. Barratt	Ordinary	1,300,000	Beneficially	–
	Ordinary	720,000	Personally	–

(i) Mr M.D.Boyd is a Director and shareholder of Jardvan Pty Ltd which holds 26,133,361 shares in Sonic Healthcare Limited. He is also the beneficial owner of a further 100,500 shares.

(ii) Mr B.S.Patterson is a Director and shareholder of Polly Pty Ltd which holds 4,916,646 shares in Sonic Healthcare Limited.

11. Directors' Meetings

	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
Directors Name	Number Held	Number Attended	Number Held	Number Attended	Number Held	Number Attended
M.D. Boyd	11	11	2	2	2	2
M.M. Barratt	11	9				
R.P. Campbell	11	11	2	2	2	2
C.S. Goldschmidt	11	11				
B.S. Patterson	11	9			2	2
C.D. Wilks	11	11	2	2		

12. Indemnification and Insurance of Directors

During the financial year, the company entered into agreements to indemnify all Directors of the company named in the paragraph 1 of this report and current and former Directors of the company and its controlled entities against all liabilities to persons (other than the company or related entity) which arise out of the performance of their normal duties as Director or Executive Officer unless the liability relates to conduct involving lack of good faith. The company has agreed to indemnify the Directors and Executive Officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

The Directors' and Officers' Liability Insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the company or related entity) incurred in their position as a Director or Executive Officer unless the conduct involves a wilful 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.

13. Environmental Regulation

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

14. Rounding of Amounts to Nearest Thousand Dollars

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

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

C.S. Goldschmidt
Director

C.D. Wilks
Director

Sydney, 20 September 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 headlines: Board of Directors and its Committees, Identifying and Managing Business Risks, Ethical Standards and The Role of Shareholders.

1. Board of Directors and its Committees

The Board is responsible for the overall Corporate Governance of the economic 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 Michael Boyd	34	Chairman Non-Executive Director	Finance and Accounting, Company Management and the Health Care Industry
Dr Colin Goldschmidt	45	Managing Director	Pathology Industry and Company Management
Dr Michael Barratt	61	Executive Director	Pathology Industry and Company Management
Mr Barry Patterson	58	Non-Executive Director	Company Management
Mr Peter Campbell	54	Non-Executive Director	Finance and Accounting, Computing and Company Management
Mr Chris Wilks	41	Executive Director	Finance, Accounting, Banking and Secretarial

Independent Professional Advice

Each Director has the right to seek independent professional advice at the economic 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 Barry Patterson (Chairman)
Mr Michael Boyd
Mr Peter Campbell

The Managing Director, Dr Colin 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 24 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 economic entity.

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

The members of the Audit Committee are:

Mr Michael Boyd (Chairman)
Mr Peter Campbell
Mr Chris Wilks

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) and financial institutions;
- reviewing reports on any major defalcations, frauds and thefts from the economic 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 economic 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 economic entity against budget and other key performance measures. The Board also reviews and receives advice on areas of operational and financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

3. Ethical standards

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

4. The role of shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the economic 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 economic entity during the year, changes in the state of affairs of the economic entity and details of future developments, in addition to the other disclosures required by the Corporations Law;
- Proposed major changes in the economic 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 economic 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.

Contents

Profit and Loss Statements for the year ended 30 June 1999

	Note	Consolidated		Company	
		1999 $'000	1998 $'000	1999 $'000	1998 $'000
Revenue from operating activities	2	171,381	145,667	–	–
Revenue from outside the operating activities	2	2,266	1,612	24,330	15,897
Total Revenue	2	173,647	147,279	24,330	15,897
Operating Profit before amortisation of goodwill, interest and income tax		35,947	25,360	19,546	10,712
Net Interest (Expense) / Income	2, 3	(2,216)	(2,443)	(316)	557
Amortisation of goodwill	3	(4,007)	(3,262)	–	–
Operating Profit before Income Tax	3	29,724	19,655	19,230	11,269
Income Tax Attributable to Operating Profit	4	(12,273)	(8,178)	(137)	(130)
Operating Profit after Income Tax		17,451	11,477	19,093	11,139
Accumulated Losses at the beginning of the year		(3,984)	(4,425)	(15,700)	(15,803)
Total Available for Appropriation		13,467	7,052	3,393	(4,664)
Dividends provided for or paid	5	(17,320)	(11,036)	(17,320)	(11,036)
Accumulated losses at the end of the year		(3,853)	(3,984)	(13,927)	(15,700)
Earnings per share (cents)	27	14.2	9.4		

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

	Note	Consolidated 1999 $'000	Consolidated 1998 $'000	Company 1999 $'000	Company 1998 $'000
Current Assets					
Cash	28	5,345	11,471	108	4,063
Receivables	6	24,818	20,445	15,354	387
Inventories	7	3,292	2,867	–	–
Total Current Assets		33,455	34,783	15,462	4,450
Non-Current Assets					
Receivables	8	–	–	13,615	35,722
Investments	9	4,216	–	60,240	20,787
Property, Plant and Equipment	10	34,312	32,719	19,762	18,953
Intangibles	11	80,959	51,404	–	–
Other	12	3,057	2,120	–	–
Total Non-Current Assets		122,544	86,243	93,617	75,462
Total Assets		155,999	121,026	109,079	79,912
Current Liabilities					
Accounts Payable	13	12,327	9,746	516	196
Borrowings	14	3,462	3,387	–	4
Provisions	15	31,953	20,896	13,828	8,576
Total Current Liabilities		47,742	34,029	14,344	8,776
Non-Current Liabilities					
Borrowings	16	50,341	30,264	48,669	27,308
Provisions	17	1,818	1,383	42	194
Total Non-Current Liabilities		52,159	31,647	48,711	27,502
Total Liabilities		99,901	65,676	63,055	36,278
Net Assets		56,098	55,350	46,024	43,634
Shareholders' Equity					
Share Capital	18	58,969	24,490	58,969	24,490
Reserves	19	982	34,844	982	34,844
Accumulated Losses		(3,853)	(3,984)	(13,927)	(15,700)
Total Shareholders' Equity		56,098	55,350	46,024	43,634

