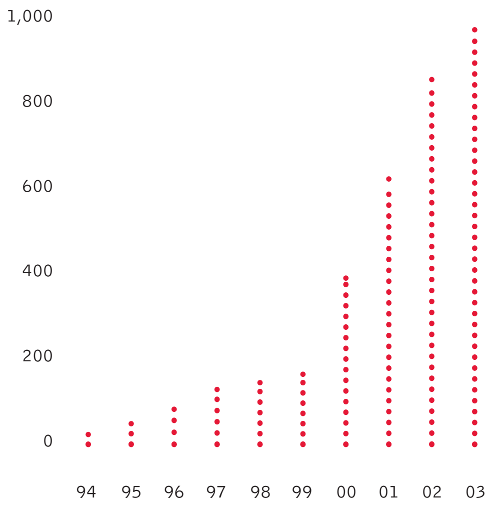
SONIC HEALTHCARE ANNUAL REPORT 2003

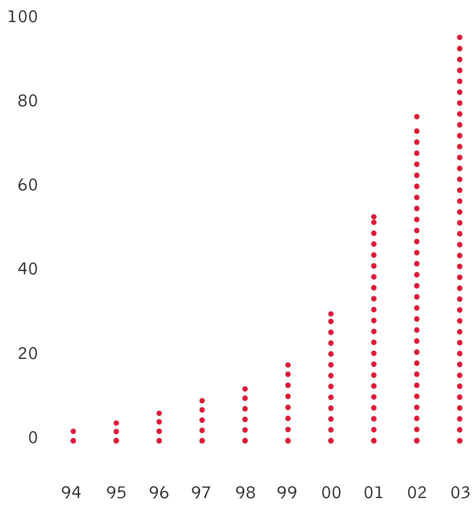
Sonic Healthcare is one of the world's largest medical diagnostics companies

providing pathology and radiology services to medical practitioners, hospitals and their patients...

Gross Revenue ($Million)



Core Net Profit After Tax ($Million)
(pre intangibles amortisation)



Sonic Healthcare has again performed with great distinction, producing solid financial and operational outcomes for the 2003 financial year. The company has demonstrated its consistency and strength by delivering positive results in revenue growth, earnings growth and margin expansion, together with numerous operational and service enhancements in the pathology and radiology divisions. Sonic's market guidance, unrevised since it was issued at the start of the financial year, was successfully met and shareholders were rewarded by a 25% increase in dividends.

The financial results and operational achievements over the year are a tribute to the commitment of Sonic's people. In essence, this has been a year in which Sonic has consolidated its pre-eminent position as an organisation intent on satisfying and exceeding the expectations of its three key stakeholders – staff, customers and shareholders.

It is a great privilege for me to lead such an outstanding company, whose staff now number more than 11,000. Despite the substantial size of our group, we continue to view our own people as the stakeholders of paramount importance in the ongoing success of the group. The expertise, dedication and passion of Sonic's staff are the keys to the excellent services delivered to millions of patients each year. They define and characterise our image and reputation. In short, Sonic's people are the embodiment of our product differentiation.

It is Sonic's talented doctors, management and staff who have relentlessly pursued and delivered the culture of customer service that defines our reputation and drives our success in the market place. The culture and values by which we operate are now embedded in the company through the adoption of the Sonic Core Values, which formally recognise the unique and complex nature of our business as a federation of specialist medical practices operating in the highly sensitive healthcare industry. To me, it is axiomatic that this special Sonic culture drives our outstanding professional services, so positively endorsed by our customers which, in turn, drive the commercial success of the group as a whole.

'The company has demonstrated its consistency and strength by delivering positive results in revenue growth, earnings growth and margin expansion.'

25%

INCREASE IN DIVIDENDS DECLARED

'The expertise, dedication and passion of Sonic's staff are the keys to the excellent services delivered to millions of patients each year.'

21%

INCREASE IN NET PROFIT

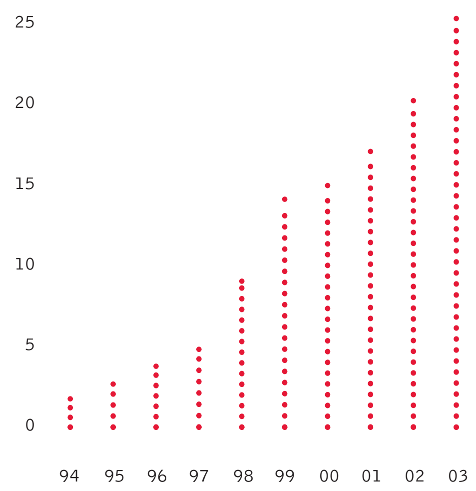
'The EPS growth performance in the 2003 financial year is proudly the eighth successive year that Sonic has delivered double-digit EPS growth.'

Sonic's revenue increase of 13.4% included significant organic (non-acquisitional) growth, reflecting market share gains in key regions. Solid earnings growth was also achieved, with net profit growth of 21.0%, EBITA (earnings before interest, tax and amortisation of intangibles) growth of 18.0% and core earnings per share (EPS) growth of 13.5%. The EPS growth performance in the 2003 financial year is proudly the eighth successive year that Sonic has delivered double-digit EPS growth, and the expectation is for a continuation of this trend into future years. In terms of Sonic's earnings, it is significant that the group's EBITA margin increased to 17.8% for the year (previous year 17.1%), reflecting ongoing marginal profit gains from the strong revenue performance and from inter-company synergies and efficiency gains across the entire company.

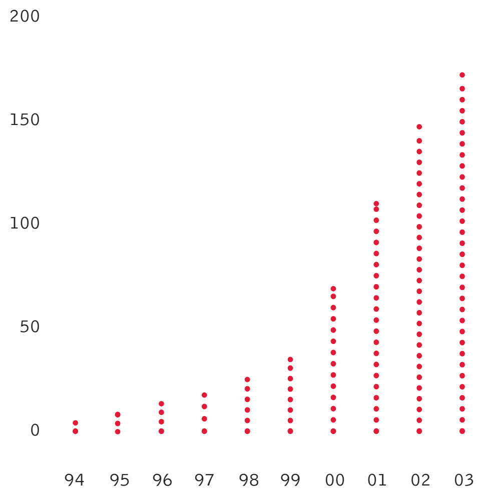
Over the course of the year, Sonic's Information Technology (IT) division has achieved notable success in extending the roll out of the company's proprietary Apollo pathology and radiology software into several more practices in the group. Within a few years, all Sonic entities will be operating on uniform pathology and radiology software platforms, bringing significant benefits to the company at many levels.

Following the U.K. acquisition of The Doctors Laboratory (TDL) in April 2002, Sonic expanded further through two additional transactions in London. Omnilabs, a smaller private pathology operation in London's Harley Street, was purchased in July 2003 and has already been substantially merged into the existing facilities and operations of TDL. It is the group's intention to achieve direct rationalisation synergies from this merger, in line with several similar such mergers successfully completed within the group's Australian operations. A special word of thanks is due to Sonic's local TDL management, a team of highly skilled and energised professionals who have worked tirelessly to advance the group's business and reputation in the U.K.

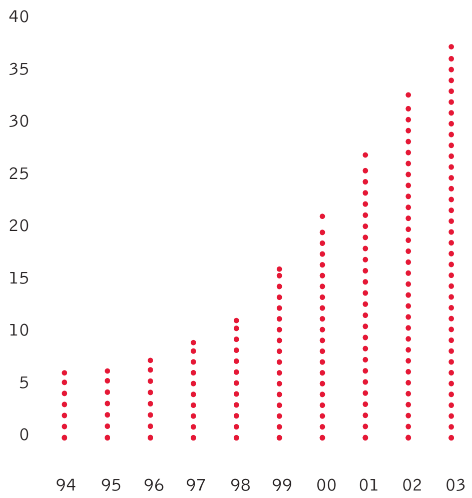
Dividends Declared (cents)



EBITA ($Million)
(pre intangibles amortisation)



Core Diluted Earnings Per Share (cents)
(pre intangibles amortisation)



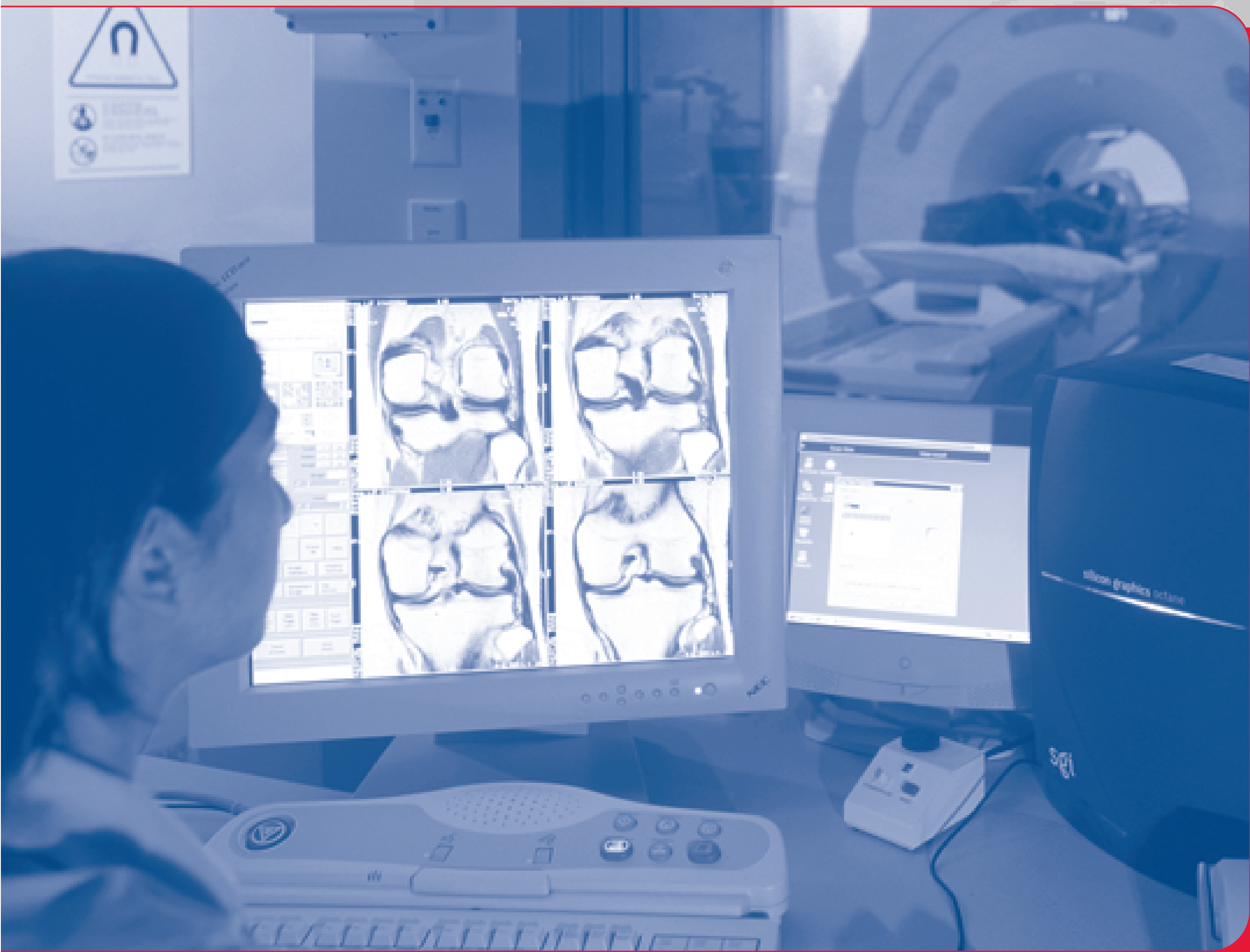
Sonic's London operations have been further bolstered by the announcement in August 2003 of a partnership with the pathology department of University College London Hospital (UCLH). The automated pathology divisions of TDL and UCLH will be physically merged into a single operation in new, state-of-the-art facilities in central London, to be managed by TDL. These facilities have excess capacity, in anticipation of future volume growth in the London and other U.K. pathology markets. The strategic importance of this collaboration is considerable, as it represents the most significant public/private partnership in pathology between the National Health Service and the private sector yet undertaken. Sonic is, indeed, proud to be associated with UCLH, one of the most prestigious medical institutions in the U.K. We believe that we have a role to play in further developing the links between the public and private pathology sectors to achieve successful outcomes for all stakeholders at cultural, operational, service and financial levels.

Sonic's successful expansion into the U.K. has provided the opportunity to investigate other growth prospects in continental Europe, where pathology markets are still fragmented and non-corporatised. The group's strategy will demand cautious and risk-sensitive assessments of potential expansion opportunities, the markets involved, the prevailing regulatory environments and the commitment of local management to work with Sonic into the future. Together with the U.K. expansion, selected European markets will provide possible opportunities for partnerships with local players to achieve benefits through growth, consolidation, rationalisation and the sharing of ideas and technology.

'Sonic is, indeed, proud to be associated with UCLH, one of the most prestigious medical institutions in the U.K.'

18%

INCREASE IN EBITA



It is interesting to reflect on the development of Sonic over the past years. With revenues set to exceed the $1 billion mark in the 2004 financial year, Sonic is now a large and sophisticated medical diagnostics company, operating in three continents. With each incremental growth step that the company has taken, people and systems have adapted to the internal requirements of a rapidly changing company and to the different external business environments. The challenge for Sonic has always been to accommodate changes and to then turn those changes to the company's advantage. Sonic's track record is a strong endorsement of the flexibility of its staff and of the new framework that has been built to support the company's future growth. I am confident that the challenges of new growth will be met with the same flexibility and innovation and that the company will continue to add value for its stakeholders well into the future.

I wish to take this opportunity to thank all Sonic's staff for their dedicated commitment to the company. Each and every person makes a contribution to the overall success of our performance and strategy. The proud and strong position the company enjoys is an endorsement of the contribution made by the many individuals making up the Sonic team.

Dr Colin Goldschmidt
Managing Director

'Sonic's track record is a strong endorsement of the flexibility of its staff and of the new framework that has been built to support the company's future growth.'

Contents

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

Company secretary

Mr P.J. Alexander

Principal registered office in Australia

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

Share registry

Computershare Investor Services Pty Limited
Level 5, 115 Grenfell Street, Adelaide,
South Australia, 5000, Australia.

Ph: 1300 556 161 (within Australia)
Ph: 61 3 9615 5970 (outside Australia)
Fax: 61 8 8236 2305
Website: www.computershare.com

Auditor

PricewaterhouseCoopers

Solicitors

Allens Arthur Robinson
Manion McCosker

Bankers

Australia and New Zealand Banking Group Limited
Citibank
Commonwealth Bank
National Australia Bank
Westpac Banking Corporation

Stock exchange listings

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

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 2003.

Directors

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

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

Mr M.D. Boyd was a director from the beginning of the financial year until his resignation on 31 March 2003.

Principal activities

During the year the principal continuing activities of the consolidated entity consisted of the provision of medical diagnostic services.

Dividends

On 22 August 2003, the Board declared a final dividend of 17 cents per share, 100% franked (at 30%) to be paid on 7 October 2003 with a record date of 17 September 2003. An interim dividend of 8 cents per share 100% franked (at 30%) was paid on 25 March 2003.

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

	2003 $'000	2002 $'000
Interim dividend paid	20,880	10,214
Final dividend payable	44,630	41,987
Total dividend for the year	65,510	52,201

A final dividend of 16 cents per ordinary share was paid on 19 September 2002 in respect of the year ended 30 June 2002, out of profits of that year as recommended by the directors in last year's Directors' report. The company's dividend reinvestment plan was suspended in respect of the final dividend for the 2002 year and the interim dividend for 2003. On 22 August 2003, the Board resolved to reinstate the company's dividend reinvestment plan and therefore the plan will apply to the 2003 final dividend with a discounted subscription price to market of 5%.

