

Notice of Annual General Meeting

Notice is given that the 2016 Annual General Meeting of Healthscope Limited (**Healthscope** or the **Company**) will be held at Sheraton Melbourne Hotel, 27 Little Collins Street, Melbourne, Victoria on Friday, 21 October 2016 at 10 am (Melbourne time).

Agenda items

1. Financial Report

To receive and consider the Financial Report of the Company and its controlled entities and the Reports of the Directors and Auditor for the year ended 30 June 2016.

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

2. Election of Directors

- 2.1 That Jane McAloon, being eligible, be elected as a Director of the Company.
- 2.2 That Paul O'Sullivan, being eligible, be elected as a Director of the Company.
- 2.3 That Ziggy Switkowski, being eligible, be elected as a Director of the Company.

3. Remuneration Report

That the Remuneration Report for the year ended 30 June 2016 be adopted.

Note: The vote on this resolution is advisory only and does not bind the Directors or the Company. A voting exclusion statement applies to this resolution (see section 2 of the notes relating to voting).

4. Approval of deferred short term incentive grant of performance rights to the MD and CEO

That approval be given for all purposes, including ASX Listing Rule 10.14, for the grant of performance rights to Robert Cooke as his annual deferred short term incentive grant for the year ended 30 June 2016 on the terms described in the Explanatory Memorandum accompanying this Notice of Meeting.

Note: A voting exclusion statement applies to this resolution (see section 2 of the notes relating to voting).

5. Approval of long term incentive grant of performance rights to the MD and CEO

That approval be given for all purposes, including ASX Listing Rule 10.14, for the grant of performance rights to Robert Cooke as his annual long term incentive grant for the year ended 30 June 2017 on the terms described in the Explanatory Memorandum accompanying this Notice of Meeting.

Note: A voting exclusion statement applies to this resolution (see section 2 of the notes relating to voting).

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

6. Renewal of proportional takeover approval provisions

That the proportional takeover provisions contained in Rule 6 of the Company's Constitution be renewed for a further 3 years with effect from the date of the meeting.

The notes relating to voting and the Explanatory Memorandum form part of this Notice of Meeting.

By Order of the Board



Ingrid Player
Company Secretary
19 September 2016

Notes relating to voting

1. Entitlement to vote

In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Board has determined that persons who are registered holders of shares in the Company as at 7:00 pm (Melbourne time) on Wednesday 19 October 2016 will be entitled to attend and vote at the Annual General Meeting as a shareholder. Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

If more than one joint holder of shares is present at the Annual General Meeting (whether personally, by proxy or by attorney or by representative) and tenders a vote, only the vote of the joint holder whose name appears first on the register will be counted.

On a poll, shareholders have one vote for every fully paid ordinary share held (subject to the restrictions on voting referred to below).

2. Voting exclusions

Resolution 3

The Company will disregard any votes cast on resolution 3:

- by or on behalf of a member of the Company's key management personnel (**KMP**) named in the Company's Remuneration Report for the year ended 30 June 2016 or their closely related parties, regardless of the capacity in which the vote is cast; or
- as a proxy by a person who is a member of the Company's KMP at the date of the meeting or their closely related parties,

unless the vote is cast as proxy for a person entitled to vote on resolution 3:

- in accordance with a direction in the proxy form; or
- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy even though resolution 3 is connected with the remuneration of the KMP.

Resolution 4 and 5

The Company will disregard any votes cast on resolution 4 or 5:

- by or on behalf of Mr Cooke and any of his associates, regardless of the capacity in which the vote is cast; or
- as a proxy by a person who is a member of the Company's KMP at the date of the meeting or their closely related parties,

unless the vote is cast as proxy for a person entitled to vote on resolution 4 and 5:

- in accordance with a direction in the proxy form; or
- by the Chairman of the meeting pursuant to an express authorisation to exercise the proxy even though resolution 4 and 5 are connected with the remuneration of the KMP.

3. Proxies

- A shareholder entitled to attend and vote has a right to appoint a proxy to attend and vote instead of the shareholder. A proxy need not be a shareholder and can be either an individual or a body corporate. A shareholder can appoint a proxy by completing and returning a signed proxy form (see section 4 of these notes relating to voting, and the enclosed proxy form).
- A shareholder that is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the shareholder's votes.
- If a shareholder appoints a body corporate as a proxy, that body corporate will need to ensure that it:
 - appoints an individual as its corporate representative to exercise its powers at the meeting, in accordance with section 250D of the *Corporations Act 2001* (Cth) (**Corporations Act**); and
 - provides satisfactory evidence of the appointment of its corporate representative prior to commencement of the meeting.
- If you wish to indicate how your proxy should vote, please mark the appropriate boxes on the proxy form. If you do not direct your proxy how to vote on a particular item of business, you are authorising your proxy to vote as they decide, subject to any applicable voting exclusions.
- Unless the Chairman of the meeting is your proxy, members of the Company's KMP (which includes each of the Directors) will not be able to vote as proxy on resolutions 3, 4 or 5, unless you direct them how to vote. If you intend to appoint a member of the KMP (such as one of the Directors) as your proxy, you should ensure that you direct that person how to vote on resolutions 3, 4 and 5.