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

	Note	Consolidated 1999 $'000	Consolidated 1998 $'000	Company 1999 $'000	Company 1998 $'000
Cash flows from Operating Activities					
Receipts from customers		169,466	143,290	–	–
Payments to suppliers and employees		(126,218)	(111,113)	(2,382)	(1,924)
Dividends received		–	–	4,000	11,100
Interest received		245	319	1,503	2,448
Interest and other costs of finance paid		(2,461)	(2,762)	(1,819)	(1,891)
Income tax paid		(9,517)	(6,421)	(16)	(191)
Other income		–	–	3,827	2,352
Net Cash inflows from Operating Activities	28	31,515	23,313	5,113	11,894
Cash flows from Investing Activities					
Payment for property, plant and equipment		(4,521)	(6,085)	(1,395)	(4,570)
Proceeds from sale of property, plant and equipment		716	408	–	–
Payment for investment in related party		–	–	(35,237)	–
Payment for purchase of controlled entities		(34,713)	(1,152)	–	–
Loans to other entities		–	–	–	–
Repayment of loans by related entities		–	–	22,036	5,496
Loans to related entities		–	–	–	(2,009)
Payment for investments		(4,216)	(339)	(4,216)	(2)
Net Cash outflows from Investing Activities		(42,734)	(7,168)	(18,812)	(1,085)
Cash flows from Financing Activities					
Loans from controlled entities		–	–	933	63
Proceeds from borrowings		35,000	–	35,000	–
Repayments of borrowings		(14,694)	(289)	(14,504)	–
Repayment of lease and hire purchase liabilities		(3,527)	(3,710)	–	–
Proceeds from issue/conversion of shares		616	391	616	391
Dividends paid		(12,302)	(7,262)	(12,301)	(7,262)
Net Cash inflows/(outflows) from Financing Activities		5,093	(10,870)	9,744	(6,808)
Net Increase/(Decrease) in cash held		(6,126)	5,275	(3,955)	4,001
Cash at the beginning of the financial year		11,471	6,196	4,063	62
Cash at the end of the financial year	28	5,345	11,471	108	4,063

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

1. Summary of Significant Accounting Policies

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

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

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Sonic Healthcare Limited as at 30 June 1999 and the results of all controlled entities for the year then ended. Sonic Healthcare Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss statement and balance sheet respectively.

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

(b) Capital Gains Tax

Except where indicated, no provision has been made for any taxes on capital gains which could arise in the event of a sale of certain revalued non-current assets for the amounts at which they are stated in the financial statements as it is not expected that any such liability will crystallise.

(c) Cash

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

(d) Intangible Assets

(i) Goodwill

On acquisition of some, or all, of the assets of another entity or, in the case of an investment in a controlled entity, on acquisition of some, or all, of the equity of that controlled entity, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over 20 years, being the period during which the benefits are expected to arise.

(ii) Brand Names, Licences and Authorities

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

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

(e) Foreign Currencies

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates at balance date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

(f) Investments

(i) Controlled Entities

The economic entity's shareholdings in controlled entities are stated at cost. Where the cost exceeds the recoverable amount, the investment has been written down to this recoverable amount.

(ii) Listed and Unlisted Securities

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

(g) Property, Plant And Equipment

(i) Depreciation of Plant and Equipment

Items of plant and equipment are depreciated over their estimated useful lives to the entity commencing when the asset is held ready to use. Expected useful lives are:

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

(ii) Leased Plant and Equipment

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

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

(iii) Leasehold Improvements

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

(h) Receivables, Accounts Payable, Provisions and Borrowings

(i) Receivables

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

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

(ii) Accounts Payable and Other Creditors

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

(iii) Provision for Employee Entitlements.

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

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

Employee entitlement expenses arising in respect of the following categories:

- wages and salaries, non monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- other types of employee entitlements are charged against profits on a net basis in their respective categories.

(iv) Borrowings

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

(i) Inventories

Inventories, comprising consumable stores stock, are valued at the lower of cost and net realisable value.

(j) Superannuation Commitments

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

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

(k) Share Issue Expenses

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

(l) Net Fair Values of Financial Assets and Liabilities

Net fair values of financial instruments are determined on the following bases:

Financial instruments traded in an organised financial market (traded securities) - current quoted market bid price for an asset or offer price for a liability adjusted for any transaction costs necessary to realise the asset or settle the liability. Quoted market prices are available for listed shares, options, debentures and other equity and debt securities;

Monetary financial assets and liabilities not traded in an organised financial market - cost basis carrying amounts of trade debtors, trade accounts payable and accruals (which approximates net market value);

Fixed rate loans – current risk adjusted market rates;

Investments in shares and other equity securities and debentures and other debt securities not traded in an organised financial market (other investments) are valued at Directors' estimates of net market values based on future net cash flows, including transaction costs necessary to realise the securities, discounted at current risk adjusted market rates.