Review of operations

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

	2003 $'000	2002 $'000	Movement %
Total Revenue	974,783	859,783	13.4%
Earnings before interest, tax, depreciation and amortisation (EBITDA) excluding SciGen	215,840	187,581	15.1%
SciGen EBITDA	(1,911)	(3,851)	(50.4%)
Total EBITDA	213,929	183,730	16.4%
Depreciation and lease amortisation	(40,817)	(36,999)	10.3%
Earnings before interest, tax and intangibles amortisation (EBITA), excluding SciGen	175,048	150,638	16.2%
SciGen EBITA	(1,936)	(3,907)	(50.4)%
Total EBITA	173,112	146,731	18.0%
Net interest expense	(36,089)	(31,544)	14.4%
Income tax attributable to operating profit	(38,462)	(33,578)	14.5%
Net loss attributable to outside equity interests	913	1,551	(41.1)%
Core net profit attributable to shareholders of Sonic Healthcare Limited	99,474	83,160	19.6%
Amortisation of intangibles	(58,616)	(49,402)	18.7%
Net profit attributable to shareholders of Sonic Healthcare Limited	40,858	33,758	21.0%

(a) Revenue

Revenue for the year increased by 13.4% from the prior year reflecting the following factors:

- A full year of entities acquired during the 2002 year, being Illawarra Medical Laboratories (July 2001), Cairns Pathology (September 2001), SKG Radiology (November 2001), Epath (March 2002) and The Doctors Laboratory pathology group of the United Kingdom (April 2002).
- The acquisition of businesses in the 2003 year, being Rockhampton Pathology (October 2002), Fremantle Radiology (December 2002) and Central Coast Pathology (May 2003).
- Strong organic growth of approximately 5.9% (excluding acquisitions).

Sonic's organic growth rate is believed to be ahead of industry growth, reflecting increased market share particularly in the Australian and UK pathology markets. This growth has been driven by the service excellence and outstanding reputation of Sonic's medical practices.

(b) Profit

The net profit (after outside equity interests) for the consolidated entity for the year was $40,858,000 (2002: $33,758,000), after deducting income tax expense of $38,462,000 (2002: $33,578,000). Net profit after tax and before intangibles amortisation (core net profit) attributable to Sonic shareholders increased by 19.6% to $99,474,000 (2002: $83,160,000). Core diluted earnings per share (pre intangibles amortisation) increased 13.5% from 33.3 cents to 37.8 cents.

Operating margins are set out below:

	2003	2002
EBITDA* Margin	21.9%	21.4%
EBITA Margin	17.8%	17.1%

* Earnings before interest, tax, depreciation and amortisation

Margins improved substantially against the prior year reflecting:

- Revenue growth and extraction of synergies.
- Improved performance at Sonic's Melbourne Pathology practice.
- Acquisition of the higher margin The Doctors Laboratory group (TDL) in April 2002.
- Demerger of Sonic's loss making biotech subsidiary SciGen in November 2002.

Rationalisation strategies to improve the efficiency of the group have continued throughout the current year. Areas of focus include purchasing, centralisation of testing, I.T. standardisation, equipment standardisation, benchmarking and extraction of synergies between radiology and pathology practices. These strategies are still in their early phases and benefits are expected to continue to flow for at least the next 4-5 years.

Net interest expense has increased by 14% to $36,089,000 as a consequence of the debt funding components of acquisitions and the equity injection of $30 Million into SciGen prior to its demerger. Appropriate interest rate hedging arrangements are in place for Sonic's debt facilities.

The relatively high effective tax rate (49%) (2002: 51%) is essentially a function of the non-deductible intangibles amortisation but has been reduced by prior period adjustments relating to research and development tax concessions and other over provisions.

(c) SciGen

Sonic successfully demerged the majority of its interest in SciGen Limited, a Singapore based bio-pharmaceutical company, in November 2002. The EBITA loss of $1,936,000 for the period to the demerger date is partially offset by the minorities' share of $1,182,000.

Significant changes in the state of affairs

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

(a) Demerger of SciGen

In November 2002, via a scheme of arrangement following approval by Sonic shareholders, Sonic optionholders and the Federal Court of Australia, Sonic completed the demerger of its majority shareholding in SciGen Limited ("SciGen"), a Singapore based bio-pharmaceutical company. The demerger involved a $30,000,000 injection of equity into SciGen, increasing Sonic's ownership interest to 74% immediately prior to the "spin-out". A capital reduction of $38,802,000 representing the issue of SciGen shares to all Sonic shareholders at the Record Date was then undertaken. Following the demerger, Sonic has retained an approximate 11.5% interest in SciGen as an investment. A gain of $8,549,000 arising on the deconsolidation of SciGen has been taken directly to accumulated losses in this financial year.

(b) Acquisitions

During the 2003 year, Sonic completed the acquisitions of a number of small "bolt on" acquisitions, which have been integrated into Sonic's existing medical practices. Annualised revenues of the acquired businesses total approximately $8 million.

Matters subsequent to the end of the financial year

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

- On 8 July 2003 Sonic completed the acquisition of Omnilabs, a pathology group in the United Kingdom. The consideration consisted of an initial cash payment of £6.34 million with the potential for further consideration through earn-outs. The Omnilabs business will be fully merged into Sonic's TDL practice during the 2004 year and is expected to contribute approximately £1 million per annum of EBITA post merger.

- On 7 August 2003, Sonic announced that its TDL subsidiary in the UK had formed a pioneering joint venture with a prestigious National Health Service (NHS) hospital, the University College of London Hospital, to establish a state of the art, high volume automated pathology facility. This was a major strategic achievement for Sonic and positions TDL to further expand its relationship with NHS entities.

- On 22 August 2003 Sonic's directors declared a final dividend for 2003 of 17 cents per ordinary share payable on 7 October 2003. Sonic's dividend reinvestment plan, which was suspended during the 2003 year, has been reactivated and will apply to the final dividend, offering a discounted subscription price to market price of 5%.

- On 16 September 2003 Sonic undertook to participate in and to co-underwrite a non-renounceable rights issue by Independent Practitioner Network Limited (IPN), a company in which Sonic currently holds an approximate 18.4% interest. Under the rights issue, shares in IPN will be offered on a 1 for 3 basis at $0.03 per share in order to raise approximately $7.28 million. Sonic will subscribe for its rights at a cost of approximately $1.4 million. The maximum additional subscription for which Sonic could be called on as an underwriter is $0.6 million.

Likely developments and expected results of operations

Sonic's main focus during the 2004 and future financial years will be to continue to grow its margins and profit through strong organic growth and by extracting efficiencies from its existing businesses. Small "bolt-on" acquisitions which offer marginal profit contributions will continue to be targeted.

Sonic's UK pathology practice, TDL, will continue to target expansion opportunities in both the private and NHS pathology markets. TDL will also move into its new, state of the art laboratory facilities during 2004.

Sonic will continue a watching brief for opportunities to expand into a number of European pathology markets, which are highly fragmented. Sonic believes its workflow, computer and management systems could add value to existing practices in those markets and that Sonic could lead the consolidation and rationalisation of those markets, just as it did in the Australian pathology market. This is a medium term strategy and is dependent on identifying attractive opportunities over time.

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

Share options

(a) Shares under option

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

(i) Sonic Healthcare Limited Employee Option Plan Options:

Number of options	Issue price of shares	Grant date	Expiry date
333,250	$3.26	15 February 1999	15 December 2003
2,012,500	$5.41	20 April 2000	20 February 2005
3,429,000	$7.38	20 June 2001	20 April 2006
1,200,000	$4.66	16 July 2002	16 May 2007
695,000	$6.30	15 April 2003	15 February 2008
7,669,750			

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

During the period options were repriced as a consequence of the SciGen demerger. Exercise prices changed as follows:

Price pre demerger $ per option	Price post demerger $ per option
$3.37	$3.26
$5.59	$5.41
$7.63	$7.38
$4.81	$4.66

(ii) Executive Director Options:

No options were granted to executive directors during the year ending 30 June 2003. At 30 June 2003, 4,500,000 options were (beneficially) outstanding to two executive directors of Sonic Healthcare Limited having been granted on 20 April 2000, following approval by shareholders at the 1999 Annual General Meeting. Each option is convertible into one ordinary share as set out below on or before 20 April 2005 at a fixed price of $5.32 per share subject to continuity of service to Sonic:

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

During the period the options were repriced as a consequence of the SciGen demerger. The exercise price pre demerger was $5.50, the price post demerger is $5.32.

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

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

Number of options	Issue price of shares	Grant date	Expiry date
490,000	$4.66	16 July 2002	16 May 2007
80,000	$6.01	7 April 2003	7 February 2008
570,000			

During the period the first tranche of the QXR options were repriced as a consequence of the SciGen demerger. The exercise price pre demerger was $4.81, the price post demerger is $4.66.

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

(b) Shares issued on the exercise of options

A total of 509,500 ordinary shares of Sonic Healthcare Limited were issued during the year ended 30 June 2003 on the exercise of options granted under the Sonic Healthcare Limited Employee Option Plan and a further 492,750 shares have been issued since that date, but prior to the date of this report. The amounts paid on issue of those shares were:

Number of options	Amounts paid (per share)
265,000	$1.47
454,500	$3.26
134,750	$3.37
5,000	$5.59
143,000	$5.41
1,002,250	

No amounts are unpaid on any of these shares.

Directors' and executives' emoluments

The Remuneration Committee, consisting of 2 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 the Managing Director and Finance Director.

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

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

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

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

(a) Non-executive directors of Sonic Healthcare Limited

Name	Director's fee $
B.S. Patterson (Chairman)	50,000
R.P. Campbell	50,000
M.D. Boyd (resigned 31 March 2003)	37,500

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

(b) Executive directors of Sonic Healthcare Limited

Name	Base remuneration $	Director's fees $	Other benefits* $	Bonus $	Superannuation $	Options $	Total $
Dr C.S. Goldschmidt Managing Director	189,362	50,000	87,175	208,000	18,519	620,071	1,173,127
C.D. Wilks Finance Director	178,026	50,000	8,400	112,000	10,519	310,036	668,981
Dr M.M. Barratt Director	65,972	50,000	-	-	5,243	-	121,215
Dr P.J. Dubois Director	298,279	50,000	14,324	-	-	-	362,603
C.J. Jackson Director	260,000	50,000	6,170	-	15,000	-	331,170
Dr M.F. Robinson Director	262,976	50,000	-	-	-	-	312,976
Dr H.F. Scotton Director	168,570	50,000	-	-	87,139	-	305,709

*Other benefits include fringe benefits tax.

Information on options, including the number of options granted to directors and other executives, is set out in the following sections of this report.

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

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

(c) Other executives of the consolidated entity

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

Name	Base remuneration $	Other benefits $	Bonus $	Superannuation $	Options $	Total $
Dr R. Prudo-Chlebosz Executive Chairman The Doctors Laboratory	473,626	83,971	-	68,693	-	626,290
D. Byrne CEO The Doctors Laboratory	437,258	54,630	-	54,961	-	546,849
Dr A.J.M. Egan CEO Melbourne Pathology	285,814	5,553	-	25,723	32,709	349,799
Dr L. Bott CEO Southern.IML Pathology and Illawarra Radiology Group	291,740	24,233	-	15,600	14,213	345,786
Dr G. Armellin Sonic Marketing Director/CEO Capital Pathology	314,481	-	-	10,519	20,405	345,405

(d) Share options granted to directors and executives

No options over unissued ordinary shares of Sonic Healthcare Limited were granted during or since the end of the financial year to any of the directors of the company. Options issued during or since the end of the year to the 5 most highly remunerated executives of the consolidated entity as part of their remuneration were as follows:

	Grant date	Options granted	Exercise price
Dr A.J.M. Egan	16 July 2002	20,000	$4.81 at grant $4.66 post SciGen demerger

The options were granted under the Sonic Healthcare Limited Employee Option Plan.

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

Information on directors

(a) Directors' profiles

Barry Sydney Patterson
Chairman
A.S.M.M., M.I.M.M., F.A.I.C.D.
Mr Patterson has a corporate mining background, but in more recent years has held directorial positions in a number of both public and private companies. Mr Patterson is the Chairman of the Remuneration Committee and was appointed as a member of the Audit Committee and as Chairman of the Nominations Committee on 3 July 2003.

Dr Colin Stephen Goldschmidt
Managing Director
M.B., B.Ch., F.R.C.P.A., F.A.I.C.D.
Dr Goldschmidt became the Managing Director of Sonic Healthcare Limited and its subsidiaries in 1993, prior to which he was the Medical Director of Douglass Hanly Moir Pathology. He joined the company after completing his Australian Pathology Fellowship training in Sydney in 1986. Dr Goldschmidt is a member of the Risk Management Committee and was appointed to the Nominations Committee on 3 July 2003.

Christopher David Wilks
Finance Director
B.Comm. (Univ Melb), A.S.A., F.C.I.S., F.C.I.M., F.A.I.C.D.
Mr Wilks has a background in chartered accounting and investment banking. He was previously a partner in a private merchant bank and has held positions on the boards of a number of public companies. Mr Wilks has been a director of Sonic since 1989. Mr Wilks is a member of the Risk Management Committee and was a member of the Audit Committee until resigning on 3 July 2003.

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 was appointed to the Board following the acquisition of the Barratt & Smith practice in February 1996.

Peter Campbell
F.C.A., F.T.I.A., M.A.I.C.D.
Mr Campbell is a Chartered Accountant with his own practice based in Sydney. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Taxation Institute of Australia and is a registered Company Auditor. Mr Campbell is the Chairman of the Audit Committee, a member of the Remuneration Committee, and was appointed to the Nominations Committee on 3 July 2003.

Dr Philip Dubois
M.B., B.S., F.R.C.R., F.R.A.N.Z.C.R, F.A.I.C.D.
Dr Dubois is chairman of the Sonic Imaging Executive Committee and is chairman and CEO of Queensland X Ray, one of the largest radiology practices in Australia. He has a background in academic radiology, and is an associate professor of radiology at University of Queensland medical school. His contributions to the profession include serving as Councillor of the Royal Australian and New Zealand College of Radiologists (RANZCR), and as a member of many government and professional committees and task forces in the areas of technology assessment, education, professional standards and economic affairs. Dr Dubois is a member of the Risk Management Committee.

Colin Jackson

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

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

Dr Michael Robinson

M.D., F.R.A.C.F., F.R.C.P.A., F.A.I.M.

Dr Michael Robinson graduated with First Class Honours from the University of Queensland in 1971. He subsequently trained as a Specialist Immunologist in Brisbane, Adelaide, Chicago USA, and Oxford UK. Previous appointments include Senior Lecturer in Clinical Immunology, University of Queensland and Visiting Medical Officer (Clinical Immunology) at Princess Alexandra Hospital in Brisbane. Since 1983 he has been a partner of Sullivan Nicolaides Pathology and was the Chief Executive Officer of the practice from 1997 to 2002.

