

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 2003 AND
EXPLANATORY MEMORANDUM**

The meeting of shareholders will be held in the Dixson Room, State Library of New South Wales, Macquarie Street, Sydney NSW on 27 November 2003 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 25 November 2003.



Notice of Annual General Meeting 2003

Notice is given that the 2003 Annual General Meeting of Sonic Healthcare Limited ("Sonic" or "the Company") will be held in the Dixson Room, State Library of New South Wales, Macquarie Street, Sydney NSW on Thursday 27 November 2003 at 10.00am.

AGENDA

ORDINARY BUSINESS

Reports and Accounts

Receipt of the Statement of Financial Position of the Company (and the Group) as at 30 June 2003 and the Statement of Financial Performance for the financial year ended on that date, together with the statements and reports of the directors and the auditor, and notes attached to and intended to be read with the financial statements.

Re-election of Directors

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

1. **THAT** *Mr Barry Patterson, 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 Colin Jackson, 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** *Dr Michael Robinson, 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.*

VOTING NOTE:

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

SPECIAL BUSINESS

Renewal of Approval of Employee Option Plan

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

4. **THAT** *for the purposes of Listing Rule 7.2 of Australian Stock Exchange Limited and for all other purposes, the issue of options to acquire ordinary shares under and in accordance with the terms of the Sonic Healthcare Limited Employee Option Plan be approved.*

VOTING NOTE:

Sonic will disregard any votes cast on Resolution 4 by any director of Sonic who is eligible to participate in any employee incentive scheme and any member who, as at the date of the meeting, is an associate of such a director, except that 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.

Executive Directors' Options

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

5. **THAT** *the expiry date for options originally issued to Dr Colin Goldschmidt (Managing Director) to acquire 3 million ordinary shares in the capital of the Company at \$5.32 each, as approved by shareholders of the Company on 15 November 1999, be amended from 20 April 2005 to 20 April 2010.*

VOTING NOTE:

Sonic shall disregard any votes cast in respect of Resolution 5 by Dr Colin Goldschmidt or by any member who, as at the date of the meeting, is an associate of Dr Goldschmidt, except that 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.

6. **THAT** *the expiry date for options originally issued to Mr Christopher Wilks (Finance Director) to acquire 1.5 million ordinary shares in the capital of the Company at \$5.32 each, as approved by shareholders of the Company on 15 November 1999, be amended from 20 April 2005 to 20 April 2010.*

VOTING NOTE

Sonic shall disregard any votes cast in respect of Resolution 6 by Christopher Wilks or by any member who, as at the date of the meeting, is an associate of Mr Wilks, except that 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.

Proportional Takeover Approval Provisions

To consider and, if thought fit, to pass the following resolution as a special resolution:

7. **THAT** *the Constitution of the Company be amended by reinstating Articles 113, 114 and 115 relating to proportional takeover approvals, but with the references to "scheme" amended to "bid" and "offeror" amended to "bidder", with the result that Articles 113, 114 and 115 will cease to have effect (unless subsequently renewed) on 27 November 2006.*

VOTING NOTE:

All members are entitled to vote on Resolution 7.

By ORDER of the Board of Directors



Paul Alexander

Company Secretary

Dated, 27 October 2003

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 2003 Annual General Meeting, shares will be taken to be held by the persons who are registered as members at close of business on 25 November 2003. 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 or posting 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 25 November 2003). 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 25 November 2003.
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. Messrs Barry Patterson and Colin Jackson and Dr Michael Robinson are required to retire as directors at the end of the 2003 Annual General Meeting but, being eligible, offer themselves for re-election. Brief biographical details of Messrs Patterson, and Jackson and Dr Robinson are set out below:

- **Mr 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.

- **Mr 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.