(m) Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is determined having reference to the fair value of the assets or net assets acquired, including goodwill or discount on acquisition where applicable.

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 (d).

(n) Revenue Recognition

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

(o) Year 2000 Software Modification Costs

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

(p) 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 revalued 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. To the extent that a revaluation decrement reverses a revaluation increment previously credited to, and still included in the balance of, the asset revaluation reserve, the decrement is debited directly to that reserve. Otherwise the decrement is recognised as an expense in the profit and loss statement.

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.

(q) Revaluations of Non-Current Assets

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

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

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

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

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

(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) Earnings per Share

(i) Basic Earnings per Share

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

(ii) Diluted Earnings per Share

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

	Consolidated		Company	
	1999 $'000	**1998 $'000**	**1999 $'000**	**1998 $'000**
2. Revenue				
Revenue from operating activities:				
Medical services revenue	171,381	145,667	–	–
Revenue from outside the operating activities:				
Management fees received or due and receivable from controlled entities	–	–	1,867	679
Dividends from controlled entities	–	–	19,000	11,100
Interest received or due and receivable from:				
– Controlled entities	–	–	1,487	2,403
– Other corporations	245	319	16	45
Gross proceeds on sale of plant, equipment and investments	716	408	–	–
Rental Income:				
– Controlled entities	–	–	1,960	1,660
– Other	807	855	–	–
Other income	498	30	–	10
	2,266	1,612	24,330	15,897
Total Revenue	173,647	147,279	24,330	15,897

	Consolidated		Company	
	1999 $'000	1998 $'000	1999 $'000	1998 $'000
3. Operating Profit				
The operating profit before income tax includes the following specific expenses:				
Net loss/(profit) on sale of property, plant and equipment	161	(285)	–	–
Interest paid:				
Finance charges on capitalised leases and hire purchase agreements	642	852	–	–
Other entities	1,819	1,910	1,819	1,891
Bad and doubtful debts:				
Trade debtors	1,371	1,481	–	–
Other receivables	–	82	–	82
Amortisation of:				
Goodwill	3,904	3,262	–	–
Brand names, licences and authorities	103	–	–	–
Leased assets	2,485	2,947	–	–
Depreciation of:				
Plant and equipment	2,151	2,289	36	30
Buildings	549	500	549	500
Net amount provided for:				
Discount taken	–	(45)	–	–
Employee entitlements	6,504	5,617	–	–
Diminution in value of investments	–	43	–	43
Lease rental expense:				
Operating leases	6,454	5,574	11	12
Remuneration of auditors				
Amounts received or due and receivable for audit services by auditors of the Company for:				
	1999 $	1998 $	1999 $	1998 $
auditing and reviewing the financial statements	81,000	84,000	81,000	84,000
other services	2,000	8,000	2,000	8,000

	Consolidated		Company	
	1999 $'000	1998 $'000	1999 $'000	1998 $'000
4. Taxation				
The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the operating profit. The differences are reconciled as follows:				
Operating profit before income tax	29,724	19,655	19,230	11,269
Income tax expense calculated at 36%	10,700	7,075	6,923	4,057
Tax effect of permanent differences:				
Amortisation of intangibles	1,443	1,174	–	–
Other items (net)	238	136	54	67
(Over) / under provision in prior year	19	(125)	–	2
Deductible expenditure capitalised in investment costs	(127)	(82)	–	–
	12,273	8,178	6,977	4,126
Decrease in income tax expense due to:				
Rebateable Dividends	–	–	(6,840)	(3,996)
Total income tax expense attributable to operating profit	12,273	8,178	137	130
Total income tax expense is made up of:				
Current income tax provision	12,610	8,038	275	46
Future income tax benefit	(356)	265	–	–
Deferred income tax liability	–	–	(138)	82
Under/(over) provision in prior year	19	(125)	–	2
	12,273	8,178	137	130
5. Dividends provided for or paid				
Dividends proposed:				
Franked (36%) final dividend	13,594	8,576	13,594	8,576
Dividends paid during the year:				
Franked (36%) interim dividend	3,695	2,449	3,695	2,449
Underprovision from prior year	31	11	31	11
	17,320	11,036	17,320	11,036
Amount of unappropriated profits and reserves which could be distributed as franked dividends (in addition to the proposed dividend) out of existing franking credits or out of franking credits arising from the payment of income tax in the forthcoming period in respect of the current year's profit.	16,762	11,536	16,762	11,536
6. Receivables (Current)				
Trade Debtors	21,011	17,435	–	–
Less: Provision for doubtful debts	(1,593)	(1,137)	–	–
Provision for discount taken	–	(27)	–	–
Accrued revenue	2,703	1,988	–	–
Dividends receivable from controlled entities	–	–	15,000	–
	22,121	18,259	15,000	–
Sundry debtors and prepayments	2,697	2,186	354	387
	24,818	20,445	15,354	387

Significant Terms and Conditions

Trade debtors are required to be settled within 30 days.

The terms and conditions of loans advanced to the ultimate parent entity and common controlled entities during the year are detailed in Note 26.

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

Credit Risk

The economic entity does not have any significant exposure to any individual customer or counterparty other than the Health Insurance Commission (Medicare).

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

Net Fair Values

The Directors consider the carrying amount of trade debtors and other receivables approximate their net fair values.