Dr Hugh Scotton

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

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

(b) Directors' interests in shares and options as at 23 September 2003

Director's name	Class of shares	Number of shares	Interest	Options
B.S. Patterson	Ordinary	3,816,646	Beneficially	-
Dr C.S. Goldschmidt	Ordinary	725,000 225,000	Personally Beneficially	- 3,000,000
C.D. Wilks	Ordinary	425,000 198,000	Personally Beneficially	- 1,500,000
Dr M.M. Barratt	Ordinary	1,300,000	Beneficially	-
R.P. Campbell	Ordinary	-	-	-
Dr P.J. Dubois	Ordinary	110,000	Beneficially	-
C.J. Jackson	Ordinary	517,590	Personally	-
Dr M.F. Robinson	Ordinary	200,000	Personally	-
Dr H.F. Scotton	Ordinary	175,996	Personally	-

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2003, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees Audit		Remuneration		Risk Management	
	Number of meetings attended	Number of meetings held*	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held	Number of meetings attended	Number of meetings held
B.S. Patterson	9	11	-	-	2	2	-	-
Dr C.S. Goldschmidt	11	11	-	-	-	-	3	6
C.D. Wilks	11	11	3	3	-	-	6	6
Dr M.M. Barratt	11	11	-	-	-	-	-	-
M.D. Boyd	7	9	-	-	-	-	-	-
R.P. Campbell	11	11	3	3	2	2	-	-
Dr P.J. Dubois	11	11	-	-	-	-	6	6
C.J. Jackson	11	11	3	3	-	-	-	-
Dr M.F. Robinson	11	11	-	-	-	-	-	-
Dr H.F. Scotton	10	11	-	-	-	-	-	-

* for the period office was held.

Insurance of officers

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

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

Environmental regulation

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

Rounding of amounts

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

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

Dr C.S. Goldschmidt
Director

C.D. Wilks
Director

Sydney
30 September 2003

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

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

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

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

Sonic's board and management are committed to governance which recognises that all aspects of the group's operations are conducted ethically, responsibly and with the highest standards of integrity. The board has adopted practices and policies designed to achieve these aims. In March 2003, the ASX Corporate Governance Council published its Principles of Good Corporate Governance and Best Practice Recommendations (Recommendations). Sonic supports the Recommendations in advancing good corporate governance. Sonic's board has completed its review of compliance with the Recommendations, and in areas where Sonic's existing practices and policies were not in accord with the Recommendations, Sonic is implementing change in a prudent manner. Changes implemented to date include:

- The establishment in July 2003 of a board Nominations Committee, whose initial task is to review the board structure and recruit an additional independent director.
- The retirement from the board Audit Committee of Sonic's Finance Director, and the simultaneous appointment of an additional independent director to that Committee. Sonic's Nomination Committee and Audit Committee therefore comprise two independents and one executive director each, with an independent appointed as Chair. Sonic's Remuneration Committee has always comprised two independent directors only.
- The adoption of formal charters for both the Audit and Risk Management Committees in August 2003.
- The implementation of a new Share Trading Policy, which is applicable to all Sonic staff and imposes restricted trading windows on Designated Officers.

Other Recommendations, many of which simply formalise existing Sonic practices and policies, are also being actioned. Sonic is developing a Corporate Governance section for its website (www.sonichealthcare.com.au), which will set out the information required by the Recommendations plus other relevant information.

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

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

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

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

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

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

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

1. Board of directors

(a) Role of the board

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

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

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

The board's overall responsibilities include:

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

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

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

The role and responsibilities of the board, the functions reserved to the board and those delegated to management will be formalised in a Board Charter which is currently being developed.

(b) Composition of the board

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

Name	Age	Term of Office (Years)	Position	Expertise
Mr Barry Patterson	62	10	Chairman Non-Executive, independent Director	Company Management
Dr Colin Goldschmidt	49	10	Managing Director	Healthcare Industry and Company Management
Mr Chris Wilks	45	13	Finance Director	Finance, Accounting, Banking, Secretarial and Company Management
Dr Michael Barratt	65	7	Executive Director	Pathology Industry and Company Management
Mr Peter Campbell	58	10	Non-Executive, independent Director	Finance and Accounting, Computing and Company Management
Dr Philip Dubois	57	2	Executive Director	Radiology Industry and Company Management
Mr Colin Jackson	55	3	Executive Director	Finance, Pathology Industry and Company Management
Dr Michael Robinson	55	3	Executive Director	Pathology Industry and Company Management
Dr Hugh Scotton	61	2	Executive Director	Radiology Industry and Company Management

The composition of Sonic's board is consistent with the principle of medical management and leadership which has been a core strategy of Sonic's since 1992. There are three pathologists on the board, including the Managing Director, and two radiologists, ensuring that the board has the capacity to understand complex medical issues and be in close touch with the medical marketplace. Their presence also gives comfort both to referring doctors (Sonic's customers) and to owners of diagnostic practices which Sonic seeks to acquire.

This strategy has resulted in a board which has a relatively high proportion of executive directors, however three of these executives, whilst employed by the group as medical practitioners, are not involved in operational management. Their presence on the board however has played an important role in consolidating several of the larger independent practices acquired by Sonic into the cohesive group.

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

For the reasons described above, Sonic currently does not comply with ASX Corporate Governance Council Recommendation 2.1: "A majority of the board should be independent directors". The board is addressing this, having appointed a Nominations Committee whose initial task is to review the board structure and recruit an additional independent director by 30 June 2004. Due to the importance to Sonic of medical leadership and representation of major medical practice subsidiaries on the board, it is envisaged that Sonic will not fully comply with Recommendation 2.1 in the short to medium term.

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

A Charter for the Nominations Committee is currently being developed.

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

(c) Board meetings

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

(d) Independent professional advice and access to information

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

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

(e) Conflicts of interest of directors

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

(f) Share trading

A new Share Trading Policy was implemented in August 2003, under which all Sonic employees are prohibited from buying or selling Sonic shares at any time they are aware of any material price sensitive information that has not been made public, and are reminded of the laws against "insider trading". Certain "Designated Officers", including all directors and senior executives, are also prohibited from trading in periods other than in 8 week windows following the release of half year and full year results, and 2 week periods following the provision to the market at any time by Sonic of definitive guidance regarding the next result to be released. Exceptions to this prohibition can be approved by the Chairman (for other directors) or the Managing Director (for all other employees) in circumstances of financial hardship. Prohibitions also apply to financial instruments related to Sonic's shares and to trading in the shares of other entities using information obtained through employment with Sonic. In addition, the Managing Director and Finance Director are required to obtain approval from the Chairman of the Remuneration Committee before selling any shares. All Sonic share dealings by directors are promptly notified to the Australian Stock Exchange (ASX).

2. Board Committees

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

(a) Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the board on remuneration packages and policies applicable to the Managing Director and Finance Director. This role also includes responsibility for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements and fringe benefits policies. The Remuneration Committee, when deemed necessary, obtains independent advice on the appropriateness of remuneration packages.

The members of the Remuneration Committee during the year were:

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

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

The current remuneration for directors is $50,000 per annum. Further details of directors' remuneration, superannuation and retirement payments are set out in Note 31 to the financial statements and in the Directors' report.

(b) Audit Committee

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

The members of the Audit Committee are:

Mr R.P. Campbell (Chairman)
Mr C.J. Jackson
Mr B.S. Patterson (appointed 3 July 2003)

Mr C.D. Wilks resigned from the Committee on 3 July 2003.

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

The main responsibilities of the Audit Committee are to:

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

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

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

A formal Charter for the Audit Committee was adopted by the board in August 2003.

(c) Risk Management Committee

Members of the Risk Management Committee as at the date of this statement are:

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

The Risk Management Committee's charter is to:

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

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

The major focus of the Committee since its inception has been ongoing review of the group's and employed doctors medical indemnity insurance.

A formal Charter for the Risk Management Committee was adopted by the board in August 2003.

(d) Nominations Committee

The Nominations Committee was formed on 3 July 2003, as part of Sonic's review of compliance with the ASX Corporate Governance Council Recommendations. Members of the Nominations Committee as at the date of this statement are:

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

The Nominations Committee has been given the following initial tasks:

- Review the board structure.
- Recruit an additional independent director by 30 June 2004.
- Prepare a draft Charter for itself, to be reviewed and ultimately adopted by the full board.

3. Identifying and managing business risks

The board regularly monitors the operational and financial performance of the group against budget and other key performance measures. The board also reviews and receives advice on areas of operational and financial risks, including from the Risk Management Committee and Audit Committee. Appropriate risk management strategies are developed to mitigate all significant identified risks of the business.

4. Ethical standards

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

5. Continuous disclosure

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

The company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the company and its controlled entities that a reasonable person would expect to have a material effect on the price of the company's securities.

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

6. The role of shareholders

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

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

To further facilitate communication with shareholders the company has recently established electronic shareholder communication processes via its share registry.

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

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

7. External auditors

The company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually. Sonic requires its external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the auditor's report. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee. Sonic's external audit signing partner was changed for the 2003 financial year, under the audit firm's 7 year rotation policy. Sonic has recently put its external audit for 2004 and future years to competitive tender. Each of the four largest Chartered Accounting firms in Australia (including the incumbent) have been invited to submit proposals. The successful firm will be determined in a timeframe to enable the appointment to be considered by shareholders at Sonic's 2003 Annual General Meeting.

Financial report

Contents

	Notes	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Revenue from ordinary activities	3	974,783	859,783	43,006	71,907
Labour and related costs		(476,485)	(425,311)	(551)	(7,060)
Consumables used		(125,386)	(112,889)	(47)	(100)
Amortisation of intangibles	4	(58,616)	(49,402)	-	-
Depreciation and amortisation of physical assets	4	(40,817)	(36,999)	(837)	(1,527)
Operating lease rental expense		(39,073)	(34,269)	-	(18)
Borrowing costs expense	4	(37,540)	(33,227)	(3,795)	(1,014)
Repairs and maintenance		(26,565)	(24,219)	-	(183)
Write off on restructure of investment in a controlled entity		-	-	(4,146)	-
Other expenses from ordinary activities		(91,894)	(77,682)	(3,678)	(2,671)
Profit from ordinary activities before income tax expense		78,407	65,785	29,952	59,334
Income tax expense	5	(38,462)	(33,578)	(6,344)	(7,043)
Profit from ordinary activities after income tax expense		39,945	32,207	23,608	52,291
Net loss attributable to outside equity interests		913	1,551	-	-
Net profit attributable to members of Sonic Healthcare Limited	24(b)	40,858	33,758	23,608	52,291
Net exchange differences on translation of financial report of foreign controlled entities	24(a)	360	5,293	-	-
Gain on deconsolidation of SciGen Limited	24(b)	8,549	-	-	-
Total revenues, expenses and valuation adjustments attributable to members of Sonic Healthcare Limited recognised directly in equity		8,909	5,293	-	-
Total changes in equity other than those resulting from transactions with owners as owners		49,767	39,051	23,608	52,291

	Notes	Cents	Cents
Basic earnings per share	36	15.7	13.8
Diluted earnings per share	36	15.5	13.5
Core (pre intangibles amortisation) diluted earnings per share	36	37.8	33.3

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

	Notes	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Current assets					
Cash assets	37(a)	26,489	22,939	146	97
Receivables	7	111,399	108,620	2,406	36,639
Inventories	8	17,435	15,705	-	-
Total current assets		155,323	147,264	2,552	36,736
Non current assets					
Receivables	9	2,695	3,314	389,820	421,979
Other financial assets	10	40,185	29,447	472,450	476,883
Property, plant and equipment	11	217,763	210,439	25,711	27,524
Intangible assets	12	1,111,063	1,189,721	-	-
Deferred tax assets	13	16,360	18,524	-	292
Total non current assets		1,388,066	1,451,445	887,981	926,678
Total assets		1,543,389	1,598,709	890,533	963,414
Current liabilities					
Payables	14	65,404	68,199	698	2,528
Interest bearing liabilities	15	67,728	57,468	-	-
Current tax liabilities	16	7,683	13,031	-	2,104
Provisions	17	53,803	94,854	-	41,995
Other	18	5,086	47,608	-	-
Total current liabilities		199,704	281,160	698	46,627
Non current liabilities					
Payables	19	-	3,809	-	-
Interest bearing liabilities	20	493,567	457,805	58,215	58,340
Deferred tax liabilities	21	2,990	2,201	569	-
Provisions	22	15,836	16,269	-	-
Total non current liabilities		512,393	480,084	58,784	58,340
Total liabilities		712,097	761,244	59,482	104,967
Net assets		831,292	837,465	831,051	858,447
Equity					
Parent entity interest					
Contributed equity	23	837,032	867,156	837,032	867,156
Reserves	24(a)	6,071	5,711	982	982
Accumulated losses	24(b)	(11,978)	(40,505)	(6,963)	(9,691)
Total parent entity interest		831,125	832,362	831,051	858,447
Outside equity interest in controlled entities	25	167	5,103	-	-
Total equity		831,292	837,465	831,051	858,447

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

	Notes	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		1,013,436	917,774	24	-
Payments to suppliers and employees (inclusive of goods and services tax)		(800,412)	(702,768)	(3,819)	(5,656)
		213,024	215,006	(3,795)	(5,656)
Dividends received from controlled entities		-	-	47,300	24,000
Interest received		1,450	1,683	22,477	21,214
Other revenue from controlled entities		-	-	5,376	15,693
Borrowing costs		(36,523)	(38,822)	(3,795)	(1,014)
Income taxes paid		(40,599)	(31,150)	(7,846)	(9,812)
Net cash inflow from operating activities	37(b)	137,352	146,717	59,717	44,425
Cash flows from investing activities					
Payment for purchase of controlled entity, net of cash acquired	27	(59,854)	(153,177)	-	(54,872)
Payments for property, plant and equipment		(36,634)	(29,464)	(1,855)	(4,723)
Proceeds from sale of property, plant and equipment		2,646	3,976	2,831	-
Payments for investments		(7,816)	(271)	(7,336)	(271)
Loans to controlled entities		-	-	(31,077)	(202,001)
Repayment of loans by other entities		9,922	115	7,573	-
Capital injection on demerger of SciGen Limited		(30,000)	-	(30,000)	-
Loans to other entities		(3,135)	-	-	-
Payment for restructuring activities		(3,546)	(6,582)	-	-
Net cash (outflow) from investing activities		(128,417)	(185,403)	(59,864)	(261,867)
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities		1,416	190,669	1,416	190,669
Share issue transaction costs		-	(2,780)	-	(2,780)
Proceeds from borrowings		207,685	558,077	-	-
Loans from controlled entities		-	-	61,102	55,808
Repayment of borrowings		(151,967)	(680,130)	-	-
Dividends paid		(62,322)	(26,208)	(62,322)	(26,208)
Net cash (outflow) / inflow from financing activities		(5,188)	39,628	196	217,489
Net increase in cash held		3,747	942	49	47
Cash at the beginning of the financial year		22,939	21,676	97	50
Effects of exchange rate changes on cash		(197)	321	-	-
Cash at the end of the financial year	37(a)	26,489	22,939	146	97
Financing arrangements	15, 20				
Non-cash financing and investing activities	37(c)				

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

Contents

Note 1 Summary of significant accounting policies

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

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

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Sonic Healthcare Limited ("company" or "parent entity") as at 30 June 2003 and the results of all controlled entities for the year then ended. Sonic Healthcare Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

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

(b) Income tax

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

(c) Foreign currency translation

(i) Transactions

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

(ii) Foreign controlled entity

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

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

(d) Acquisitions of assets

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

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

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

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

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

Note 1 Summary of significant accounting policies (continued)

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

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

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

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

(h) Recoverable amount of non current assets
The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

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

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

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

(j) Investments

(i) Controlled entities

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

(ii) Listed and unlisted securities

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

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

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

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

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

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

Note 1 Summary of significant accounting policies (continued)

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset (generally 2-10 years). Other operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(m) Intangible assets and expenditure carried forward

(i) Goodwill

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

(ii) Brand Names, Licences and Authorities

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

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

(n) Trade and other creditors

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

(o) Interest bearing liabilities

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

(p) Derivative financial instruments

The consolidated entity enters into interest rate swap agreements.