SPECIAL BUSINESS

Resolution 4 – Approval of Employee Option Plan

The Sonic Healthcare Limited Employee Option Plan (**Plan**) was approved by members at the 1995 Annual General Meeting and renewed at the 2000 Annual General Meeting on 24 November 2000. Since that approval, 5,586,600 options have been issued under the Plan, of which none have been exercised to date.

The purpose of Resolution 4 is to receive shareholder endorsement for the continued operation of the Plan by the Board of Sonic. Sonic believes it to be an appropriate corporate governance initiative to periodically seek shareholder approval of the Plan's operation. An additional consequence of renewal of approval of the Plan is that any issues of options under the Plan in the 3 years following the date of Resolution 4 will not be included in calculating the limit under the ASX Listing Rules (being 15% of existing ordinary share capital) which applies to issues of securities by the Company which may occur without shareholder approval.

Executive directors may be offered options under the Plan. Before this can occur, the ASX Listing Rules require that shareholder approval be obtained. Providing that Resolutions 5 and 6 are passed, it is not intended that any new options be issued to executive directors in the next 12 months.

Summary of the terms of the Plan

As required by the ASX Listing Rules, a summary of the terms and conditions of the Plan is set out below. A complete copy of those terms and conditions is available to members free of charge upon request.

1. Maximum number of shares

The number of shares that would be issued were each option under the Plan to be exercised must not at any time exceed 5% of the total number of issued Sonic shares from time to time, disregarding issues of options or issues of shares on their exercise following the making of an offer or invitation, to a person situated at the time of receipt of the offer or invitation outside Australia or by way of excluded offer or invitation.

2. Participants

Options under the Plan may be offered to such employees or executive directors of Sonic as it sees fit. Before executive directors can be offered options under the Plan, the ASX Listing Rules require that shareholder approval be obtained.

If an option holder ceases to be an employee or director by reason of dismissal or resignation (as defined in the Plan), the options held by that person will lapse unless the Board of Sonic otherwise determines. If an option holder ceases to be an employee or director by reason of retirement (as defined in the Plan), the options held by that person will remain capable of exercise (subject to paragraph 3 below) unless the Board otherwise determines.

Options issued under the Plan are personal to the option holder and may not be assigned, transferred or otherwise dealt with (except by the legal personal representative of a deceased option holder if the terms of exercise so provide).

3. Exercise period

The Plan was recently amended by the Board so that options will vest and be exercisable no earlier than 3 years after the date of grant and otherwise in accordance with their terms of issue. (Prior to the amendment, up to 50% of the options could have been exercised after the end of 30 months after the date of grant.) Subject to some limited exceptions (such as illness or incapacity), the option holder must still be an employee of Sonic at the time the options are exercised. All vested options must be exercised before the end of 60 months after the date of grant, after which time they will lapse.

4. Exercise Conditions

In addition to the vesting period described above, the terms of issue may specify a performance hurdle which must be achieved before the options can be exercised, even if the 3 year vesting period has passed. The terms of issue may, subject to the provisions of the Plan, vary as between participants and be personalised for particular employees.

It is the current intention of the Board that, where options are granted to executives, their exercise will be subject to performance hurdles. The imposition of performance hurdles is a new initiative. The Board has decided that it is appropriate that options granted to executives be subject to performance hurdles so as to align their remuneration with performance of the company and returns to and value creation for shareholders. The performance hurdle which the Board intends to adopt is to be based on average growth of core earnings per share over the options' vesting period. The extent to which the performance hurdle is achieved will determine the number of options which vest and become exercisable by the executive.

5. Other Exercise Terms

If a takeover bid is made for voting shares in Sonic, all unexercised options shall become exercisable within 30 days (or such longer period as the Board determines) of the occurrence of the takeover bid. Thereafter, unexercised options shall continue in force subject to the terms and conditions of the Plan.

6. Consideration

Any monetary consideration payable on issue of an option is to be determined by the Board of Sonic, but is not to exceed the lesser of 1 cent and 1% of the exercise price of the option.