	Consolidated		Company	
	1999 $'000	1998 $'000	1999 $'000	1998 $'000
7. Inventories				
Consumable stores at cost	3,292	2,867	–	–
8. Receivables (Non-Current)				
Amounts owing by Controlled entities	–	–	15,034	37,141
Less: Provision for doubtful debts	–	–	(1,419)	(1,419)
Other entities	82	82	82	82
Less: Provision for doubtful debts	(82)	(82)	(82)	(82)
	–	–	13,615	35,722
9. Investments (Non-Current)				
Investments in controlled entities at cost (refer note 20)	–	–	67,724	32,487
Less: Provision for diminution in value	–	–	(11,700)	(11,700)
	–	–	56,024	20,787
Investment in shares of companies not listed on a Stock Exchange, at cost	6,706	2,490	6,616	2,400
Less: Provision for diminution in value	(2,490)	(2,490)	(2,400)	(2,400)
	4,216	–	4,216	–
Investment – other	43	43	43	43
Less: Provision for diminution in value	(43)	(43)	(43)	(43)
	–	–	–	–
	4,216	–	60,240	20,787

The market value and net fair value at 30 June 1999 of shares in non listed companies (excluding controlled entities) was $4,216,000 (1998 $Nil).

The investment in non-listed companies relates solely to SciGen Pte Ltd, a Singaporean-based biopharmaceutical company. At 30 June 1999 Sonic Healthcare had a 29% interest in SciGen with a carrying value of $4,216,000.

	Consolidated 1999 $'000	Consolidated 1998 $'000	Company 1999 $'000	Company 1998 $'000
10. Property, Plant and Equipment				
Freehold land and buildings				
At independent valuation – October 1994	8,100	8,100	8,100	8,100
Accumulated depreciation	(298)	(232)	(298)	(232)
	7,802	7,868	7,802	7,868
At cost	12,924	11,678	12,924	11,678
Accumulated depreciation	(1,248)	(766)	(1,248)	(766)
	11,676	10,912	11,676	10,912
Plant and equipment – at cost	21,542	23,002	352	204
Accumulated depreciation	(13,819)	(16,142)	(68)	(31)
	7,723	6,860	284	173
Leased plant and equipment capitalised	12,650	12,973	–	–
Accumulated amortisation	(5,539)	(5,894)	–	–
	7,111	7,079	–	–
Total property, plant and equipment, at written down value	34,312	32,719	19,762	18,953
Recent Valuations of Land and Buildings				
Aggregate recent valuations of freehold land and buildings based on:				
Directors' valuations – 1997	17,000	17,000	17,000	17,000
Independent valuation – 1998	4,000	4,000	4,000	4,000
Carried at recent values	5,666	4,422	5,666	4,422
	26,666	25,422	26,666	25,422
11. Intangibles				
Goodwill	87,029	65,267	–	–
Accumulated amortisation	(17,767)	(13,863)	–	–
	69,262	51,404	–	–
Brand names, licences and authorities	11,800	–	–	–
Accumulated amortisation	(103)	–	–	–
	11,697	–	–	–
	80,959	51,404	–	–
12. Other Assets (Non-Current)				
Future income tax benefit	3,057	2,120	–	–
13. Accounts Payable (Current)				
Trade creditors	4,788	4,585	–	–
Sundry creditors and accruals	7,539	5,161	516	196
	12,327	9,746	516	196

Net Fair Values

Trade creditors are generally settled within 30 days. The Directors consider the carrying amounts of trade and other accounts payable approximate their net fair values.

	Consolidated 1999 $'000	Consolidated 1998 $'000	Company 1999 $'000	Company 1998 $'000
14. Borrowings (Current)				
Loans – unsecured	15	213	–	4
Lease liabilities (Notes 21 & 23)	3,387	3,055	–	–
Hire purchase	60	119	–	–
	3,462	3,387	–	4
15. Provisions (Current)				
Restructuring	651	–	–	–
Dividends	13,594	8,576	13,594	8,576
Income tax payable	8,493	5,346	234	–
Employee entitlements	9,215	6,974	–	–
	31,953	20,896	13,828	8,576

The restructuring provision relates to the acquisition of Alpha Healthcare's pathology division and consists of surplus rental premises and other costs.

Net Fair Values

The Directors consider the carrying amounts of provisions for dividends and employee entitlements approximate their net fair values.

	Consolidated 1999 $'000	Consolidated 1998 $'000	Company 1999 $'000	Company 1998 $'000
16. Borrowings (Non-Current)				
Loans – secured (Note 23)	46,000	25,500	46,000	25,500
Loans – unsecured	250	250	–	–
Loans – controlled entities	–	–	2,669	1,808
Lease liabilities (Notes 21 & 23)	4,071	4,434	–	–
Hire purchase	20	80	–	–
	50,341	30,264	48,669	27,308

Significant Terms and Conditions

Terms and conditions of secured borrowings are disclosed in Note 23. Lease liabilities and hire purchase liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Net Fair Values

The Directors consider the carrying amounts of loans, lease and hire purchase liabilities approximate their net fair values.

	Consolidated 1999 $'000	Consolidated 1998 $'000	Company 1999 $'000	Company 1998 $'000
17. Provisions (Non-Current)				
Employee entitlements	1,818	1,383	–	–
Deferred income tax liability	–	–	42	194
	1,818	1,383	42	194
Total employee entitlements				
Current	9,215	6,974	–	–
Non-current	1,818	1,383	–	–
	11,033	8,357	–	–

	Company		Company	
	1999 Shares	1998 Shares	1999 $'000	1998 $'000
18. Share Capital				
Ordinary shares fully paid	123,264,101	122,452,101	58,969	24,490

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

In July 1997, 126,300 contributing ordinary shares were converted to 126,300 fully paid ordinary shares of 20 cents each, issued at a price of 40 cents per share.