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

(q) Employee benefits

(i) Wages and salaries, annual leave

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

(ii) Long service leave

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

(iii) Employee benefit on-costs

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

(iv) Equity-based compensation benefits

Equity-based compensation benefits are provided to employees via the Sonic Healthcare Limited Employee Option Plan. Information relating to this scheme is set out in Note 34. No accounting entries are made in relation to the Sonic Healthcare Limited Employee Option Plan until options are exercised, at which time the amounts received from employees are recognised in the statement of financial position as share capital. The amounts disclosed for remuneration of directors and executives in Notes 31 and 32 do not include the imputed values of options at the date they were granted.

Note 1 Summary of significant accounting policies (continued)

(r) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdrafts, short-term and long-term borrowings, including amounts paid or received on interest rate swaps,
- amortisation of discounts or premiums relating to borrowings,
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings, and
- finance lease charges.

(s) Share issue expenses

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

(t) Cash

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

(u) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(iii) Core basic earnings per share

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

(iv) Core diluted earnings per share

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

(v) Segment information

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in Note 1 and the revised Accounting Standard, AASB 1005 "Segment Reporting", which was applied for the first time in the year ended 30 June 2002. The business segments identified in the primary reporting disclosures and the geographical segments are not materially different to the industry and geographical segments identified in previous years.

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

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

(w) Restructuring costs

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

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

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

Note 1 Summary of significant accounting policies (continued)

(x) **Dividends**

(i) Dividends

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

(ii) Change in accounting policy for providing for dividends

The above policy was adopted with effect from 1 July 2002 to comply with AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets", released in October 2001. In previous years, in addition to providing for the amount of any dividends declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date, provision was made for dividends to be paid out of profits of the financial year where the dividend was proposed, recommended or declared between the end of the financial year and the completion of the financial report.

An adjustment of $41,987,000 was made against the consolidated and parent entity retained losses at the beginning of the financial year to reverse the amount provided at 30 June 2002 for the proposed final dividend for that year that was recommended by the directors between the end of the financial year and the completion of the financial report. This reduced the consolidated and parent entity current liabilities provisions and total liabilities at the beginning of the financial year by $41,987,000 with corresponding changes in their net assets, retained losses, total equity and the total dividends provided for or paid during the financial year.

The restatements of consolidated and parent entity retained losses, provisions and total dividends provided for or paid during the year set out below show the information that would have been disclosed had the new accounting policy always been applied.

	Consolidated		Parent entity	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000
	(Restated)	(Restated)	(Restated)	(Restated)
Restatement of retained losses				
Previously reported retained losses at the end of the previous financial year (Note 24 (b))	(40,505)	(22,062)	(9,691)	(9,781)
Change in accounting policy for providing for dividends	41,987	29,683	41,987	29,683
Restated retained profits at the beginning of the financial year	1,482	7,621	32,296	19,902
Net profit attributable to members of Sonic Healthcare Limited (Note 24 (b))	40,858	33,758	23,608	52,291
Gain on deconsolidation of SciGen Limited	8,549	-	-	-
Total available for appropriation	50,889	41,379	55,904	72,193
Dividends provided for or paid (see below)	(62,867)	(39,897)	(62,867)	(39,897)
Restated retained profits / (losses) at the end of the financial year	(11,978)	1,482	(6,963)	32,296
Restatement of current liabilities – provisions				
Previously reported carrying amount at the end of the financial year (Note 17)	53,803	94,854	-	41,995
Adjustment for change in accounting policy	-	(41,987)	-	(41,987)
Restated carrying amount at the end of the financial year	53,803	52,867	-	8
Restatement of dividends provided for or paid				
Previously reported total dividends provided for or paid during the financial year (Note 6)	62,867	52,201	62,867	52,201
Adjustment for change in accounting policy	-	(12,304)	-	(12,304)
Restated total dividends provided for or paid during the financial year	62,867	39,897	62,867	39,897

In accordance with the new standard, no provision for dividend has been recognised for the year ended 30 June 2003.

Note 1 Summary of significant accounting policies (continued)

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

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

Note 2 Segment information

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

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

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

(iii) SciGen
Singapore based bio-pharmaceutical subsidiary. This operation was demerged during the financial year with the demerger completed on 27 November 2002.

(iv) Other
Includes the corporate office function and other minor operations. None of these activities constitutes a separately reportable segment.

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

(i) Australia
The home country of the parent entity incorporating both pathology and radiology activities.

(ii) New Zealand
Includes both pathology and radiology activities.

(iii) Other
Includes results from SciGen (up until the date of the demerger), radiology in Hong Kong, and the contribution from The Doctors Laboratory group in the United Kingdom (acquired April 2002). None of these constitutes a separately reportable segment.

Note 2 Segment information (continued)

Primary Reporting – Business Segments

2003	Pathology $'000	Radiology $'000	SciGen $'000	Other $'000	Eliminations $'000	Consolidated $'000
Revenue						
External sales	705,504	258,107	987	-	-	964,598
Inter segment sales	129	157	-	-	(286)	-
Other revenue	6,137	2,331	246	21	-	8,735
Total segment revenue	711,770	260,595	1,233	21	(286)	973,333
Interest income						1,450
Total revenue						974,783
Result						
Segment result before interest and tax	102,595	23,572	(2,317)	(9,354)	-	114,496
Unallocated net interest expense						(36,089)
Profit before tax						78,407
Income tax expense						(38,462)
Profit after income tax expense						39,945
Segment assets	952,151	525,598	-	1,265,763	(1,200,123)	1,543,389
Segment liabilities	704,633	412,166	-	5,334	(867,101)	255,032
Unallocated liabilities						457,065
Total liabilities						712,097
Acquisition of property, plant & equipment*	21,889	23,906	46	6,274	-	52,115
Depreciation and amortisation expense	54,935	43,288	406	804	-	99,433
Other non cash expenses	2,111	1,734	-	86	-	3,931

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

Note 2 Segment information (continued)

Primary Reporting – Business Segments

2002	Pathology $'000	Radiology $'000	SciGen $'000	Other $'000	Eliminations $'000	Consolidated $'000
Revenue						
External sales	619,115	228,875	1,272	-	-	849,262
Inter segment sales	390	142	-	-	(532)	-
Other revenue	5,357	3,245	236	-	-	8,838
Total segment revenue	624,862	232,262	1,508	-	(532)	858,100
Interest income						1,683
Total revenue						859,783
Result						
Segment result before interest and tax	87,469	24,552	(4,003)	(10,689)	-	97,329
Unallocated net interest expense						(31,544)
Profit before tax						65,785
Income tax expense						(33,578)
Profit after income tax expense						32,207
Segment assets	918,755	532,286	23,206	924,248	(799,786)	1,598,709
Segment liabilities	481,421	265,002	11,274	64,202	(441,690)	380,209
Unallocated liabilities						381,035
Total liabilities						761,244
Acquisition of property, plant & equipment*	22,980	70,709	5	2,638	-	96,332
Depreciation and amortisation expense	47,764	37,756	152	729	-	86,401
Other non cash expenses	7,347	3,577	14	-	-	10,938

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

Secondary Reporting – Geographic Segments

	Segment revenues from sales to external customers		Segment assets		Acquisition of property, plant & equipment	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000	2003 $'000	2002 $'000
Australia	780,094	715,249	1,166,796	1,191,944	38,122	84,125
New Zealand*	128,032	113,337	198,391	198,003	13,129	9,516
Other	56,472	20,676	178,202	208,762	864	2,691
Total	964,598	849,262	1,543,389	1,598,709	52,115	96,332

* The growth in New Zealand revenue includes exchange rate movements.

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000

Note 3 Revenue

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Revenue from operating activities				
Medical services revenue	964,598	849,262	-	-
Revenue from outside the operating activities				
Management fees received or due and receivable from controlled entities	-	-	1,407	13,035
Dividends from controlled entities	-	-	12,300	35,000
Interest received or due and receivable from:				
Controlled entities	-	-	22,415	21,008
Other entities	1,450	1,683	62	206
Proceeds on sale of property, plant & equipment	2,646	3,976	2,831	-
Foreign exchange gains (net)	238	165	-	-
Rental income:				
Controlled entities	-	-	2,770	2,587
Other entities	2,323	2,202	20	-
Other income:				
Controlled entities	-	-	1,199	71
Other entities	3,528	2,495	2	-
	10,185	10,521	43,006	71,907
Revenue from ordinary activities	974,783	859,783	43,006	71,907

Note 4 Profit from ordinary activities

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

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Net gains				
Foreign exchange gains (net)	238	165	-	-
Expenses				
Borrowing costs				
Finance charges on capitalised leases and hire purchase agreements	5,474	5,542	-	-
Controlled entities	-	-	3,795	988
Other entities	32,066	27,685	-	26
Total borrowing costs	37,540	33,227	3,795	1,014
Bad and doubtful debts:				
Trade debtors	3,774	6,645	-	-
Amortisation of:				
Goodwill	54,329	45,461	-	-
Brand names, licences and authorities	4,287	3,941	-	-
Leased assets	16,256	16,557	-	-
Total amortisation	74,872	65,959	-	-
Depreciation of:				
Plant and equipment	22,644	18,639	-	729
Buildings	1,917	1,803	837	798
Total depreciation	24,561	20,442	837	1,527
Net amount provided for employee entitlements	35,226	31,226	-	-
Net loss on disposal of property, plant and equipment	903	66	-	-

	Consolidated		Parent entity	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000

Note 5 Income tax

The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:				
Profit from ordinary activities before income tax expense	78,407	65,785	29,952	59,334
Income tax calculated @ 30%	23,522	19,736	8,986	17,800
Tax effect of permanent differences:				
Amortisation of intangibles	17,585	14,821	-	-
Deductible expenditure capitalised	(2,219)	(3,362)	(230)	(302)
Quarantined losses of foreign subsidiary	761	1,438	-	-
Rebateable dividends	-	-	(3,690)	(10,500)
Non deductible loss attributable to the write off on restructure of investment in a controlled entity	-	-	1,244	-
Other items (net)	82	610	52	45
Income tax adjusted for permanent differences	39,731	33,243	6,362	7,043
Effect of higher tax rates on overseas income	315	125	-	-
(Over) / under provision in prior year	(1,584)	210	(18)	-
Income tax expense	38,462	33,578	6,344	7,043

Tax consolidation legislation

Sonic Healthcare Limited and its wholly owned Australian subsidiaries have not determined the date the group will implement the tax consolidation legislation. The financial impact of the legislation for the year ended 30 June 2003 has been considered but deemed not material to the financial statements and hence, not recognised.

Note 6 Dividends

Ordinary Shares				
Interim dividend of 8 cents (2002: 4 cents) per fully paid share, fully franked based on tax paid @ 30%			20,880	10,214
Final dividend of 16 cents per fully paid share, paid on 19 September 2002 recognised as a liability at 30 June 2002 but adjusted against retained losses at the beginning of the financial year on the change in accounting policy for providing for dividends (Note 1 (x)(ii)), fully franked based on tax paid @ 30%			41,987	41,987
Total dividends provided for or paid			62,867	52,201
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2003 and 30 June 2002 were as follows:				
Paid in cash			62,322	26,208
Satisfied by issue of shares			-	13,688
Dividends accruing on Other equity (Note 23(d))			545	364
			62,867	40,260

Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 17 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 7 October 2003 out of profits, but not recognised as a liability at year end as a result of the change in accounting policy for providing for dividends (Note 1(x)(ii)), is			44,630	-

	Consolidated		Parent entity	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000

Note 6 Dividends (continued)

Franked dividends

The franked portions of the final dividends recommended after 30 June 2003 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2004.

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2002: 30%)	50,141	39,925	2,988	3,620

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

(a) franking credits that will arise from the payment of the current tax liability

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and

(d) franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends.

Under legislation that took effect on 1 July 2002, the amount recorded in the franking account is the amount of Australian income tax paid, rather than franking credits based on after tax profits, and amounts debited to that account in respect of dividends paid after 30 June 2002 are the franking credits attaching to those dividends rather than the gross amount of the dividends. In accordance with this legislation, the franking credits available at 30 June 2002 for the consolidated entity and parent entity of $93,159,000 and $8,447,000 respectively based on after tax profits, were converted so that the opening balances on 1 July 2002 reflected tax paid amounts of $39,925,000 and $3,620,000 which are shown as comparative amounts above.

The balance of the franking accounts at 30 June 2003 would enable Sonic to pay fully franked dividends of $116,995,000 in future periods (including the 2003 final dividend).

Note 7 Receivables – current

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Trade debtors	85,933	89,921	-	-
Less: Provision for doubtful debts	(5,632)	(6,766)	-	-
	80,301	83,155	-	-
Accrued revenue	10,487	9,839	-	-
Dividends receivable from controlled entities (Note 35(c))	-	-	-	35,000
Amounts receivable from controlled entities (Note 35(c))	-	-	1,314	1,368
Amounts owing from other entities	3,332	575	-	-
Sundry debtors	10,625	9,196	63	65
Income tax receivable	-	-	840	-
Prepayments	6,654	5,855	189	206
	111,399	108,620	2,406	36,639

Significant terms and conditions

General trade debtors are required to be settled within 30 days. Pathology claims billed directly to the Health Insurance Commission (Medicare) in Australia are required to be settled within 14 days.

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

Amounts owing from other entities

Transactions outside the usual operating activities of the consolidated entity give rise to these amounts receivable. Interest is charged at commercial rates and repayment of the loan specified by an agreement.

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000

Note 8 Inventories – current

	2003	2002	2003	2002
Consumable stores at cost	17,435	15,705	-	-

Note 9 Receivables – non current

	2003	2002	2003	2002
Amounts owing from other entities	2,777	3,396	82	82
Less: Provision for doubtful debts	(82)	(82)	(82)	(82)
	2,695	3,314	-	-
Amounts receivable from controlled entities (Note 35(c))	-	-	389,820	421,979
	2,695	3,314	389,820	421,979

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

Amounts receivable from controlled entities
The terms and conditions of amounts advanced by the ultimate parent entity during the year are detailed in Note 35.

Note 10 Other financial assets – non current

	2003	2002	2003	2002
Investments traded on organised markets				
Shares in other corporations – at cost	37,165	27,538	37,165	27,538
Other (non-traded) investments				
Investments in other entities – at cost	3,063	2,042	102	194
Less: Provision for write down to recoverable amount	(43)	(133)	(43)	(43)
Investments in other entities – at recoverable amount	3,020	1,909	59	151
Shares in controlled entities – at cost (Note 27)	-	-	446,926	460,894
Less: Provision for diminution in value	-	-	(11,700)	(11,700)
Shares in controlled entities – at recoverable amount	-	-	435,226	449,194
	40,185	29,447	472,450	476,883

Traded shares in other corporations
The investment represents Sonic Healthcare's interest in Independent Practitioner Network Limited ("IPN") and SciGen Limited ("SciGen").

Sonic Healthcare's investment in IPN arose from the investment previously held in Foundation Healthcare Limited, an entity which during the financial year was acquired by Lifecare Health Limited and resulted in a merged entity now known as Independent Practitioner Network Limited.

On 24 September 2001, and 26 November 2002, Sonic subscribed for additional shares pursuant to its Alliance Agreement (see below) with IPN to regain an approximate 10% interest in the company. On 7 February 2003 Sonic acquired 61,427,000 shares taking its ownership to approximately 18.5%.

Sonic's investment in SciGen at 30 June 2003 represents the approximate 11.5% interest, following the demerger of SciGen by Sonic to its shareholders in November 2002. Refer Note 23(g).

Carrying value of traded shares in other corporations
The directors have assessed the carrying value of the investment in IPN at 30 June 2003 as represented by its share price and discounted net cashflows arising from the Alliance Agreement ("the Alliance") entered into with IPN. The Alliance grants Sonic the right to require IPN to lease part of the premises of any medical centres owned or managed by IPN to Sonic for the purpose of installing a Sonic Healthcare pathology collection centre and or diagnostic imaging facility in each of those centres. The rental of these premises is at market rates.

