

THIS DOCUMENT IS IMPORTANT

If you do not understand it or are in any doubt about how to act, you should consult your stockbroker, solicitor, accountant or other professional adviser immediately.



SONIC HEALTHCARE LIMITED

ACN 004 196 909

**NOTICE OF ANNUAL GENERAL MEETING 2005 AND
EXPLANATORY MEMORANDUM**

The meeting of shareholders will be held in the Blaxland A Room, Level 8, Swissôtel Sydney, 68 Market Street, Sydney NSW on 24 November 2005 at 10.00am.

If you are unable to attend the meeting, you are requested to complete the form of proxy enclosed with this booklet and return it to the share registry, Computershare Investor Services Pty Limited, as soon as possible, and in any event, no later than 10.00am on 22 November 2005.



Notice of Annual General Meeting 2005

Notice is given that the 2005 Annual General Meeting of Sonic Healthcare Limited ("Sonic" or "the Company") will be held in the Blaxland A Room, Level 8, Swissôtel Sydney, 68 Market Street, Sydney NSW on Thursday 24 November 2005 at 10.00am.

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider:

- (a) the financial reports;
- (b) the directors' report; and
- (c) the auditor's report

of the Company (and the Group) for the year ended 30 June 2005.

Re-election of Directors

To consider and, if thought fit, to pass the following ordinary resolutions:

1. **THAT** *Mr Chris Wilks, who retires in accordance with Article 71 of the Company's Constitution and, being eligible, offers himself for re-election, be re-elected as a director of the Company.*
2. **THAT** *Mr Peter Campbell, who retires in accordance with Article 71 of the Company's Constitution and, being eligible, offers himself for re-election, be re-elected as a director of the Company.*
3. **THAT** *Mr Louis Panaccio, who was appointed as a director during the year and who retires in accordance with Article 69 of the Company's Constitution and, being eligible, offers himself for election, be elected as a director of the Company.*

VOTING NOTE:

All members are entitled to vote on Resolutions 1, 2 and 3



SPECIAL BUSINESS

Executive Director Remuneration

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

4. **THAT** the participation by Dr Colin Goldschmidt (Managing Director), from 26 November 2007 to 24 November 2008, in the Executive Incentive Plan in the manner set out in the Explanatory Memorandum to this Notice of Meeting be approved for all purposes, including for the purpose of ASX Listing Rule 10.14.

VOTING NOTE:

Sonic shall disregard any votes cast in respect of Resolution 4 by:

- Dr Colin Goldschmidt;
- all other Directors (on the basis that they are eligible to participate in the employee incentive arrangements of the Company),

and any of their associates.

However, Sonic will not disregard votes cast by any such person as proxy for a member who is entitled to vote, in accordance with the directions on the proxy form, or by the Chairman of the meeting as proxy for a member who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

5. **THAT** the participation by Mr Chris Wilks (Finance Director), from 26 November 2007 to 24 November 2008, in the Executive Incentive Plan in the manner set out in the Explanatory Memorandum to this Notice of Meeting be approved for all purposes, including for the purpose of ASX Listing Rule 10.14.

VOTING NOTE:

Sonic shall disregard any votes cast in respect of Resolution 5 by:

- Mr Chris Wilks;
- all other Directors (on the basis that they are eligible to participate in the employee incentive arrangements of the Company),

and any of their associates.

However, Sonic will not disregard votes cast by any such person as proxy for a member who is entitled to vote, in accordance with the directions on the proxy form, or by the Chairman of the meeting as proxy for a member who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.



Remuneration Report

To consider and, if thought fit, to pass the following ordinary resolution:

6. ***THAT the remuneration report for the year ended 30 June 2005 be adopted.***

VOTING NOTE:

The vote on this resolution is advisory only and does not bind the Company or its directors.

By ORDER of the Board of Directors

Paul Alexander
Company Secretary

Dated, 25 October 2005

NOTES:

This Notice is accompanied by an Explanatory Memorandum which provides an explanation of the proposed resolutions.

Voting Entitlement

1. For the purposes of the 2005 Annual General Meeting, shares will be taken to be held by the persons who are registered as members at 7.00pm on 22 November 2005. Accordingly, transfers registered after that time will be disregarded in determining members entitled to attend and vote at the meeting.