7. Exercise price

The exercise price of an option shall be determined by the Board of Sonic by adding 5 cents to the weighted average sale price per share for Sonic shares sold on the ASX in the 5 business days preceding the date of issue of the option.

8. Manner of exercise

The exercise of options shall be made by notice to the Board of Sonic, together with payment of the exercise price. Within 21 days of receipt of the notice, Sonic must allot the number of shares in respect of which the option is exercised and, not more than 30 business days after the exercise, despatch to the option holder an acknowledgement of the allotment.

9. Adjustment

If, whilst an option remains unexercised, Sonic reconstructs its share capital (including by way of consolidation, subdivision, reduction or return), the number of options or the exercise price of the options or both will be adjusted accordingly. Adjustments may also be made to take into account changes to the capital structure of Sonic that occur by way of pro-rata bonus and cash issues.

10. Rights

Shares issued on the exercise of an option will rank equally in all respects with other issued Sonic ordinary shares. Sonic must, in accordance with the Listing Rules, apply for shares issued on any exercise of an option to be listed for quotation on the ASX.

11. Alteration of the Plan

Subject to the requirements of the ASX Listing Rules, the Board of Sonic may at any time vary the terms and conditions of the Plan, provided that the interests' of the participants are not, in the opinion of the Board, materially prejudiced.

Resolutions 5 and 6 – Executive Directors' Options

Sonic's 1999 Notice of Annual General Meeting contained resolutions to approve the following issues of securities:

- 3 million options to Dr Colin Goldschmidt (Managing Director); and
- 1.5 million options to Christopher Wilks (Finance Director),
(together the **Options**).

The resolutions were approved by shareholders and the Options were issued to the two directors in April 2002 (the **Executive Directors**). The Options are currently held by related parties of the Directors.

The Options were granted to the Executive Directors for their contribution to Sonic and to provide appropriate medium to long term incentives to the Executive Directors to continue to provide their services to Sonic to help ensure the success of Sonic and to increase shareholder value in the long term.

The Options were exercisable as follows:

- (i) one sixth after the first anniversary of the date of grant;
- (ii) a further one third after the second anniversary of the date of grant; and
- (iii) the remainder after the third anniversary of the date of grant.

As you can see, as at the date of this Notice, all of the options are, therefore, fully vested and exercisable.

The Options have an exercise price of \$5.32. (At the time of the 1999 Annual General Meeting, when shareholder approval for issue of the Options was obtained, the exercise price was set at \$5.50. The exercise price has been amended to \$5.32 as a result of the SciGen spin off.)

Under their terms, the Options will lapse on 20 April 2005. Sonic's Remuneration Committee has sought and obtained extensive external advice regarding an appropriate long term incentive program for the Executive Directors. It has been advised that there may be retention risks given that the Executive Directors are not currently part of any long term incentive plan. If the Executive Directors were to exercise the Options now (as is their entitlement), the Remuneration Committee has been advised that new programs would need to be established or new options or shares would have to be issued to provide future incentives. Also, in order to fund the exercise of the Options, the Executive Directors would need to immediately sell the majority of their newly issued shares, thereby removing

the future incentive and potentially creating an investor perception that the Executive Directors did not have faith in the future of the company.

The Remuneration Committee has considered that an extension to the exercise period of the Options of a further 5 years would provide a long term incentive for the Executive Directors and have a less dilutive effect than if the Options were exercised now and new securities issued. The Remuneration Committee of Sonic has therefore determined to extend the exercise period of the Options until 20 April 2010, subject to shareholder approval.

ASX Listing Rule 6.23.3 provides that a change to options that has the effect of increasing the period for exercise cannot be made. Sonic has sought and obtained a waiver from ASX Listing Rule 6.23.3, on the following terms:

Based solely on the information provided, Australian Stock Exchange Limited grants Sonic Healthcare Limited (the "Company") a waiver from listing rule 6.23.3 to the extent necessary to permit the Company to seek shareholder approval to amend the terms of 4.5 million options originally issued to Directors of the Company exercisable at \$5.32 each on or before 20 April 2005 (the "Options"), to extend the expiry date of the Options to 20 April 2010.