Note 10 Other financial assets – non current (continued)

The directors believe the investment in IPN is fully recoverable as the discounted net cashflows exceed the carrying value of the investment at balance date. In determining the net cashflows a tax effected discount rate of 10% (2002: 10%) has been applied.

The directors have assessed the carrying value of the investment in SciGen at 30 June 2003 as represented by its share price. The directors believe that the investment in SciGen is fully recoverable. The market value at 30 June 2003 is $3,752,000, and exceeds the carrying value of the investment.

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

Non current assets pledged as security
Refer to Note 30 for information on non current assets pledged as security by the parent entity or its controlled entities.

	Consolidated		Parent entity	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000

Note 11 Property, plant and equipment – non current

Freehold land and buildings - at cost	66,214	58,763	30,115	28,260
Less: Accumulated depreciation	(8,337)	(6,413)	(4,404)	(3,567)
	57,877	52,350	25,711	24,693
Plant and equipment - at cost	251,910	215,387	-	3,748
Less: Accumulated depreciation	(160,132)	(135,103)	-	(917)
	91,778	80,284	-	2,831
Leased plant and equipment	106,588	116,864	-	-
Less: Accumulated amortisation	(38,480)	(39,059)	-	-
	68,108	77,805	-	-
Total property, plant and equipment at written down value	217,763	210,439	25,711	27,524

Recent valuations of land and buildings

Aggregate recent valuations of freehold land and buildings based on:				
Independent valuation - June 2003	47,655	-	33,295	-
Directors' valuation - June 2003	14,600	-	-	-
Independent valuation - June 2000	-	30,875	-	30,875
Independent valuation - October 1999	-	19,100	-	-
Carried at recent values	15,346	12,963	3,909	4,363
	77,601	62,938	37,204	35,238

The independent and directors' valuations above have not been recognised in the financial statements. The independent valuations were carried out by International Valuation Consultants, a division of Aon Risk Services Australia Limited (June 2003), International Valuation Consultants Pty Limited (June 2000) and Colliers Jardine Consultancy & Valuation Pty Limited (October 1999). The basis of valuation was fair market value based on existing use.

Note 11 Property, plant and equipment – non current (continued)

Reconciliations

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

	Land & buildings $'000	Plant & equipment $'000	Leased plant & equipment $'000	Total $'000
Consolidated				
Carrying amount at 1 July 2002	52,350	80,284	77,805	210,439
Additions	7,476	29,158	14,700	51,334
Disposals	-	(3,284)	(265)	(3,549)
Additions through acquisition of entity (Note 27)	-	657	124	781
Depreciation/amortisation expense (Note 4)	(1,917)	(22,644)	(16,256)	(40,817)
Transfers from leased plant and equipment to plant and equipment	-	8,693	(8,693)	-
Transfers from plant and equipment to leased plant & equipment	-	(693)	693	-
Foreign currency exchange differences	(32)	(393)	-	(425)
Carrying amount at 30 June 2003	57,877	91,778	68,108	217,763
Parent				
Carrying amount at 1 July 2002	24,693	2,831	-	27,524
Additions	1,855	-	-	1,855
Disposals to controlled entities	-	(2,831)	-	(2,831)
Depreciation expense (Note 4)	(837)	-	-	(837)
Carrying amount at 30 June 2003	25,711	-	-	25,711

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Note 12 Intangible assets – non current				
Goodwill - at cost	1,085,315	1,088,946	-	-
Less: Accumulated amortisation	(155,903)	(102,501)	-	-
	929,412	986,445	-	-
Brand names, licences and authorities - at cost	195,806	213,814	-	-
Less: Accumulated amortisation	(14,155)	(10,538)	-	-
	181,651	203,276	-	-
	1,111,063	1,189,721	-	-

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

Note 13 Deferred tax assets – non current

Future income tax benefit	16,360	18,524	-	292

No part of the future income tax benefit shown is attributable to tax losses.

Note 14 Payables – current

Trade creditors	30,861	33,149	-	-
Sundry creditors and accruals	34,543	35,050	698	2,528
	65,404	68,199	698	2,528

	Consolidated		Parent entity	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000

Note 15 Interest bearing liabilities – current

Secured				
Bank loans	45,598	30,555	-	-
Lease liabilities (Note 28(b))	20,325	24,239	-	-
Hire purchase liabilities (Note 28(b))	1,805	2,674	-	-
	67,728	57,468	-	-

Details of the security relating to each of the secured liabilities are set out in Note 30.

Note 16 Tax liabilities – current

Income tax	7,683	13,031	-	2,104

Note 17 Provisions – current

Restructuring	6,314	8,971	-	-
Dividends	-	41,995	-	41,995
Employee benefits (Note 34(a))	47,489	43,888	-	-
	53,803	94,854	-	41,995

The restructuring provisions relate to acquisitions of pathology and radiology entities and businesses. The provisions are for costs to be incurred in the rationalisation of the acquired entities and businesses to achieve targeted synergies, plus surplus rental premises. The rationalisation strategies are in place and will continue to yield benefits in 2004 and later years.

Movements in current provisions

Movements in each class of provisions during the financial year, other than employee benefits, are set out below:

	Restructuring $'000	Dividends $'000	Total $'000
Consolidated – 2003			
Current			
Carrying amount at 1 July 2002	8,971	41,995	50,966
Adjustment from change in accounting policy (Note 1(x)(ii))	-	(41,987)	(41,987)
Additional provisions recognised	178	-	178
Reclassification of non current provision to current	1,116	-	1,116
Payments	(3,546)	(8)	(3,554)
Costs applied – non cash	(340)	-	(340)
Foreign currency exchange differences	(65)	-	(65)
Carrying amount at 30 June 2003	6,314	-	6,314

	Dividends $'000
Parent entity – 2003	
Current	
Carrying amount at 1 July 2002	41,995
Adjustment from change in accounting policy (Note 1(x)(ii))	(41,987)
Payments	(8)
Carrying amount at 30 June 2003	-

	Consolidated		Parent entity	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000

Note 18 Other – current

Amounts owing to vendors	4,728	45,389	-	-
Other loans	358	2,219	-	-
	5,086	47,608	-	-

The balance of Amounts owing to vendors represents liabilities under "earnout" and other purchase price adjustment mechanisms. The balance at 30 June 2002 included $7,262,000 that was settled by the issue of shares to the vendors of SKG Radiology on 12 August 2002.

Note 19 Payables – non current

Sundry creditors and accruals	-	3,809	-	-

Note 20 Interest bearing liabilities – non current

Secured				
Bank loans	411,467	350,480	-	-
Lease liabilities (Note 28(b))	43,842	50,162	-	-
Hire purchase liabilities (Note 28(b))	1,726	3,516	-	-
Amounts owing to vendors	36,532	53,647	-	-
Amounts owing to controlled entities (Note 35(c))	-	-	58,215	58,340
	493,567	457,805	58,215	58,340

Details of the security relating to each of the secured liabilities are set out in Note 30.

Note 21 Deferred tax liabilities – non current

Provision for deferred income tax	2,990	2,201	569	-

Note 22 Provisions – non current

Restructuring	3,445	5,017	-	-
Employee benefits (Note 34(a))	12,391	11,252	-	-
	15,836	16,269	-	-

Movements in non current provisions

The movements in the non current restructuring provision are set out below:

	Restructuring $'000
Consolidated – 2003	
Non Current	
Carrying amount at 1 July 2002	5,017
Reclassification of non current provision to current	(1,116)
Foreign currency exchange differences	(456)
Carrying amount at 30 June 2003	3,445

Note 23 Contributed equity

	Notes	Parent entity 2003 Shares	Parent entity 2002 Shares	Parent entity 2003 $'000	Parent entity 2002 $'000
(a) Share capital					
Fully paid ordinary shares	(b)	259,763,911	257,529,679	823,386	852,204
Other equity	(d)			13,646	14,952
				837,032	867,156
Former share option reserve included in ordinary share capital				195	195
Former share premium account included in ordinary share capital				33,667	33,667
				33,862	33,862

(b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	$'000
1/7/01	Opening balance		227,514,625		622,529
3/9/01	Shares issued as partial consideration for the acquisition of Cairns Pathology		220,589	6.80	1,500
23/10/01	Shares issued under the Dividend Reinvestment Plan - 2001 final dividend	(f)	1,398,094	7.48	10,458
23/10/01	Shares issued to the underwriters of the Dividend Reinvestment Plan - 2001 final dividend		2,567,553	7.48	19,205
1/11/01	Shares issued as partial consideration for the acquisition of the SKG Radiology group		2,391,436	7.89	18,868
2/11/01	Shares issued as final consideration for the acquisition of Stat Laboratories		217,391	6.90	1,500
26/11/01	Shares issued to institutional investors		21,000,000	8.10	170,100
	Less: Transaction costs arising on share issue				(2,780)
11/4/02	Shares issued as partial consideration for the acquisition of The Doctors Laboratory group		1,036,674	6.01	6,230
29/4/02	Shares issued under the Dividend Reinvestment Plan - 2002 interim dividend	(f)	588,317	5.49	3,230
Various	Shares issued under the Sonic Healthcare Limited Employee Option Plan	(e)	595,000		1,364
30/6/02	Balance		257,529,679		852,204
29/7/02	Shares issued as deferred consideration for the acquisition of The Doctors Laboratory group	(d)	217,323	6.01	1,306
12/8/02	Shares issued as deferred consideration for the acquisition of the SKG Radiology group		1,507,409	4.8172	7,262
27/11/02	Reduction of capital upon demerger of SciGen Limited	(g)	-		(38,802)
Various	Shares issued under the Sonic Healthcare Limited Employee Option Plan	(e)	509,500		1,416
30/6/03	Closing balance		259,763,911		823,386

(c) Ordinary shares

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

Note 23 Contributed equity (continued)

(d) Other equity
The amount shown is the value of shares to be issued as deferred consideration for The Doctors Laboratory group acquisition. The maximum value of the shares to be issued is fixed and the purchase agreement specifies that the deferred issue of shares carries with it the right to participate in future dividends from the date of acquisition (April 2002). During the financial year the issue of 217,323 fully paid ordinary shares at an issue price of $6.01 resulted in a decrease of Other equity of $1,306,000. The remaining balance of Other equity will be converted to fully paid ordinary shares in October 2003.

(e) Options
Information relating to the Sonic Healthcare Limited Employee Option Plan, Executive Director options and Queensland X-Ray options; including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in Note 34(c), Note 34(d) and Note 34(e) respectively.

(f) Dividend reinvestment plan
During the 2002 financial year, the company implemented a Dividend Reinvestment Plan (DRP) under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than being paid in cash. Shares issued under the plan were at a 5% discount to the weighted average market price of all Sonic's ordinary shares sold on the Australian Stock Exchange during the five trading days following the record date.

The Board of Sonic suspended the operation of the company's DRP in relation to the final dividend for the year ended 30 June 2002 and the interim dividend for the 2003 financial year, however the DRP has been reactivated and will apply to the final dividend for the year ended 30 June 2003 (with a discounted subscription price to market of 5%) and until further notice.

(g) Demerger of SciGen Limited
In November 2002, via a scheme of arrangement following approval by Sonic shareholders, Sonic optionholders and the Federal Court of Australia, Sonic completed the demerger of its majority shareholding in SciGen Limited ("SciGen"), a Singapore based bio-pharmaceutical company. The demerger involved a $30,000,000 injection of equity into SciGen, increasing Sonic's ownership interest to 74% immediately prior to the "spin-out". A capital reduction of $38,802,000 representing the issue of SciGen shares to all Sonic shareholders at the Record Date was then undertaken. Following the demerger, Sonic has retained an approximate 11.5% interest in SciGen, classified as an investment traded on an organised market, refer Note 10. A gain of $8,549,000 arising on the deconsolidation of SciGen has been taken directly to accumulated losses in this financial year. Refer Note 24(b).

Note 24 Reserves and accumulated losses

	Consolidated		Parent entity	
	2003 $'000	2002 $'000	2003 $'000	2002 $'000
(a) Reserves				
Asset revaluation	982	982	982	982
Foreign currency translation reserve	5,089	4,729	-	-
	6,071	5,711	982	982
Movements				
Foreign currency translation reserve at the beginning of the financial year	4,729	(564)	-	-
Movement on demerger of SciGen Limited	(2,567)	-	-	-
Net exchange difference on translation of foreign controlled entities	2,927	5,293	-	-
Foreign currency translation reserve at the end of the financial year	5,089	4,729	-	-

Nature and purpose of reserves

(i) Asset revaluation reserve

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

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities, Sonic Healthcare (New Zealand) Limited, Sonic Healthcare Asia Limited, Sonic Healthcare Holdings Limited and SciGen Limited, are taken to the foreign currency translation reserve, as described in accounting policy Note 1(c)(ii). On the demerger of SciGen Limited to Sonic's shareholders in November 2002 the balance of the foreign currency translation reserve associated with SciGen was removed.

Note 24 Reserves and accumulated losses (continued)

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
(b) Accumulated losses				
Accumulated losses at the beginning of the financial year	(40,505)	(22,062)	(9,691)	(9,781)
Adjustment resulting from change in accounting policy for providing for dividends (Note 1(x)(ii))	41,987	-	41,987	-
Net profit attributable to members of Sonic Healthcare Limited	40,858	33,758	23,608	52,291
Gain on deconsolidation of SciGen Limited (Note 23(g))	8,549	-	-	-
Dividends provided for or paid (Note 6)	(62,867)	(52,201)	(62,867)	(52,201)
Accumulated losses at the end of the financial year	(11,978)	(40,505)	(6,963)	(9,691)

Note 25 Outside equity interests in controlled entities

	Consolidated 2003 $'000	Consolidated 2002 $'000
Interest in:		
Share capital	6,041	10,064
Retained profits	(5,874)	(4,961)
	167	5,103

Note 26 Deed of cross guarantee

The "Closed Group" (refer Note 27) are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Order 98/2017, 00/0321 and 01/1087) issued by the Australian Securities and Investments Commission. The companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Sonic Healthcare Limited, they also represent the "Extended Closed Group".