Proxies

2. A member has a right to appoint a proxy, who need not be a member of the Company.
3. If a member is entitled to cast two or more votes, the member may appoint two proxies.
4. Where more than one proxy is appointed and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the member's voting rights.
5. The form of proxy must be signed by the member or the member's attorney. Proxies given by corporations must be signed in accordance with the member's constitution and the *Corporations Act 2001 (Cth)* or under the hand of a duly authorised officer or attorney. In the case of joint holders, the form of proxy must be signed by all holders.



6. You may return your proxy form to Sonic's share registry by faxing, posting or delivering it to the relevant address below, or to the registered office of Sonic.

By fax: 61 8 8236 2305

By Mail: Sonic Healthcare Limited

C/o Computershare Investor Services Pty Limited

GPO Box 242

Melbourne VIC 3001

Australia

7. Your proxy form must be received no later than 48 hours before commencement of the Annual General Meeting (ie by 10.00am on 22 November 2005). A form of proxy accompanies this Notice.
8. Alternatively, you may appoint a proxy by the electronic medium available at the website www.computershare.com/proxy/au/Sonic. At the website, members will be able to view an electronic version of the proxy form, which will accept votes and register them accordingly. A member who wishes to use this medium must register their votes by no later than 10.00am on 22 November 2005.
9. Unless a member specifically directs the proxy how to vote, the proxy may vote as he or she thinks fit or abstain from voting.



EXPLANATORY MEMORANDUM

ORDINARY BUSINESS

Resolutions 1, 2 and 3 – Re-election of Directors

Under Article 71 of the Constitution of the Company and in accordance with the listing rules of Australian Stock Exchange Limited, no director may hold office for a continuous period in excess of 3 years or past the third Annual General Meeting following the director's appointment, whichever is the longer, without submitting for re-election. Chris Wilks and Peter Campbell are required to retire as directors at the end of the 2005 Annual General Meeting but, being eligible, offer themselves for re-election.

Under Article 69 of the Constitution of the Company and in accordance with the listing rules of Australian Stock Exchange Limited, the Directors may appoint any person as a director. That person shall hold office until the end of the next following annual general meeting and shall be eligible for election at that meeting without needing to give any prior notice. Louis Panaccio is required to retire as a director at the end of the 2005 Annual General Meeting but, being eligible, offers himself for election.

Brief biographical details of Chris Wilks, Peter Campbell and Louis Panaccio are set out below:

- **Chris Wilks** (B.Comm. (Univ Melb) A.S.A., F.C.I.S., F.A.I.C.D.)

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

- **Peter Campbell** (F.C.A., F.T.I.A., F.A.I.C.D.)

Mr Campbell is a Chartered Accountant with his own practice based in Sydney. He is a Fellow of the Institute of Chartered Accountants in Australia, the Taxation Institute of Australia and the Australian Institute of Company Directors. He is a Registered Company Auditor. Mr Campbell is the Chairman of the Audit Committee and a member of both the Remuneration Committee and the Nominations Committee.

- **Louis Panaccio** (B.Ec, C.A., M.A.I.C.D.)

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



SPECIAL BUSINESS

Resolutions 4 and 5 – Executive Director Remuneration

During the 2003/4 financial year, Sonic Healthcare's Remuneration Committee undertook a detailed review of the remuneration arrangements for Dr Colin Goldschmidt (Managing Director) and Mr Chris Wilks (Finance Director) (together the **Executives**) to ensure their remuneration was in line with current best practice and appropriate to retain their services and provide incentives linked to the Company's performance. At the conclusion of that review, the board agreed to enter into a 5 year arrangement (as detailed in Sonic's 2004 Annual Report (Note 32 of the Financial Statements) and 2005 Remuneration Report) with each Executive (including the 2003/04 year). That agreement was subject to shareholder approval where required.

At the 2004 Annual General Meeting, shareholders approved the participation of the Executives in new remuneration arrangements which include an incentive plan under which shares and options may be issued to the Executives subject to the satisfaction of certain performance conditions (the **Executive Incentive Plan**).

The effect of ASX Listing Rule 10.15A.9 is that shareholders may only approve participation in the Executive Incentive Plan to the extent that the shares and options issued to the Executives under that plan are issued within three years after the date of the general meeting at which the shareholder approval was given.

By approving the participation of the Executives in the Executive Incentive Plan at the 2004 Annual General Meeting which was held on 25 November 2004, shareholders approved participation by the Executives in the Executive Incentive Plan for the period to 25 November 2007 (the **Initial Period**), which covered four years of the five year arrangement.