Resolution 7 – Proportional Takeover Approval Provisions

1. Introduction

The Company's Constitution currently contains Articles 113, 114 and 115 dealing with proportional takeover approval (the **Articles**). The Articles give the Company power to prohibit the registration of a transfer of shares resulting from a proportional takeover bid, unless shareholders in a general meeting approve the bid.

In accordance with the Corporations Act, these Articles cease to have effect on 31 July 2004. Reinstating the Articles in the Constitution would mean that the Articles will have effect for three years from the date of the 2003 Annual General Meeting. The expressions "bid" and "bidder" have now replaced "scheme" and "offeror" under the Corporations Act, and Resolution 7 proposes similar changes to the Articles.

In considering Resolution 7, shareholders should consider specific matters which the Corporations Act requires the Company to address in a statement to shareholders. These matters are, in summary:

- the effect of the Articles proposed to be renewed;
- the reason for proposing the resolution;
- whether any of the directors are aware of a proposal by a person to acquire, or to increase the extent of, a substantial interest in the Company; and
- the potential advantages and disadvantages of the Articles proposed to be renewed for the directors and the shareholders of the Company.

The directors consider it is in the interests of the shareholders for the Company to have the Articles in the Constitution.

2. Effect of the Articles

The effect of the Articles is that, if a proportional takeover bid is received, the directors are required to convene a meeting of shareholders to vote on a resolution to approve the proportional bid. That meeting must be held at least 15 days before the bid closes. If the proportional bid is not approved, the registration of any transfer of shares resulting from that bid will be prohibited and the bid will be deemed to be withdrawn. If the proportional bid is approved, the transfers will be registered, provided they comply with the other provisions of the Corporations Act and the Company's Constitution. The provisions of the Articles do not apply to takeover bids for the whole of the issued shares of the Company. The Articles will cease to have effect after 3 years following the 2003 Annual General meeting unless renewed at a subsequent general meeting.

3. Reasons for Proposing Resolution 7

Without the Articles, a proportional takeover bid may enable control of the Company to be acquired without shareholders having an opportunity to dispose of all their shares to the bidder. Shareholders could thus risk being left as part of a minority interest in the Company. If shareholders considered that control of the Company was likely to pass under any takeover bid, they could be placed under pressure to accept the bid even if they did not want control of the Company to pass to the bidder. The proposed amendment will prevent this by permitting shareholders in general meeting to decide whether a proportional takeover bid should be permitted to proceed.

4. Proposed Action

As at the date of this notice, no director is aware of any proposal by any person to acquire or increase the extent of a substantial interest in the Company.

5. Advantages and Disadvantages of the Articles

The directors of the Company consider that the Articles have no potential advantages or disadvantages for them as they remain free to make a recommendation on whether a proportional takeover bid should be accepted.

The potential advantages of the Articles for shareholders of the Company are that:

- (a) it gives shareholders their own say in determining, by majority vote, whether a proportional takeover bid should proceed;
- (b) it may assist shareholders in not being "locked in" as a relatively powerless minority;
- (c) it increases shareholders' bargaining power and may assist in ensuring that any future proportional bid is adequately priced; and
- (d) knowing the view of the majority shareholders assists each individual shareholder in assessing the likely outcome of the proportional takeover bid, and whether to accept or reject that bid.

With regard to the possible disadvantages to shareholders, it could be argued that the Articles reduce the possibility of a successful proportional takeover bid and that, as a result, proportional bids for the Company will be discouraged, with a consequent possible depressing effect on the Company's share price. The counter argument to this is that the procedure does not adversely affect bids which are attractive to the majority of shareholders.

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