In August 1997, 184,623 contributing ordinary shares were converted to 184,623 fully paid ordinary shares of 20 cents each, issued at a price of 40 cents per share.

In September 1997, 89,077 contributing ordinary shares were converted to 89,077 fully paid ordinary shares of 20 cents each, issued at a price of 40 cents per share.

In October 1997, 600,000 contributing ordinary shares were converted to 600,000 fully paid ordinary shares of 20 cents each, issued at a price of 40 cents per share.

In December 1997, 1,544,400 fully paid ordinary shares of 20 cents each were issued at a price of 55 cents per share as partial consideration for the acquisition of the units in the Hanly Moir Pathology Trust.

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

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

70,000 @ 70 cents each
452,000 @ 72.5 cents each
290,000 @ 82.5 cents each

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

Number	Exercise Price	Expiry Date
330,000	70 cents	1 October 2000
1,139,500	72.5 cents	20 October 2000
1,126,000	82.5 cents	13 December 2000
1,235,000	$1.47	18 September 2002
1,255,000	$3.37	15 December 2003

1,255,000 options were granted under the Sonic Employee Option Plan to 75 eligible employees of Sonic Healthcare Limited and its controlled entities on 15 February 1999. Each option is convertible into one ordinary share as set out below on or before 15 December 2003 at a fixed price of $3.37 per share.

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

A total of 680,000 ordinary shares have been issued since 30 June, 1999 on the exercise of options granted under the Sonic Employee Option Plan.

	Consolidated 1999 $'000	Consolidated 1998 $'000	Company 1999 $'000	Company 1998 $'000
19. Reserves				
Share premium	–	33,667	–	33,667
Share options	–	195	–	195
Asset revaluation	982	982	982	982
	982	34,844	982	34,844
Movements in reserves				
Share premium:				
– balance at beginning of year	33,667	32,927	33,667	32,927
– premium of $0.35 on 1,544,400 ordinary shares issued	–	540	–	540
– premium of $0.20 on 1,000,000 contributing ordinary shares converted to fully paid ordinary shares	–	200	–	200
– transfer to share capital (Note 18)	(33,667)	–	(33,667)	–
– balance at end of year	–	33,667	–	33,667
Share Options				
– balance at beginning of year	195	195	195	195
– transfer to share capital (Note 18)	(195)	–	(195)	–
	–	195	–	195

20. Particulars in Relation to Controlled Entities

Details of Controlled Entities

	Class of Share	Beneficial Interest % 1999	Beneficial Interest % 1998
Controlled entities of:			
1. Sonic Healthcare Limited			
Douglass Hanly Moir Pathology Pty Limited (i)	Ord	100	100
Southern Pathology Services Pty Ltd (formerly Macquarie Laboratories Pty Ltd) (i)	Ord	100	100
Clinpath Laboratories Pty Ltd (i)	Ord	100	100
Lifescreen Australia Pty Ltd (i)	Ord	100	100
2. Douglass Hanly Moir Pathology Pty Limited			
Milberg Investments Limited (iii)	Ord £1	100	100
Cloudguard No. 69 Pty Ltd (i)	Ord	100	100
Barratt & Smith Pathology Pty Ltd (i)	Ord	100	100
Barratt & Smith Pathology Trust Units (ii)		100	100
Hanly Moir Pathology Pty Ltd (i)	Ord	100	100
Hanly Moir Pathology Trust Units (ii)		100	100

All Companies other than Milberg Investments Limited (Gibraltar) are incorporated in Australia.

(i) These controlled entities are relieved from the requirement to prepare financial reports in accordance with ASIC Class Order (98/1418), as amended by Class Order (98/2017), as they and the Company are party to a deed of cross guarantee. Those companies represent both the "Closed Group" and "Extended Closed Group" under the Class Order.

(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.

	Consolidated 1999 $'000	Consolidated 1998 $'000	Company 1999 $'000	Company 1998 $'000

21. Finance Lease Commitments

	1999 $'000	1998 $'000	1999 $'000	1998 $'000
Lease commitments in respect of capitalised finance leases are payable as follows:				
Not later than one year	3,812	3,466	–	–
Later than one year but not later than two years	2,271	2,778	–	–
Later than two years but not later than five years	2,175	2,140	–	–
	8,258	8,384	–	–
Less: Amounts provided for in the financial statements				
Current	3,387	3,055	–	–
Non-Current	4,071	4,434	–	–
Total Lease Liability	7,458	7,489	–	–
Future finance charges not provided for in the financial statements.	800	895	–	–

The weighted average interest rate implicit in the leases is 8.55% (1998 – 9.71%)

22. Other Commitments, Contingent Liabilities and Contingent Assets

The estimated maximum amount of commitments and contingent liabilities not provided for in the accounts of the controlled entities as at 30 June 1999 are set out below.

Operating Lease Rental Commitments

	1999 $'000	1998 $'000	1999 $'000	1998 $'000
Future operating lease rentals not provided for in the financial statements and payable				
Not later than one year	5,552	4,522	1	1
Later than one year but not later than five years	8,487	7,025	–	–
Later than five years	2,990	3,706	–	–
	17,029	15,253	1	1

Contingent Liabilities

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

23. Secured Loans

A secured loan to the Company of $46,000,000 (1998 - $25,500,000) and lease facilities are secured by registered guarantee mortgages and registered mortgage debentures over all assets and undertakings of the Company and its controlled entities.