	2003 $'000	2002 $'000
(a) Consolidated statement of financial performance of the extended closed group		
Revenue from ordinary activities	743,273	682,667
Labour and related costs	(346,792)	(326,643)
Consumables used	(90,171)	(85,741)
Amortisation of intangibles	(32,106)	(32,243)
Operating lease rental expense	(31,809)	(28,545)
Depreciation and amortisation of physical assets	(30,067)	(26,654)
Borrowing costs	(24,860)	(22,528)
Other operating expenses from ordinary activities	(112,875)	(94,859)
Profit from ordinary activities before income tax expense	74,593	65,454
Income tax expense	(32,059)	(26,040)
Profit from ordinary activities after income tax expense	42,534	39,414
Outside equity interests in operating profit after income tax	-	-
Net profit attributable to members of the extended closed group	42,534	39,414
Total revenues, expenses and valuation adjustments attributable to members of the extended closed group recognised directly in equity	-	-
Total changes in equity other than those resulting from transactions with owners as owners	42,534	39,414

Note 26 Deed of cross guarantee (continued)

	2003 $'000	2002 $'000
(b) Reconciliation of accumulated losses		
Accumulated losses at the beginning of the financial year	(36,896)	(24,109)
Adjustment resulting from change in accounting policy for providing for dividends	41,987	-
Profit from ordinary activities after income tax expense	42,534	39,414
Dividends provided for or paid	(62,867)	(52,201)
Accumulated losses at the end of the financial year	(15,242)	(36,896)
(c) Consolidated statement of financial position of the extended closed group		
Current assets		
Cash assets	6,483	15,184
Receivables	72,134	69,105
Inventories	13,099	11,603
Total current assets	91,716	95,892
Non current assets		
Receivables	66,287	65,691
Other financial assets	340,425	342,280
Property, plant and equipment	163,281	161,291
Intangible assets	626,243	660,255
Deferred tax assets	12,859	15,338
Total non current assets	1,209,095	1,244,855
Total assets	1,300,811	1,340,747
Current liabilities		
Payables	42,610	46,434
Interest bearing liabilities	62,127	48,878
Provisions	44,242	86,825
Current tax liabilities	8,663	11,022
Other current liabilities	1,746	38,404
Total current liabilities	159,388	231,563
Non current liabilities		
Interest bearing liabilities	308,537	268,693
Provisions	11,144	10,827
Deferred tax liabilities	1,589	809
Other non current liabilities	-	232
Total non current liabilities	321,270	280,561
Total liabilities	480,658	512,124
Net assets	820,153	828,623
Equity		
Contributed equity	837,032	867,156
Reserves	(1,637)	(1,637)
Accumulated losses	(15,242)	(36,896)
Total equity	820,153	828,623

Note 27 Investments in controlled entities

Details of controlled entities	Country of incorporation	Beneficial Class of share	Beneficial interest % 2003	Beneficial interest % 2002
Controlled entities of:				
(a) **Sonic Healthcare Limited**	Australia			
Douglass Hanly Moir Pathology Pty Limited (i) (iv)	Australia	Ord	100	100
Southern Pathology Services Pty Limited (i) (iv)	Australia	Ord	100	100
Clinpath Laboratories Pty Limited (i) (iv)	Australia	Ord	100	100
Lifescreen Australia Pty Limited (i) (iv)	Australia	Ord	100	100
Atechpath Pty Limited (iv) (formerly Hitech Pathology Pty Limited)	Australia	Ord	-	100
Sonic Healthcare (New Zealand) Limited (iv)	New Zealand	Ord	100	100
Sonic Healthcare Asia Limited (iv)	Hong Kong	Ord	100	100
Sonic Imaging Pty Limited (i) (iv)	Australia	Ord	100	100
Sonic Clinical Institute Pty Limited (iv)	Australia	Ord	100	100
Sonic Healthcare Holdings Limited (iv)	United Kingdom	Ord	100	100
Sonic Healthcare Services Pty Limited (iv) (formerly Sonic Finance Pty Limited)	Australia	Ord	100	100
(b) **Douglass Hanly Moir Pathology Pty Limited (iv)**				
Milberg Investments Limited (iii)	Gibraltar	Ord	-	100
Diagnostic Pathology Pty Limited	Australia	Ord	100	100
Barratt & Smith Pathology Pty Limited (i)	Australia	Ord	100	100
Barratt & Smith Pathology Trust (ii)	Australia	Units	100	100
Hanly Moir Pathology Pty Limited (i)	Australia	Ord	100	100
Hanly Moir Pathology Trust (ii)	Australia	Units	100	100
Sonic Medlab Holdings Australia Pty Limited (i)	Australia	Ord	100	100
Stat Laboratories Pty Limited	Australia	Ord	100	100
Subilabs Pty Limited	Australia	Ord	100	100
Bunbury Pathology Pty Limited	Australia	Ord	100	100
(c) **Sonic Healthcare (New Zealand) Limited (iv)**				
Diagnostic Medlab Limited	New Zealand	Ord	100	100
Medlab Central Limited	New Zealand	Ord	100	100
Valley Diagnostic Laboratories Limited	New Zealand	Ord	100	100
Medlab South Limited	New Zealand	Ord	100	100
New Zealand Radiology Group Limited	New Zealand	Ord	100	100
Canterbury Medical Imaging Limited	New Zealand	Ord	100	100
Palmerston North X-Ray Partnership	New Zealand		80	80
(d) **Sonic Medlab Holdings Australia Pty Limited (iv)**				
Sonic Pathology (Queensland) Pty Limited (i)	Australia	Ord	100	100
Sonic Pathology (Victoria) Pty Limited (i)	Australia	Ord	100	100
(e) **Sonic Pathology (Queensland) Pty Limited (iv)**				
Sullivan Nicolaides Pty Limited (i)	Australia	Ord	100	100
L & A Services Pty Limited (i)	Australia	Ord	100	100
Bradley Services Unit Trust (ii)	Australia	Units	100	100
Northern Pathology Pty Limited (i)	Australia	Ord	100	100
Biotech Laboratories Pty Limited	Australia	Ord	100	100
(f) **Sonic Pathology (Victoria) Pty Limited (iv)**				
Consultant Pathology Services Pty Limited (i)	Australia	Ord	100	100
Diagnostic Services Pty Limited (i)	Australia	Ord	100	100
Melbourne Pathology Pty Limited (i)	Australia	Ord	100	100
Melbourne Pathology Services Pty Limited	Australia	Ord	100	100
Melbourne Pathology Services Trust (ii)	Australia	Units	100	100

Note 27 Investments in controlled entities (continued)

Details of controlled entities	Country of incorporation	Beneficial Class of share	Beneficial interest % 2003	Beneficial interest % 2002
(g) Diagnostic Medlab Limited (iv)				
Laboratory Data Systems Limited	New Zealand	Ord	100	100
Diagnostic Medlab Services Limited	New Zealand	Ord	100	100
(h) Sonic Healthcare Asia Limited (iv)				
Double Court Company Limited	Hong Kong	Ord	100	100
Dynamic Mate Limited	Hong Kong	Ord	100	100
(i) Sonic Imaging Pty Limited (iv)				
IRG Co Pty Limited (i)	Australia	Ord	100	100
Hunter Valley X-Ray Pty Limited	Australia	Ord	100	100
Hunter Imaging Services Trust (ii)	Australia	Units	100	100
HIG Distributions Pty Limited	Australia	Ord	100	100
Nuclear Medicine Co Pty Limited	Australia	Ord	100	100
Sports Imaging Co Pty Limited	Australia	Ord	100	100
Castlereagh Co Pty Limited (i)	Australia	Ord	100	100
Castlereagh Asia Pty Limited (i)	Australia	Ord	-	100
Queensland X-Ray Pty Limited (i)	Australia	Ord	100	100
Sonic Nominees Pty Limited (i)	Australia	Ord	100	100
Redlands X-Ray Services Pty Limited	Australia	Ord	100	100
SKG Radiology Pty Limited	Australia	Ord	100	100
Maga Pty Limited	Australia	Ord	100	100
Sprague Kam Trust (ii)	Australia	Units	100	100
(j) Queensland X-Ray Pty Limited (iv)				
Ultrarad No 2 Trust (ii)	Australia	Units	100	100
Ultrarad Holdings Pty Limited	Australia	Ord	100	100
E. Radiology (Aust) Pty Limited	Australia	Ord	100	100
(k) Sonic Nominees Pty Limited (iv)				
Pacific Medical Imaging Pty Limited (i)	Australia	Ord	100	100
Paedu Pty Limited (i)	Australia	Ord	100	100
Castlereagh Services Pty Limited (i)	Australia	Ord	100	100
Sunton Pty Limited (i)	Australia	Ord	100	100
Illawarra X-Ray Pty Limited	Australia	Ord	100	100
(l) Sonic Healthcare Holdings Limited (iv)				
The Doctors Laboratory Limited	United Kingdom	Ord	100	100
Cytogenetic DNA Services Limited	United Kingdom	Ord	100	100
Roadhaven Limited	United Kingdom	Ord	100	100

(i) These controlled entities (the "Closed Group") have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investment Commission. For further information see Note 26.
(ii) Trust deeds do not require preparation of audited financial statements.
(iii) There is no requirement under the law of the entity's place of incorporation to prepare audited financial statements.
(iv) These entities and the entities they control (as described in the table above) comprise the wholly owned group of which Sonic Healthcare Limited is the ultimate parent entity.

During the 2002 financial year Sonic had a controlling 59.5% interest in SciGen Limited (formerly SciGen Pte Limited). As a result of the demerger of SciGen Limited during the financial year, SciGen Limited and the entities it controlled (SciGen Pty Limited and SciGen Korea Limited) are no longer controlled entities of Sonic Healthcare Limited.

Note 27 Investments in controlled entities (continued)

Acquisitions of entities

The consolidated entity acquired assets of the following businesses during the year for a total consideration of $8,540,000 (2002: $263,204,000):

	Acquisition date
Rockhampton Pathology	October 2002
Fremantle Radiology	December 2002
Central Coast Pathology	May 2003

Acquisitions of controlled entities and businesses during the 2002 financial year were:

SKG Radiology group	November 2001
The Doctors Laboratory group	April 2002
Clinipath/Bunbury Pathology	August 2001
La Trobe Network Pathology	August 2001
E.Radiology (Australia)	August 2001
Illawarra Medical Laboratories business	July 2001
Cairns Pathology business	September 2001
Epath business	March 2002

	Consolidated 2003 $'000	Consolidated 2002 $'000
Consideration – cash paid in current year	8,540	126,831
Less: Cash of entities acquired	-	(96)
Total cash consideration	8,540	126,735
Deferred consideration – recognised as Amounts owing to vendors (Notes 18 & 20)	-	94,919
Deferred consideration – recognised as Other equity (Note 23(d))	-	14,952
Consideration – shares in the company (Note 23(b))	-	26,598
Total consideration	8,540	263,204
Fair value of identifiable net assets of controlled entities acquired:		
Property, plant and equipment	781	28,424
Debtors	824	23,110
Inventory	82	2,302
Prepayments	-	1,543
Future income tax benefits	53	1,416
Investments	-	167
Brand names, licences and authorities, patents and other intellectual property	-	1,093
Trade creditors	(6)	(16,620)
Provision for tax	-	586
Deferred income tax liability	-	(221)
Borrowings	-	(61,496)
Lease and hire purchase liabilities	(179)	(21,354)
Employee provisions	(177)	(3,889)
	1,378	(44,939)
Less: Provision for restructuring	(178)	(10,161)
	1,200	(55,100)
Goodwill	7,340	318,304

Reconciliation of cash paid to Statements of cash flows

	2003 $'000	2002 $'000
Consideration – cash paid for acquisitions in the financial year	8,540	126,831
Consideration – cash paid to vendors for acquisitions in previous financial years	51,314	26,442
Less: Cash of entity acquired	-	(96)
Payment for purchase of controlled entities net of cash acquired	59,854	153,177

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Note 28 Commitments for expenditure				
(a) Capital Commitments				
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	3,477	9,196	-	-
Later than 5 years	-	115	-	-
	3,477	9,311	-	-
(b) Lease Commitments				
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	40,303	37,146	1	1
Later than one year but not later than 5 years	68,470	67,838	-	-
Later than 5 years	15,748	12,687	-	-
	124,521	117,671	1	1
Representing:				
Cancellable operating leases	143	95	-	-
Non-cancellable operating leases	115,152	105,973	1	1
Future finance charges on finance leases	9,226	11,603	-	-
	124,521	117,671	1	1
(i) Operating Leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	36,393	33,220	1	1
Later than one year but not later than 5 years	63,065	60,143	-	-
Later than 5 years	15,694	12,610	-	-
Commitments not recognised in the financial statements	115,152	105,973	1	1
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases not recognised in the financial statements	7,375	664	-	-
(ii) Finance Leases				
Commitments in relation to finance lease and hire purchase agreements are payable as follows:				
Within one year	26,286	31,712	-	-
Later than one year but not later than 5 years	50,638	59,502	-	-
Later than 5 years	-	980	-	-
Minimum lease payments	76,924	92,194	-	-
Less: Future finance charges	(9,226)	(11,603)	-	-
Total lease and hire purchase liabilities	67,698	80,591	-	-
Representing lease and hire purchase liabilities:				
Current (Note 15)	22,130	26,913	-	-
Non current (Note 20)	45,568	53,678	-	-
	67,698	80,591	-	-

The weighted average interest rate implicit in the leases is 7.02% (2002: 7.32%)

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000

Note 28 Commitments for expenditure (continued)

(c) Remuneration commitments

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
Within one year	49,292	44,727	-	-
Later than one year but not later than 5 years	72,155	95,978	-	-
Later than 5 years	1,637	4,158	-	-
	123,084	144,863	-	-

Note 29 Contingent liabilities

Sonic Healthcare Limited and certain controlled entities, as disclosed in Note 26, are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

Note 30 Secured borrowings

Secured bank loans to companies within the consolidated entity of $457,065,000 (2002: $381,035,000) are secured by fixed and floating charges over the assets and undertakings of the company and its wholly owned subsidiaries (other than interests in any contracts the charging of which is prohibited by their terms), and also by registered mortgages over all real property of the company and those subsidiaries. The non current amounts owing to the vendors of The Doctors Laboratory group of $36,532,000 (2002: $53,647,000) are secured by a Bank Guarantee issued under Sonic's senior debt facility, drawings under which are secured as detailed in respect of bank loans. Lease and hire purchase liabilities are effectively secured as the rights to the relevant assets revert to the lessor/lender in the event of default.

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

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
Receivables – non current	2,695	3,313	389,820	421,979
Other financial assets – investments	40,185	29,416	472,450	476,883
Property, plant and equipment	215,621	208,092	25,711	27,524
Total non current assets pledged as security	258,501	240,821	887,981	926,386

Note 31 Remuneration of directors

(a) Directors' remuneration

	Consolidated 2003 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 2002 $
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.	6,537,869	5,347,772	2,483,174	3,037,552

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

	2003	2002
$ 30,000 - $ 39,999	1	-
$ 50,000 - $ 59,999	2	3
$120,000 - $129,999	1	-
$170,000 - $179,999	-	1
$270,000 - $279,999	-	1
$300,000 - $309,999	1	-
$310,000 - $319,999	1	1
$320,000 - $329,999	-	2
$330,000 - $339,999	1	-
$350,000 - $359,999	1	-
$360,000 - $369,999	1	-
$550,000 - $559,999	1	-
$560,000 - $569,999	-	1
$910,000 - $919,999	-	1

Note 31 Remuneration of directors (continued)

Directors' remuneration excludes insurance premiums paid by the parent entity in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers. Information relating to insurance contracts is set out in the Directors' report. The insurance policy does not allow disclosure of the premium paid under the policy.

The remuneration includes performance based bonuses for executive directors, as well as payments made to certain directors during the financial year in relation to their employment as qualified pathologists and radiologists, but excludes the imputed value of options. The imputed value of options which form part of the remuneration package of directors of the parent entity are disclosed in the Directors' report.

(b) Directors' benefits

Mr C.D. Wilks had a beneficial entitlement in a company that provided managerial and administrative services to the consolidated entity in the 2002 financial year. The charges, which are included in the figures above, were levied on a commercial basis and amounted to $Nil (2002: $115,600).

Dr M.F. Robinson has a beneficial entitlement in a partnership that provided managerial and pathology services to a member of the consolidated entity. The charges, which are included in the figures above, were levied on a commercial basis and amounted to $262,976 (2002: $235,970).

(c) Options granted

No options were granted to directors for the year ended 30 June 2003 or up until the date of this report. Details of the options held by directors are set out within Note 35(b).