Approval is now being sought for the issue of shares and options to the Executives under the Executive Incentive Plan in the final year of the operation of the arrangement. This approval will cover issues of shares and options in the period from 26 November 2007 to 24 November 2008 (the **Final Year**). Should the Board of Sonic wish to use the Executive Incentive Plan to issue shares or options to the Executives beyond 24 November 2008, Sonic will bring the matter back to shareholders for approval.

The manner in which the Executive Incentive Plan will operate in the Final Year will be identical to the operation of the plan in the Initial Period (as disclosed in the 2004 Notice of Meeting and Explanatory Memorandum). That manner is described below.

1. Equity Incentive

The remuneration arrangements currently in place include an incentive plan under which shares and options may be issued to the Executives subject to the satisfaction of performance conditions. The terms of the Executive Incentive Plan are described below and in item 2. If approved by shareholders at the 2005 Annual General Meeting, these arrangements will continue on the same terms throughout the Final Year until 24 November 2008.

Shares have been issued under the Executive Incentive Plan in accordance with the terms disclosed in the 2004 Notice of Meeting and Explanatory Memorandum. Since the Core



EPS was at least 10% greater for the 2003/4 financial year than it was for the 2002/3 financial year, on 26 November 2004 the Executives were issued with fully paid shares as follows:

- Dr Goldschmidt - 20,000 shares;
- Mr Wilks – 10,750 shares.

Since the Core EPS was at least 10% greater for the 2004/5 financial year than it was for the 2003/4 financial year, on 24 August 2005 the Executives were issued with the following number of additional fully paid shares:

- Dr Goldschmidt - 20,000 shares;
- Mr Wilks – 10,750 shares.

For the remaining 2 years in the Initial Period and, if approved by shareholders at the 2005 Annual General Meeting, for the Final Year, this short term incentive arrangement will continue to operate each year prior to 24 November 2008 in the following manner.

In the event that the Core EPS is at least 10% greater for a financial year than it was for the previous financial year, the Executives will be issued with fully paid shares as follows:

- Dr Goldschmidt - 20,000 shares;
- Mr Wilks - 10,750 shares.

If Core EPS growth is less than 10% for that period, no shares will be issued. However, if Core EPS growth for the subsequent financial year is greater than or equal to the Core EPS reported for the financial year that occurred two years prior, compounded at 10% for the two years, the number of shares listed above will be issued to the Executives immediately following the announcement of the Company's financial results for that subsequent financial year.

2. Long Term Incentive

Options have been and will continue to be issued under the Executive Incentive Plan as follows. Since Core EPS of at least \$0.42 was achieved for the 2003/4 financial year, on 26 November 2004 the Executives were granted options over shares in the company as follows:

- Dr Goldschmidt was granted 1,000,000 options, exercisable at \$7.50; and
- Mr Wilks was granted 540,000 options, exercisable at \$7.50.

Since the Core EPS for the 2004/5 financial year was at least 10% greater than \$0.42, on 22 August 2005 the Executives were granted options over shares in the company as follows:

- Dr Goldschmidt was granted 1,000,000 options, exercisable at \$7.50; and
- Mr Wilks was granted 540,000 options, exercisable at \$7.50.

The exercise price of \$7.50 was Sonic's share price at the time (February 2004) the 5 year remuneration arrangement between the Company and the Executives was agreed.



Of the options granted, 50% will vest after 2 years from the date of grant and the remaining 50% will vest after 3 years from the date of grant. The options will lapse if not exercised within 5 years after the date of grant, or if the Executive resigns voluntarily or the Executive's employment is terminated for cause before the options have vested.

The same number of options will be issued with the same terms in the remaining 2 years of the Initial Period and in the Final Year (subject to shareholder approval being obtained at the 2005 Annual General Meeting), provided that Core EPS is at least equal to the \$0.42 base set for the 2003/4 financial year compounded at 10% for each subsequent annual period. As with the short term incentive, if Core EPS growth of at least 10% is not achieved in a particular year but is made up in a subsequent year, then options not issued in the previous year will be issued in the subsequent year.

Other terms of the Executive Incentive Plan in respect of the options:

Subject to reconstruction in accordance with the ASX Listing Rules on a reorganisation of capital by Sonic, one option confers on the holder the right, on exercise, to be issued with one ordinary share. On their allotment, shares issued on the exercise of options will rank equally in all respects with any issued ordinary shares and Sonic must apply for such shares to be quoted on the ASX.

Options will not confer any right to participate in new issues of securities of Sonic without first exercising the option, nor a right to a change in the exercise price or a change to the number of Shares over which it can be exercised, other than as permitted under the ASX Listing Rules.