24. Remuneration of Directors and Executives

(i) *Directors' Remuneration*

	1999 $	1998 $	1999 $	1998 $
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.	1,327,949	914,000	1,327,949	914,000

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

	1999	1998
$30,000 – $39,999	–	3
$50,000 – $59,999	3	–
$140,000 – $149,999	–	1
$210,000 – $219,999	1	1
$340,000 – $349,999	1	–
$440,000 – $449,999	–	1
$610,000 – $619,999	1	–

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

Details of options granted to Directors during the year ended 30 June 1999 are set out in Note 26.

	Consolidated		Company	
	1999	1998	1999	1998
	$	$	$	$
(ii) Executive Remuneration				
Remuneration received or receivable by executive officers of the economic entity and the Company whose total income exceeds $100,000 from entities in the economic entity and related entities.	1,980,346	1,896,294	1,177,949	820,452

	1999	1998	1999	1998
The number of the executives of the Company and its controlled entities whose total income falls within the following bands:				
$110,000 – $119,999	–	1	–	–
$140,000 – $149,999	1	–	–	–
$160,000 – $169,999	–	1	–	1
$170,000 – $179,999	1	–	–	–
$190,000 – $199,999	–	1	–	–
$210,000 – $219,999	1	1	1	1
$220,000 – $229,999	–	1	–	–
$230,000 – $239,999	1	–	–	–
$240,000 – $249,999	1	1	–	–
$300,000 – $309,999	–	1	–	–
$340,000 – $349,999	1	–	1	–
$440,000 – $449,999	–	1	–	1
$610,000 – $619,999	1	–	1	–

The total income reported above includes the income of executive Directors reported in Note (i) and certain pathologists with executive roles. Performance related bonuses have been added where applicable.

(iii) Directors' Benefits

Christopher D. Wilks has a beneficial entitlement in a company which provided managerial and administrative services to the Company and other related corporations. The charges were levied on a commercial basis and amounted to $341,212 (1998 – $215,705).

(iv) Options Granted

The value of options over unissued ordinary shares of Sonic Healthcare Limited granted during the financial year to any of the Directors or executive officers of the consolidated entity as part of their remuneration are not included in the disclosure above. 170,000 options were granted to five executive officers under the Sonic Employee Option Plan on 15 February 1999. The Directors estimate that the fair value of the options at grant date was in the range of 20 cents to 77 cents 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 (refer Note 18).

The valuing of options at grant date represents a change in accounting policy. Under the previous policy options were valued only when exercised. A Director exercised 70,000 options during the financial year, valued at $91,000 under the previous policy. There is no need to adjust comparatives as no options were exercised during the prior year.

25. Statement of Operations of Segments

The economic entity operates predominantly in the Medical Services industry within Australasia.

26. Related Party Disclosures

Details in respect of related parties are as follows:

(i) Controlled Entities

Sonic Healthcare Limited is the ultimate parent entity in the wholly-owned group comprising the Company and its wholly-owned controlled entities (Note 20).

The Company advanced and repaid loans, received loans, paid administration costs on behalf of and provided and received administrative assistance to/ from other entities in the wholly-owned group during the current and previous financial years. These transactions were on commercial terms and conditions.

The Company provided business premises to a number of entities in the wholly-owned group during the current and previous financial years. The premises were rented on commercial terms and conditions.

(ii) Directors

The names of the persons who have held the position of director during the year are:

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

Directors' remuneration during the year has been disclosed in Note 24.

Transactions with Director Related Entities.

During the 1997/98 year, a controlled entity charged administration fees of $20,000 to Silex Systems Limited, an entity which, at the time, was related to M. D. Boyd through a substantial shareholding therein. The transaction was based on commercial terms and conditions and at market rates.

(iii) Loans to Controlled Entities

	Company	
	1999 $'000	1998 $'000
The aggregate amounts receivable from wholly owned controlled entities by the company at balance date:		
Receivables (Non-Current)	30,034	37,141
Provisions against receivables	(1,419)	(1,419)

(iv) Loans from Controlled Entities

	1999 $'000	1998 $'000
Loans unsecured (Non-Current)	2,669	1,808

(v) Directors' Shareholding and Options

Interests in the shares of entities within the economic entity held by Directors of the reporting entity and their director-related entities, as at 30 June 1999:

	Sonic Healthcare Limited Sonic Employee Option Plan Options Over Ordinary Shares		Sonic Healthcare Limited 20c Ordinary Shares Fully Paid	
	1999	1998	1999	1998
C. D. Wilks	630,000	700,000	387,000	387,000
M. D. Boyd	–	–	26,233,861	26,233,861
Dr C. S. Goldschmidt	700,000	700,000	258,000	258,000
B. S. Patterson	–	–	5,916,646	5,916,646
Dr M. Barratt	–	–	2,020,000	2,139,091

C.D. Wilks exercised 70,000 options and sold 70,000 shares during the year ended 30 June 1999.

(vi) Dividends

Dividends received/receivable by the company from wholly controlled entities were $19,000,000 (1998 – $11,100,000).

27. Earnings per Share

	Company	
	1999	1998
Basic Earnings Per Share (cents per share)	14.2	9.4
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	122,965,309	121,466,722

The diluted earnings per share are not materially different from the basic earnings per share.

Options as detailed in Note 18 are considered to be dilutive and are included in the calculation of diluted earnings per share.