Note 32 Remuneration of executives

	Consolidated 2003 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 2002 $
(a) Executive remuneration				
Remuneration received or due and receivable from entities in the consolidated entity and related parties by Australian based executive officers (including directors) whose remuneration was at least $100,000	7,154,431	6,635,031	2,345,674	2,887,551

The number of Australian based executives of the company and its controlled entities whose remuneration from entities in the consolidated entity and related parties was within the following bands are as follows:

	Executive Officers of the Consolidated entity 2003	Executive Officers of the Consolidated entity 2002	Executive Officers of the Parent entity 2003	Executive Officers of the Parent entity 2002
$120,000 - $129,999	1	-	1	-
$130,000 - $139,999	-	1	-	-
$140,000 - $149,999	2	2	-	-
$150,000 - $159,999	1	-	-	-
$160,000 - $169,999	1	-	-	-
$170,000 - $179,999	1	4	-	1
$180,000 - $189,999	1	2	-	-
$190,000 - $199,999	1	2	-	-
$200,000 - $209,999	3	-	-	-
$240,000 - $249,999	1	-	-	-
$250,000 - $259,999	-	2	-	-
$260,000 - $269,999	2	2	-	-
$270,000 - $279,999	1	1	-	1
$280,000 - $289,999	1	-	-	-
$290,000 - $299,999	1	1	-	-
$300,000 - $309,999	1	-	1	-
$310,000 - $319,999	2	2	1	1
$320,000 - $329,999	1	1	-	2
$330,000 - $339,999	2	-	1	-
$350,000 - $359,999	1	1	1	-
$360,000 - $369,999	1	-	1	-
$380,000 - $389,999	-	1	-	-
$430,000 - $439,999	1	-	-	-
$550,000 - $559,999	1	-	1	-
$560,000 - $569,999	-	1	-	1
$910,000 - $919,999	-	1	-	1

Note 32 Remuneration of executives (continued)

The imputed value of options over unissued ordinary shares of Sonic Healthcare Limited granted to any of the executive officers of the consolidated entity as part of their remuneration are not included in the remuneration figures disclosed in this note.

Options are granted to executive officers under the Sonic Healthcare Limited Employee Option Plan, details of which are set out in Note 34(c). In addition 4,500,000 options were granted to two executive directors of Sonic Healthcare Limited on 20 April 2000, following approval by shareholders at the 1999 Annual General Meeting. A summary of the numbers of options granted to, exercised and held by Australian-based executive officers (with income of at least $100,000) during the year ended 30 June 2003 is as follows.

	Outstanding 30 June 2002	Granted	Exercised	Outstanding 30 June 2003
Australian-based executive officers of the parent entity	4,750,000	-	(250,000)	4,500,000
Australian-based executive officers of other entities in the consolidated entity	1,047,500	185,000	(186,000)	1,046,500
	5,797,500	185,000	(436,000)	5,546,500

Note 33 Remuneration of auditors

	Consolidated		Parent entity	
	2003 $	2002 $	2003 $	2002 $
During the year the auditor of the parent entity and its related practices earned the following remuneration:				
PricewaterhouseCoopers – Australian firm				
Audit or review of financial reports of the entity in the consolidated entity	270,000	245,000	90,000	90,000
Accounting and advisory services associated with SciGen demerger	-	8,000	-	8,000
Accounting and advisory services	75,526	152,410	12,268	77,254
Total audit and accounting/advisory services	345,526	405,410	102,268	175,254
Taxation compliance services	48,450	47,500	2,950	2,950
Taxation advice associated with the SciGen demerger	167,550	25,315	167,550	25,315
Taxation advice	172,523	488,400	39,579	532,950
Total taxation advice and compliance services	388,523	561,215	210,079	561,215
Total remuneration	734,049	966,625	312,347	736,469
Related practices of PricewaterhouseCoopers Australian firm (including overseas PricewaterhouseCoopers firms)				
Audit or review of the financial reports of the entity or any entity in the consolidated entity	205,119	131,635	-	-
Accounting and advisory services	702	72,201	-	-
Total audit and accounting/advisory services	205,821	203,836	-	-
Taxation compliance services	5,704	5,268	-	-
Taxation advice	148,074	3,273	-	-
Total taxation advice and compliance services	153,778	8,541	-	-
Total remuneration	359,599	212,377	-	-

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

	Consolidated		Parent entity	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000

Note 34 Employee benefits

(a) Employee benefits and related on-costs				
Provision for employee benefits				
Current (Note 17)	47,489	43,888	-	-
Non current (Note 22)	12,391	11,252	-	-
	59,880	55,140	-	-
	Number	Number	Number	Number
(b) Employee numbers				
Employees at the end of the financial year measured on a full time equivalent basis	7,961	7,888	-	-

(c) Sonic Healthcare Limited Employee Option Plan

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

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

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share.

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

No accounting entries are made in relation to the value of options granted to eligible employees over unissued shares of Sonic Healthcare Limited until options are exercised, with amounts receivable on the exercise of options recognised as share capital.

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

Grant date	Expiry date	Exercise* price	Balance at start of the year	Issued during the year	Exercised during the year	Forfeited during the year	Balance at end of the year
			Number	Number	Number	Number	Number
Consolidated and parent entity - 2003							
18/11/97	18/9/02	$1.47	265,000	-	(265,000)	-	-
15/2/99	15/12/03	$3.26	922,500	-	(144,500)	-	778,000
20/4/00	20/2/05	$5.41	2,328,000	-	(100,000)	(162,500)	2,065,500
20/6/01	20/4/06	$7.38	3,503,700	-	-	(69,300)	3,434,400
16/7/02	16/5/07	$4.66	-	1,300,000	-	(100,000)	1,200,000
15/4/03	15/2/08	$6.30	-	695,000	-	-	695,000
Total			7,019,200	1,995,000	(509,500)	(331,800)	8,172,900
Consolidated and parent entity - 2002							
18/11/97	18/9/02	$1.47	602,500	-	(337,500)	-	265,000
15/2/99	15/12/03	$3.37	1,185,000	-	(257,500)	(5,000)	922,500
20/4/00	20/2/05	$5.59	2,573,000	-	-	(245,000)	2,328,000
20/6/01	20/4/06	$7.63	-	3,503,700	-	-	3,503,700
Total			4,360,500	3,503,700	(595,000)	(250,000)	7,019,200

Note 34 Employee benefits (continued)

*During the period options were repriced as a consequence of the SciGen demerger in November 2002. The repricing was as follows:

Price pre demerger $ per option	Price post demerger $ per option
3.37	3.26
5.59	5.41
7.63	7.38
4.81	4.66

Options exercised during the financial year and number of shares issued to employees on the exercise of options:

Exercise date	Exercise price	Fair value per share at issue date	Consolidated 2003 Number	Consolidated 2002 Number	Parent entity 2003 Number	Parent entity 2002 Number
15/8/01	$1.47	$8.22	-	5,000	-	5,000
15/8/01	$3.37	$8.22	-	20,000	-	20,000
24/8/01	$3.37	$8.18	-	75,000	-	75,000
24/9/01	$1.47	$8.19	-	300,000	-	300,000
24/9/01	$3.37	$8.19	-	27,500	-	27,500
2/10/01	$1.47	$7.96	-	10,000	-	10,000
2/10/01	$3.37	$7.96	-	47,500	-	47,500
2/11/01	$3.37	$8.50	-	22,500	-	22,500
30/11/01	$3.37	$8.15	-	20,000	-	20,000
8/2/02	$3.37	$7.31	-	10,000	-	10,000
15/2/02	$3.37	$7.31	-	10,000	-	10,000
8/3/02	$3.37	$7.60	-	15,000	-	15,000
8/4/02	$3.37	$6.02	-	10,000	-	10,000
23/5/02	$1.47	$5.35	-	22,500	-	22,500
			-	595,000	-	595,000
11/7/02	$1.47	$5.00	5,000	-	5,000	-
16/8/02	$3.37	$4.83	10,000	-	10,000	-
26/8/02	$1.47	$6.04	260,000	-	260,000	-
26/8/02	$3.37	$6.04	65,000	-	65,000	-
4/9/02	$3.37	$6.17	21,000	-	21,000	-
25/9/02	$3.37	$5.73	16,250	-	16,250	-
20/11/02	$3.37	$6.52	22,500	-	22,500	-
20/11/02	$5.59	$6.52	5,000	-	5,000	
29/11/02	$3.26	$6.36	2,500	-	2,500	-
17/12/02	$3.26	$6.30	1,250	-	1,250	-
17/12/02	$5.41	$6.30	5,000	-	5,000	-
11/2/03	$5.41	$6.18	22,500	-	22,500	-
7/3/03	$3.26	$6.07	5,000	-	5,000	-
3/4/03	$5.41	$5.84	12,000	-	12,000	-
2/6/03	$5.41	$6.51	21,000	-	21,000	-
13/6/03	$3.26	$6.89	1,000	-	1,000	-
13/6/03	$5.41	$6.89	2,000	-	2,000	-
19/6/03	$5.41	$6.81	25,000	-	25,000	-
23/6/03	$5.41	$6.82	5,000	-	5,000	-
26/6/03	$5.41	$6.74	2,500	-	2,500	-
			509,500	-	509,500	-

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

	Consolidated		Parent entity	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000

Note 34 Employee benefits (continued)

Aggregate proceeds received from employees on the exercise of options and recognised as issued capital	1,416	1,364	1,416	1,364
Fair value of shares issued to employees on the exercise of options as at their issue date	3,112	4,754	3,112	4,754

(d) Executive director options

No executive director options were granted or exercised in the year ending 30 June 2003 (2002: Nil). At 30 June 2003, 4,500,000 options were (beneficially) outstanding to two executive directors of Sonic Healthcare Limited having been granted on 20 April 2000, following approval by shareholders at the 1999 Annual General Meeting. Each option is convertible into one ordinary share as set out below on or before 20 April 2005 at a fixed price of $5.32 per share subject to continuity of service to Sonic:

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

During the period the options were repriced as a consequence of the SciGen demerger. The exercise price pre demerger was $5.50, the price post demerger is $5.32.

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

(e) Queensland X-Ray (QXR) options

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

Grant date	Expiry date	Exercise* price	Balance at start of the year	Issued during the year	Exercised during the year	Forfeited during the year	Balance at end of the year
			Number	Number	Number	Number	Number
Consolidated and parent entity - 2003							
16/7/02	16/5/07	$4.66	-	490,000	-	-	490,000
7/4/03	7/2/08	$6.01	-	80,000	-	-	80,000
Total			-	570,000	-	-	570,000

During the period the first tranche of the QXR options were repriced as a consequence of the SciGen demerger. The exercise price pre demerger was $4.81, the price post demerger is $4.66.

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

Note 35 Related parties

Details in respect of related parties are as follows:

(a) Directors

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

	Date appointed	Date of resignation
B.S. Patterson	12 May 1993	
Dr C. S. Goldschmidt	28 January 1993	
C.D. Wilks	5 December 1989	
Dr M.M. Barratt	14 February 1996	
M.D. Boyd	14 September 2000	31 March 2003
R.P. Campbell	28 January 1993	
Dr P.J. Dubois	31 July 2001	
C.J. Jackson	31 December 1999	
Dr M.F. Robinson	31 December 1999	
Dr H.F. Scotton	31 July 2001	

Directors' remuneration during the year has been disclosed in Note 31.

Transactions with director related entities

During the financial year rental payments have been made by the consolidated entity to director related entities, including unit trusts, private companies and spouses. The rental transactions were based on commercial terms and conditions and at market rates. The aggregate amount recognised in the financial statements was $1,157,800 (2002: $1,165,712). The directors of entities within the consolidated entity who had an interest in the rental transactions were:

2003 & 2002		2002
C. Jackson	M. Prentice	L. Panaccio
M. Robinson	G. Bryant	R. Sutherland
J. Roberts	H. Scotton	S. Lade
D. Hope		

On 7 February 2003, Sonic acquired 61,427,000 shares in Independent Practitioner Network Limited (IPN) from a common director, Mr M.D. Boyd. The shares in IPN were purchased for a total consideration of $4,883,447 which was at a 5% discount to market.

During the financial year, a controlled entity charged administration fees of $10,800 (2002: $14,400) to Silex Systems Limited, an entity which has common directors, namely; Mr B.S. Patterson, Dr C.S. Goldschmidt, Mr C.D. Wilks, Mr R.P. Campbell and Mr M.D. Boyd (for that period in which he was a director of Sonic Healthcare Limited and Silex Systems Limited). The transaction was based on commercial terms and conditions and at market rates.

During the year ending 30 June 2003, The Doctors Laboratory Limited (a member of the consolidated entity) provided pathology laboratory services to S. Ungar, a director of The Doctors Laboratory Limited. The value of these referrals were $109,083 (2002 (part year only): $24,423). The transactions were on normal terms and conditions and at market rates.

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

- Management services income of $56,208 (2002: $42,235)
- Purchase of IT support for $2,332,878 (2002: $142,238)
- Consultancy services provided by Varleigh UK Limited to the value of $362,528 (2002: Nil), and
- Expenses paid on behalf of Varleigh UK Limited that were recharged to the value of $51,139 (2002: $220,382).

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

R.P. Campbell, Dr C.S. Goldschmidt and C.D. Wilks have been directors of SciGen Limited since its demerger in November 2002. SciGen Limited is therefore a related party through the existence of common directors. Since the demerger, a controlled entity charged $10,801 for warehousing and administration services provided to a controlled entity of SciGen Limited. This transaction was based on commercial terms and conditions and at market rates.

As of 1 July 2001, SciGen Pte Limited, SciGen Pty Limited and SciGen Korea Limited (all entities in the consolidated entity in the 2002 financial year) ceased distributing products for Scitech Medical Products Pte Limited, an entity which had a common director in Mr S. Mashaal. As a result, product to the value of $237,264 was returned to Scitech Medical Products Pte Limited at cost.

Note 35 Related parties (continued)

(b) Directors' shareholding and options

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

	Sonic Healthcare Limited Employee Option Plan Options & Executive Directors Options over ordinary shares		Sonic Healthcare Limited ordinary shares fully paid	
	2003	2002	2003	2002
B.S. Patterson	-	-	3,816,646	3,816,646
Dr C.S. Goldschmidt	3,000,000	3,125,000	950,000	825,000
C.D. Wilks	1,500,000	1,625,000	623,000	498,000
Dr M.M. Barratt	-	-	1,300,000	1,300,000
M.D. Boyd (resigned 31 March 2003)	-	-	N/a	21,458,704
R.P. Campbell	-	-	-	-
Dr P.J. Dubois	-	-	331,540	616,486
C.J. Jackson	-	-	517,590	517,590
Dr M.F. Robinson	-	-	200,000	200,000
Dr H.F. Scotton	-	-	175,996	175,996

During the financial year ended 30 June 2003, Mr C.D. Wilks exercised 125,000 (2002: 125,000) options with an exercise price of $1.47 and Dr C.S. Goldschmidt exercised 125,000 (2002: 175,000) options with an exercise price of $1.47. These options were issued in previous years under the Sonic Healthcare Limited Employee Option Plan.

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

	Directors of Parent entity	
	2003 Number	2002 Number
Acquisitions		
Ordinary Shares	250,000	333,500
Disposals		
Ordinary Shares	284,946	3,750,500

These transactions were on commercial terms and conditions and at market rates, with the exception of the shares acquired as a result of the exercise of options.

(c) Wholly-owned group

Sonic Healthcare Limited (Sonic) is the ultimate parent entity in the wholly owned group comprising the company and its wholly-owned controlled entities as detailed in Note 27.