ASX Listing Rule 10.14

Under ASX Listing Rule 10.14, an issue of securities under the Executive Incentive Plan to Directors is required to be approved by shareholders. Under Listing Rule 10.15A.9, shareholder approval is only valid for issues of securities that occur within 3 years after the date of the meeting at which shareholder approval is obtained.

At the 2004 Annual General Meeting the shareholders approved the participation by the Executives in the Executive Incentive Plan for the Initial Period.

Approval is now being sought for the issue of shares and options to the Executives under the Executive Incentive Plan in the manner described above for the Final Year. If the Executive Incentive Plan is to be used to grant shares or options to the Executives beyond 24 November 2008, Sonic will bring any such proposal back to shareholders for approval.

ASX Listing Rule 10.15A requires this Notice of Meeting to include the following specified information in relation to the shares and options to be granted to the Executives under the Executive Incentive Plan:

- (i) The maximum number of shares that may be acquired by Dr Colin Goldschmidt (including those acquired to date) under the Executive Incentive Plan is 100,000, and the maximum number of options is 5,000,000 (including those acquired to date). Mr Chris Wilks may acquire up to 53,750 shares and up to 2,700,000 options under the Executive Incentive Plan (including those acquired to date). At the 2004 Annual General Meeting shareholders



approved the issue of 80% of these shares and options, and this Notice of Meeting relates only to the issue of the final 20% of these shares and options, to be issued in the Final Year.

- (ii) The price (including a statement whether the price will be, or be based on, the market price) or the formula for calculating the price for each security to be acquired under the Executive Incentive Plan - the Executives are not required to pay anything for the grant of shares and options under the Executive Incentive Plan. All options granted under the Executive Incentive Plan will have an exercise price of \$7.50. The exercise price of \$7.50 was Sonic's share price at the time (February 2004) the 5 year remuneration arrangement between the Company and the Executives was agreed.
- (iii) The names of all Directors and their associates who received securities under the Executive Incentive Plan since the last approval, the number of the securities received and acquisition price for each security. Since the 2004 Annual General Meeting, Dr Goldschmidt received 40,000 shares and 2,000,000 options. In the same period, Mr Wilks received 21,500 shares and 1,080,000 options. Neither Mr Goldschmidt or Mr Wilks were required to pay for these securities.
- (iv) The names of all Directors and their associates entitled to participate in the Executive Incentive Plan – Dr Goldschmidt and Mr Wilks are the only Directors entitled to participate in the Executive Incentive Plan.
- (v) A voting exclusion statement - see each "Voting Note" under Resolutions 4 and 5 in the Notice of Meeting.
- (vi) The terms of any loan in relation to the acquisition - not applicable.

Details of any securities issued under the Executive Incentive Plan will be published in each annual report of Sonic relating to a period in which securities have been issued, and that approval for issue of the securities was obtained under ASX Listing Rule 10.14.

If shareholders approve Resolutions 4 and 5 at the 2005 Annual General Meeting, any additional persons who become entitled to participate in the Executive Incentive Plan after Resolutions 4 and 5 were approved and who were not named in this Notice of Meeting will not participate in the Executive Incentive Plan until shareholder approval is obtained under ASX Listing Rule 10.14.

The Sonic Board does not intend to extend participation in the Executive Incentive Plan other than to Dr Goldschmidt and Mr Wilks.

If shareholders approve Resolutions 4 and 5 at the 2005 Annual General Meeting, shares and options may be issued to Dr Goldschmidt and Mr Wilks as described above during the Final Year (but not after the Final Year). Should the Board of Sonic wish to issue further shares or options to Dr Goldschmidt and Mr Wilks beyond the Final Year, shareholder approval must be obtained for those further issues.

Approval of remuneration arrangements

The base package and cash bonus components of the remuneration arrangements do not require shareholder approval.



If shareholder approval is not obtained under Resolutions 4 and 5 for the issue of shares and options under the short and long term incentives, Sonic will need to provide an equivalent form of remuneration to the Executives.

Resolution 6 – Remuneration Report

Sonic's 2005 Annual Report contains a Remuneration Report (as part of the Directors' Report) which sets out the remuneration policy for the Company and reports the remuneration arrangements in place for Directors and specified executives.

The Corporations Act now requires the Notice of Meeting for the Annual General Meeting to include a resolution for the adoption of the Remuneration Report. The vote on the resolution is advisory only and is not binding on the Directors or the Company.

Shareholders will be provided with a reasonable opportunity to ask questions about the Remuneration Report at the Annual General Meeting.



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