28. Statement of Cash Flows

	Consolidated		Company	
	1999 $'000	1998 $'000	1999 $'000	1998 $'000
(i) Cash at Bank and on hand	5,345	11,471	108	4,063
(ii) Reconciliation of net cash provided by operating activities to operating profit after income tax				
Operating profit after income tax	17,451	11,477	19,093	11,139
Add/(Less) non cash items:				
Depreciation	2,700	2,789	586	530
Amortisation – Leases	2,485	2,947	–	–
– Intangibles	4,007	3,262	–	–
Provision for doubtful debts	1,371	1,563	–	82
Provision for discount taken	–	(45)	–	–
Provision for diminution of investment	–	43	–	43
Add/(Less) items reclassified as investing activities:				
Net profit/(loss) on sale of property, plant and equipment	161	(285)	–	–
Add/(Less) changes in assets and liabilities during the financial year:				
Provision for employee entitlements	1,392	929	–	–
(Increase)/decrease in prepaid expenditure	130	128	(17)	4
Increase/(decrease) in accrued expenses	2,151	1,889	319	153
Increase/(decrease) in trade creditors	204	679	–	–
(Increase)/decrease in trade debtors and accrued revenue	(1,729)	(809)	–	–
(Increase)/decrease in sundry debtors	(349)	17	11	(35)
(Increase)/decrease in inventories	(73)	(556)	–	–
Assets written off to provisions	(1,140)	(2,472)	–	–
(Increase)/decrease in future income tax benefit	(393)	339	–	–
Increase/(decrease) in deferred tax liability	–	–	(152)	119
Increase/(decrease) in provision for income tax	3,147	1,418	273	(141)
(Increase)/decrease in provision for dividends receivable	–	–	(15,000)	–
NET CASH PROVIDED BY OPERATING ACTIVITIES	31,515	23,313	5,113	11,894

28. Statement of Cash Flows continued

(iii) Non cash financing and investment activities

During the financial year the economic entity:

- acquired property, plant and equipment with an aggregate fair value of $3,423,133 (1998 – $1,904,660) by means of finance leases and hire purchase agreements. These acquisitions are not reflected in the Statements of Cash Flows.
- issued Nil (1998 – $1,544,400) shares in satisfaction of a liability of $Nil (1998 – $829,420) to the vendors of the Hanly Moir Trust. The reduction of this debt is not reflected in the Statements of Cashflows.

	Consolidated		Company	
	1999 $'000	**1998 $'000**	**1999 $'000**	**1998 $'000**
(iv) Standby Arrangements and Credit Facilities				
Entities in the economic entity have access to:				
Credit standby arrangements				
– a secured loan facility reviewable for extension on an annual basis and totalling	62,000	40,000	62,000	40,000
– amount of credit unused	16,000	14,500	16,000	14,500
Lease facilities				
– total facilities	13,982	13,042	–	5,155
– amount of facilities unused	6,524	5,553	–	1,864

(v) Net Fair Value of Cash

The net fair value of cash and cash equivalents of the consolidated entity approximates their carrying amounts.

29. Additional Financial Instruments Disclosures

(i) Derivative Financial Instruments

The economic entity has not entered into any derivative financial instrument transactions.

(ii) Interest Rate Risk

The economic entity's exposure to interest rate risk, repricing maturities and the effective interest rates on financial instruments at balance date are:

	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 1999						
Assets						
Cash	5,345					5,345
Trade debtors					21,011	21,011
Loans					82	82
Total financial assets	5,345				21,093	26,438
Weighted average interest rate	4.2%					
Liabilities						
Trade accounts payable					4,788	4,788
Other accounts payable					7,539	7,539
Bank loans	46,000					46,000
Lease liabilities		3,387	4,071			7,458
Hire purchase		60	20			80
Total financial liabilities	46,000	3,447	4,091		12,327	65,865
Weighted average interest rate	5.43%	9.02%	8.15%			
Net financial assets (liabilities)	(40,655)	(3,447)	(4,091)		8,766	(39,427)

	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 1998						
Assets						
Cash	7,471	4,000				11,471
Trade debtors					17,435	17,435
Loans					82	82
Total financial assets	7,471	4,000			17,517	28,988
Weighted average interest rate	4.2%	4.96%				
Liabilities						
Trade accounts payable					4,585	4,585
Other accounts payable					5,161	5,161
Bank loans	10,500	15,000				25,500
Lease liabilities		3,055	4,434			7,489
Loans		45				45
Hire purchase		119	80			199
Total financial liabilities	10,500	18,219	4,514		9,746	42,979
Weighted average interest rate	5.03%	8.36%	9.71%			
Net financial assets (liabilities)	(3,029)	(14,219)	(4,514)		7,771	(13,991)

29. Additional Financial Instruments Disclosures continued

(iii) Credit Risk

The carrying amounts of financial assets included in the consolidated balance sheet represent the economic 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.

	Consolidated		Company	
	1999 $'000	1998 $'000	1999 $'000	1998 $'000
30. Amounts Receivable and Payable Denominated in Foreign Currencies				
Exposures on items not effectively hedged				
Amounts receivable				
Non current, not effectively hedged United States dollars	82	82	82	82

31. Acquisition of Businesses

The consolidated entity acquired assets of the following businesses during the year for a total consideration of $34,713,000:
Exelpath Mobile Paramedical Services (effective 25 September, 1998)
Alpha Healthcare Pathology Division (effective 23 January, 1999)

	$'000
Consideration – cash	34,713
Fair value of net assets acquired:	
Plant and equipment	1,430
Debtors	2,420
Inventory	320
Prepayments	235
Future income tax benefits	544
Brand names, licences and authorities	11,800
Lease liabilities	(859)
Employee provisions	(1,661)
	14,229
Less: Provision for restructuring	(1,278)
	12,951
Goodwill	21,762

32. Events Occuring after Reporting Date

On 5 July 1999, Sonic Healthcare Limited acquired additional shares in SciGen Pte Limited for a consideration of $1,200,000, bringing its ownership of SciGen to 37.7%.