Transactions between Sonic and other entities in the wholly-owned group during the years ended 30 June 2003 and 30 June 2002 consisted of:

- loans advanced to and by Sonic
- loans repaid to and by Sonic
- the payment of interest on the above loans
- the payment of dividends to Sonic
- the payment of a management fee to Sonic
- the payment of rental to Sonic
- the payment of a debt facility guarantee fee to Sonic

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

Note 35 Related parties (continued)

	Parent entity 2003 $'000	Parent entity 2002 $'000
Aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with entities in the wholly-owned group:		
Interest revenue	22,175	20,712
Dividend revenue	12,300	35,000
Interest expense	3,795	988
Management fees	1,407	13,035
Rental income	2,770	2,587
Debt facility guarantee fee	1,199	71
Aggregate amounts receivable from wholly-owned controlled entities by the company at balance date:		
Receivables (current)	1,314	36,073
Receivables (non current)	389,820	416,762
Aggregate amounts payable to wholly-owned entities by the company at balance date:		
Other (non current)	58,215	58,340

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
(d) Other related parties				
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with each class of other related parties:				
Interest Revenue:				
Controlled entities	-	-	240	295
Aggregate amounts brought to account in relation to other transactions with each class of other related parties:				
Loans advanced to:				
Controlled entities	-	-	1,874	4,834
Loans repaid by:				
Controlled entities	-	-	7,573	-
Aggregate amounts receivable from, and payable to, each class of other related parties at balance date:				
Current receivables:				
Controlled entities (sundry debtors)	-	-	-	295
Non current receivables:				
Controlled entities (loans)	-	-	-	5,217

The above transactions were made on normal commercial terms and conditions and at market rates. The average interest rate on the loans during the year was 10% (2002: 10%).

(e) Ownership interests in related parties

Interests held in entities within the consolidated entity of which Sonic Healthcare Limited is the ultimate parent entity are set out in Note 27.

Note 36 Earnings per share

	Consolidated 2003 Cents	2002 Cents
Basic earnings per share	15.7	13.8
Diluted earnings per share	15.5	13.5
Core (pre intangibles amortisation) basic earnings per share	38.3	33.9
Core (pre intangibles amortisation) diluted earnings per share	37.8	33.3

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

	Consolidated 2003 Shares	2002 Shares
Weighted average number of ordinary shares used as the denominator		
Weighted average of ordinary shares used as the denominator used as the denominator in calculating basic earnings per share and core basic earnings per share	259,419,469	245,473,690
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share and core diluted earnings per share	263,238,845	249,459, 397

	Consolidated 2003 $'000	2002 $'000
Reconciliations of earnings used in calculating earnings per share		
Net profit	39,945	32,207
Net loss attributable to outside equity interest	913	1,551
Earnings used in calculating basic and diluted earnings per share	40,858	33,758
Intangibles amortisation expense for the period	58,616	49,402
Earnings used in calculating core basic and diluted earnings per share	99,474	83,160

Options as detailed in Note 34 that are considered to be dilutive and other dilutive potential ordinary shares are included in the calculations of diluted and core diluted earnings per share. The options and other dilutive potential ordinary shares have not been included in the determination of basic earnings per share.

In the period between the reporting date and 30 September 2003, 492,750 options issued in previous years under the Sonic Healthcare Limited Employee Option Plan were exercised. No further options were issued during the period to 30 September 2003.

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000

Note 37 Statements of cash flows

	Consolidated 2003 $'000	Consolidated 2002 $'000	Parent entity 2003 $'000	Parent entity 2002 $'000
(a) Cash at bank and on hand	26,489	22,939	146	97
(b) Reconciliation of net cash inflow from operating activities to operating profit after income tax				
Operating profit after income tax	39,945	32,207	23,608	52,291
Add/(less) non cash items:				
Depreciation	24,561	20,442	837	1,527
Amortisation - leases	16,256	16,557	-	-
Amortisation - intangibles	58,616	49,402	-	-
Net loss on sale of property, plant and equipment	903	66	-	-
Foreign exchange differences	(238)	(165)	-	-
Loss attributable to the write off on restructure of investment in a controlled entity	-	-	4,146	-
Other non cash items	(1,903)	-	-	-
Add/(less) changes in assets and liabilities during the financial year:				
Increase/(decrease) in provision for employee entitlements	4,624	4,514	-	-
(Increase)/decrease in sundry debtors	(1,548)	9,379	(784)	950
(Increase)/decrease in prepayments	(901)	2,425	(17)	(95)
Increase/(decrease) in accrued expenses	(353)	(3,660)	(1,830)	901
Increase/(decrease) in trade creditors	(410)	(592)	-	-
(Increase)/decrease in trade debtors and accrued revenue	2,121	16,031	-	-
(Increase)/decrease in inventories	(1,975)	(1,841)	-	-
(Increase)/decrease in future income tax benefit	2,214	(1,812)	292	(146)
Increase/(decrease) in deferred tax liability	789	397	569	-
Increase/(decrease) in provision for income tax	(5,349)	3,367	(2,104)	(3)
(Increase)/decrease in provision for dividends receivable	-	-	35,000	(11,000)
Net cash inflow from operating activities	137,352	146,717	59,717	44,425

(c) Non cash financing and investment activities

The following transactions in the financial year of the consolidated entity are not reflected in the Statements of cash flows:

- plant and equipment with an aggregate fair value of $15,393,000 (2002: $26,872,000) was acquired by means of finance leases, representing $14,700,000 of leased asset additions and the refinancing of plant and equipment to the value of $693,000.
- fully paid ordinary shares to the value of $8,568,000 were issued as deferred consideration for the acquisitions of the SKG Radiology group and The Doctors Laboratory group.

During the financial year ended 30 June 2002 the consolidated entity:

- issued fully paid ordinary shares to the value of $26,598,000 as part consideration for acquisitions during the year of the SKG Radiology group, the business of Cairns Pathology, and The Doctors Laboratory group.
- issued fully paid ordinary shares to the value of $1,500,000 as payment of deferred consideration for the Stat Laboratories acquisition.
- issued 1,986,411 fully paid ordinary shares to the value of $13,688,000 pursuant to the company's Dividend Reinvestment Plan in lieu of dividend payments.
- acquired plant and equipment with an aggregate fair value of $26,872,000 by means of finance leases.

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

	Consolidated		Parent entity	
	2003	2002	2003	2002
	$'000	$'000	$'000	$'000

Note 37 Statements of cash flows (continued)

(d) Standby arrangements and credit facilities

Entities in the consolidated entity have access to:				
Credit standby arrangements				
- secured loan facilities totalling	581,550	611,550	-	-
- amount of credit unused	79,672	163,457	-	-
Lease facilities				
- total facilities	57,650	66,525	-	-
- amount of facilities unused	25,414	11,940	-	-

Note 38 Financial instruments

(a) Off-balance sheet derivative instruments

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

Interest rate swap contracts

Bank loans of the consolidated entity currently bear an average variable interest rate of 5.6% (2002: 6.0%) and the non current Amounts owing to vendors an average variable interest rate of 4.7% (2002: 5.2%). It is policy to protect part of these loans from exposure to increasing interest rates. Accordingly, the consolidated entity has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates. The contracts are settled on a net basis and the net amount receivable or payable at the reporting date is included in sundry debtors or sundry creditors and accruals.

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

Swaps in place at balance date cover approximately 47% (2002: 34%) of the loan principals outstanding. The fixed interest rates range between 4.03% and 8.50% (2002: 5.50% to 7.64%).

At 30 June 2003, the notional principal amounts and periods of expiry of interest rate swap contracts for the consolidated entity were as follows:

	2003	2002
	$'000	$'000
Less than 1 year	48,608	42,168
1 – 2 years	90,226	48,358
2 – 3 years	24,771	55,359
3 – 4 years	34,771	-
4 – 5 years	35,757	-
	234,133	145,885

(b) Credit risk exposures

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

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

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

Note 38 Financial instruments (continued)

(c) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table.

	Notes	Floating interest rate $'000	Fixed interest rate maturities 1 year or less $'000	1 to 5 years $'000	over 5 years $'000	Non interest bearing $'000	Total $'000
30 June 2003							
Assets							
Cash	37(a)	25,748	-	-	-	741	26,489
Trade debtors	7	-	-	-	-	85,933	85,933
Accrued revenue	7	-	-	-	-	10,487	10,487
Sundry debtors	7	-	-	-	-	10,625	10,625
Amounts receivable from other entities	7	3,204	-	-	-	128	3,332
Other non current receivables	9	387	-	-	-	2,390	2,777
Total financial assets		29,339	-	-	-	110,304	139,643
Weighted average interest rate		3.94%					
Liabilities							
Trade accounts payable	14	-	-	-	-	30,861	30,861
Other accounts payable	14	-	-	-	-	34,543	34,543
Interest bearing loans	15, 20	456,515	550	-	-	-	457,065
Lease liabilities	15, 20	-	20,325	43,842	-	-	64,167
Amounts owing to vendors	18, 20	36,532	-	-	-	4,728	41,260
Other loans	18	-	-	-	-	358	358
Hire purchase liabilities	15, 20	-	1,805	1,726	-	-	3,531
Interest rate swaps*	38(a)	(234,133)	48,608	185,525	-	-	-
Total financial liabilities		258,914	71,288	231,093	-	70,490	631,785
Weighted average interest rate		5.45%	7.23%	5.98%			
Net financial assets / (liabilities)		(229,575)	(71,288)	(231,093)	-	39,814	(492,142)
30 June 2002							
Assets							
Cash	37(a)	22,393	401	-	-	145	22,939
Trade debtors	7	-	-	-	-	89,921	89,921
Accrued revenue	7	-	-	-	-	9,839	9,839
Sundry debtors	7	-	-	-	-	9,196	9,196
Amounts receivable from other entities	7	64	-	-	-	511	575
Other non current receivables	9	532	-	-	-	2,864	3,396
Total financial assets		22,989	401	-	-	112,476	135,866
Weighted average interest rate		4.01%	4.80%				
Liabilities							
Trade accounts payable	14	-	-	-	-	33,149	33,149
Other accounts payable	14, 19	-	-	-	-	38,859	38,859
Interest bearing loans	15, 20	379,973	512	550	-	-	381,035
Lease liabilities	15, 20	-	24,239	49,232	930	-	74,401
Amounts owing to vendors	18, 20	53,647	-	-	-	45,389	99,036
Other loans	18	-	-	-	-	2,219	2,219
Hire purchase liabilities	15, 20	-	2,674	3,516	-	-	6,190
Interest rate swaps *	38(a)	(145,885)	42,168	103,717	-	-	-
Total financial liabilities		287,735	69,593	157,015	930	119,616	634,889
Weighted average interest rate		5.87%	7.30%	6.95%	6.71%		
Net financial assets / (liabilities)		(264,746)	(69,192)	(157,015)	(930)	(7,140)	(499,023)

* Notional principal amounts

Note 38 Financial instruments (continued)

(d) Net fair value of financial assets and liabilities

(i) On-balance sheet

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

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

Equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date and discounted net cash flows, refer to Note 10. For non-traded equity investments, the net fair value is an assessment by the directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

(ii) Off-balance sheet

The net fair value of financial assets or financial liabilities which may arise from certain contingencies are disclosed in Note 29. No material losses are anticipated in respect of any contingencies.

Note 39 Events occurring after reporting date

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

- On 8 July 2003 Sonic completed the acquisition of Omnilabs, a pathology group in the United Kingdom. The consideration consisted of an initial cash payment of £6.34 million with the potential for further consideration through earn-outs. The Omnilabs business will be fully merged into Sonic's TDL practice during the 2004 year and is expected to contribute approximately £1 million per annum of EBITA post merger.

- On 7 August 2003, Sonic announced that its TDL subsidiary in the UK had formed a ground breaking joint venture with a prestigious National Health Service (NHS) hospital, the University College of London Hospital, to establish a state of the art, high volume automated pathology facility. This was a major strategic achievement for Sonic and positions TDL to further expand its relationship with NHS entities.

- On 22 August 2003 Sonic's directors declared a final dividend for 2003 of 17 cents per ordinary share payable on 7 October 2003. Sonic's dividend reinvestment plan, which was suspended during the 2003 year, has been reactivated and will apply to the final dividend, offering a discounted subscription price to market price of 5%.

- On 16 September 2003 Sonic undertook to participate in and to co-underwrite a non-renouncable rights issue by Independent Practitioner Network Limited (IPN), a company which Sonic currently holds an approximate 18.4% interest. Under the rights issue, shares in IPN will be offered on a 1 for 3 basis at $0.03 per share, in order to raise approximately $7.28 million. Sonic will subscribe for its rights at a cost of approximately $1.4 million. The maximum additional subscription for which Sonic could be called on as an underwriter is $0.6 million.

The directors declare that the financial statements and notes set out on pages 26 to 68:

(a) comply with Accounting Standards, the Corporation Regulations 2001 and other mandatory professional reporting requirements, and
(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and
(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 27 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 26.

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

Dr C.S. Goldschmidt
Managing Director

C.D. Wilks
Director

Sydney
30 September 2003

PRICEWATERHOUSECOOPERS

Audit opinion

In our opinion, the financial report of Sonic Healthcare Limited:
- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Sonic Healthcare Limited and the Sonic Healthcare Limited Group (defined below) as at 30 June 2003, and of their performance for the year ended on that date, and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

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

Scope

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Sonic Healthcare Limited (the company) and the Sonic Healthcare Limited Group (the consolidated entity), for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

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

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

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

We formed our audit opinion on the basis of these procedures, which included:
- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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

PricewaterhouseCoopers

Stephen Humphries
Partner

Sydney
30 September 2003

1. Information relating to shareholders

(a) Distribution Schedule as at 23 September 2003

	No. of Holders Ordinary Shares
1 – 1,000	3,892
1,001 – 5,000	4,074
5,001 – 10,000	519
10,001 – 100,000	374
100,001 and over	162
	9,021

Voting rights – on a show of hands	1 / member
– on a poll	1 / share
Percentage of total holding held by the twenty largest holders	77.09
Number of holders holding less than a marketable parcel	135

(b) Names of the Twenty Largest Holders of Equity Securities as at 23 September 2003

	No. of Securities	Percentage Held
Citicorp Nominees Pty Limited	44,242,732	17.00
J P Morgan Nominees Australia Limited	34,481,984	13.25
Westpac Custodian Nominees Limited	25,526,645	9.81
Jardvan Pty Limited	21,458,704	8.25
RBC Global Services Australia Nominees Pty Limited	18,102,399	6.96
National Nominees Limited	16,936,773	6.51
Westpac Financial Services Limited	5,657,717	2.17
Queensland Investment Corporation	4,397,973	1.69
Polly Pty Limited	3,816,646	1.47
Cogent Nominees Pty Limited	3,804,994	1.46
AMP Life Limited	3,570,532	1.37
ANZ Nominees Limited	3,024,816	1.16
Dr Thomas Davis	2,970,485	1.14
Bardavis Pty Limited	2,970,000	1.14
Commonwealth Custodial Services Limited	2,230,124	0.86
Westpac Life Insurance Services Limited	1,789,449	0.69
Quintal Pty Limited	1,500,000	0.58
PSS Board	1,441,261	0.55
CSS Board	1,371,166	0.53
Cranebar Pty Limited	1,300,000	0.50
	200,594,400	77.09

2. Interests of directors in securities as at 23 September 2003

	Ordinary shares	Interest
B.S. Patterson	3,816,646	Held beneficially
Dr C.S. Goldschmidt	725,000	Held personally
	225,000	Held beneficially
C.D. Wilks	425,000	Held personally
	198,000	Held beneficially
Dr M.M. Barratt	1,300,000	Held beneficially
R.P. Campbell	-	-
Dr P.J. Dubois	110,000	Held beneficially
C.J. Jackson	517,590	Held personally
Dr M.F. Robinson	200,000	Held personally
Dr H.F. Scotton	175,996	Held personally

3. Unquoted equity securities as at 23 September 2003

	No. on Issue	No. of Holders
Options issued under the Sonic Healthcare Limited Employee Option Plan to take up ordinary shares.	7,669,750	596
Executive director options to take up ordinary shares.	4,500,000	2
Queensland X-Ray options to take up ordinary shares.	570,000	19

4. Securities subject to voluntary escrow as at 23 September 2003

	No. on Issue	Date escrow period ends
As at the date of this report the following securities were subject to voluntary escrow:		
Ordinary shares	1,195,718	1 November 2003

The above securities were issued to vendor radiologists as part of the acquisition of SKG Radiology.

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