On 10 September 1999 the Company advised the Australian Stock Exchange (ASX) that it had reached agreement in principle with Geneva-based SGS Société Générale de Surveillance SA (SGS) and its minority partners to acquire the interests of the SGS Medical Group in Australia and New Zealand for A$514 million, including deferred cash and share components.

Directors' Declaration for the year ended 30 June 1999

The Directors declare that the financial statements and notes set out on pages 16 to 36:

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

(b) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 1999 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

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

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

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 20 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 22.

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

Dr C.S. Goldschmidt
Director

C.D. Wilks
Director

Dated in Sydney 20 September 1999

Scope

We have audited the financial report of Sonic Healthcare Limited (the Company) for the financial year ended 30 June 1999 as set out on pages 16 to 37. The Company's directors are responsible for the financial report which includes the financial statements of the Company and the consolidated financial statements 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 statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, 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 statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Law so as to present a view which is consistent with our understanding of the Company's and the economic entity's financial position, and performance as represented by the results of their operations and their cash flows.

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

Audit Opinion

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

(a) the Corporations Law, including:

- (i) giving a true and fair view of the Company and consolidated entity's financial position as at 30 June 1999 and of their performance for the financial year ended on that date; and
- (ii) complying with Accounting Standards and the Corporations Regulations;

(b) other mandatory professional reporting requirements.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

DS Wiadrowski

D.S. Wiadrowski
Partner

Sydney
20 September 1999

1. **Information Relating to Shareholders** as at 20 September, 1999

a) Distribution Schedule

	Number of Holders Ordinary Shares
1 – 1,000	713
1,001 – 5,000	1,129
5,001 – 10,000	203
10,001 – 100,000	190
100,001 and over	76
Total number of holders of each class of security	2,311
Voting Rights – on a show of hands	1/member
– on a poll	1/share
Percentage of total holding held by the twenty largest holders	77.02%
Number of holders holding less than a marketable parcel	6

Substantial Shareholders

Jardvan Pty Limited	26,133,361
Permanent Trustee Australia Limited	17,771,452
Chase Manhattan Nominees Limited	6,481,082
Westpac Custodian Nominees Limited	6,187,240

b) Names of Twenty Largest Holders of Equity Security – as at 20 September, 1999

Name	Number of Securities	Percentage Held
Jardvan Pty Ltd	26,133,361	21.08%
Permanent Trustee Australia Limited	17,771,452	14.34%
Chase Manhattan Nominees Limited	6,481,082	5.23%
Westpac Custodian Nominees Limited	6,187,240	4.99%
Polly Pty Limited	4,916,646	3.97%
Perpetual Trustees Nominees Limited	4,183,976	3.38%
National Nominees Limited	3,321,398	2.68%
Dr Thomas Davis	2,970,485	2.40%
Bardavis Pty Limited	2,970,000	2.40%
Westpac Financial Services Limited	2,856,532	2.30%
AMP Life Limited	2,558,232	2.06%
Mercantile Mutual Life Insurance Company Limited	2,285,089	1.84%
Westpac Life Insurance Services Limited	2,145,360	1.73%
Quintal Pty Limited	2,000,000	1.61%
Dr Anthony John Clarke	1,627,950	1.31%
Blooms of Melbourne	1,620,000	1.31%
IOOF Australia Trustees (NSW) Limited	1,542,767	1.24%
Perpetual Trustee Company Limited	1,305,529	1.05%
Citicorp Nominees Pty Limited	1,304,370	1.05%
Cranebar Pty Limited	1,300,000	1.05%
	95,481,469	77.02%

2. Vendor Securities

There are no vendor securities.

Shareholders' Information

3. **Interest of Directors in Securities** as at 20 September, 1999

	Ordinary Shares	Interest
C. D. Wilks	517,000	Held Beneficially
B. S. Patterson	4,916,646	Held Beneficially
Dr C. Goldschmidt	658,000	Held Beneficially
M. D. Boyd	26,233,861	Held Beneficially
Dr M. Barratt	720,000	Held Personally
	1,300,000	Held Beneficially
R. P. Campbell	Nil	

4. **Unquoted Equity Securities** as at 20 September, 1999

	No. on Issue	No. of Holders
Options issued under the Sonic Employee Option Plan to take up ordinary shares. No person holds 20% or more of these securities.	4,400,500	239

Company Directory

Directors
Mr M. Boyd – Chairman
Dr C.S. Goldschmidt – Managing Director
Mr B.S. Patterson
Mr P. Campbell
Dr M. Barratt
Mr C.D. Wilks

Company Secretary
Mr C.D. Wilks

Assistant Company Secretary
Mr P.J. Alexander

Registered Office
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Ph: 61 2 98 555 444
Fax: 61 2 9878 5066

Share Registry
Computershare Registry Services Pty Ltd
Level 11, 115 Grenfell Street, Adelaide,
South Australia, 5000, Australia
Ph: 61 8 8236 2300

Auditors
PricewaterhouseCoopers

Solicitors
Manion McCosker
Andersen Legal
Allen Allen & Hemsley

Bankers
Australia and New Zealand Banking
Group Limited

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