Notes relating to voting

- f. If you intend to appoint the Chairman of the meeting as your proxy, you can direct the Chairman how to vote by marking the boxes for the relevant resolution (for example, if you wish to vote “for”, against” or to “abstain” from voting). However, if you do not mark a box next to resolutions 3, 4 or 5, then by signing and submitting the proxy form, you will be expressly authorising the Chairman to vote as they see fit in respect of resolutions 3, 4 and 5 even though they are connected with the remuneration of the Company’s KMP.
- g. If:
- a poll is duly demanded at the Annual General Meeting in relation to a proposed resolution;
 - a shareholder has appointed a proxy (other than the Chairman of the meeting) and the appointment of the proxy specifies the way the proxy is to vote on the resolution; and
 - that shareholder’s proxy is either not recorded as attending the meeting or does not vote on the resolution, the Chairman of the meeting will, before voting on the resolution closes, be taken to have been appointed as the proxy for the shareholder for the purposes of voting on that resolution and must vote in accordance with the written direction of that shareholder.
- h. Please note that for proxies without voting instructions that are exercisable by the Chairman of the meeting, the Chairman intends to vote all available proxies in favour of each resolution.

4. Proxy form

A proxy form accompanies this Notice and to be effective must be received no later than 10 am (Melbourne time) Wednesday 19 October 2016 at:

Online: www.investorvote.com.au
Mail: Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia
Facsimile: (within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

5. Corporate representatives

A body corporate that is a shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the Annual General Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of his or her appointment, including any authority under which it has been signed, unless it has previously been given to the Company.

6. Voting by attorney

A shareholder entitled to attend and vote may appoint an attorney to act on his or her behalf at the Annual General Meeting. An attorney may but need not be a member of the Company.

An attorney may not vote at the meeting unless the instrument appointing the attorney, and the authority under which the instrument is signed or a certified copy of the authority, are received by the Company in the same manner, and by the same time, as outlined above for proxy forms.

7. Questions for the Auditor

Shareholders may submit written questions to the Company’s Auditor, Deloitte, if the question is relevant to the content of Deloitte’s Audit Report for the year ended 30 June 2016 or the conduct of its audit of the Company’s Financial Report for the year ended 30 June 2016.

Relevant written questions for the Auditor must be received by the Company by no later than 5:00 pm (Melbourne time), Friday 14 October 2016. Please send any written questions to:

Company Secretary
Healthscope Ltd
PO Box 7586,
Melbourne VIC 8004
Facsimile: +61 3 9926 7533
Email: legal@healthscope.com.au

A list of written questions will be made available to shareholders attending the meeting. If written answers are tabled at the meeting, they will be made available to shareholders as soon as practicable after the meeting.

Explanatory Memorandum

This Explanatory Memorandum has been prepared to help shareholders understand the items of business at the forthcoming Annual General Meeting.

1. Financial Report

The Corporations Act requires:

- the reports of the Directors and Auditors; and
- the annual Financial Report, including the Financial Statements of the Company for the year ended 30 June 2016,

to be laid before the Annual General Meeting. Neither the Corporations Act nor the Company's Constitution requires a vote of shareholders on the reports or statements. However, shareholders will be given an opportunity to raise questions or comments on the management of the company.

Also, a reasonable opportunity will be given to shareholders as a whole at the meeting to ask the Company's Auditor questions relevant to the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and the independence of the Auditor in relation to the conduct of the audit.

Shareholders can access a copy of the annual report on the Company's website at www.healthscope.com.au.

2. Election of Directors

2.1 Election of Jane McAloon

Jane McAloon has been a director of Healthscope since 1 March 2016.

Ms McAloon is a Director of Energy Australia Holdings Limited, Australian Defence Force Assistance Trust and a member of Monash University Industry Council of Advisers.

Ms McAloon's brings experience from her work in highly regulated industries including rail, energy, infrastructure and resources sectors. In her executive career, she has held senior executive positions at BHP Billiton and AGL, as well as in NSW State Government.

Ms McAloon's past appointments include Member of Australian War Memorial Council and the Australian Corporations and Markets Advisory Committee.

She holds a Bachelor of Economics degree (Honours), a Bachelor of Law from Monash University and a Graduate Diploma in Applied Corporate Governance. She is a Fellow of Chartered Institute of Secretaries and a Fellow of the Australian Institute of Company Directors.

The Board considers Ms McAloon to be independent.

Recommendation

The Board (with Ms McAloon abstaining) recommends that shareholders vote **in favour** of resolution 2.1.

2.2 Election of Paul O'Sullivan

Paul O'Sullivan has been a director of Healthscope since 1 January 2016.

Mr O'Sullivan is the Chairman of SingTel Optus Pty Limited and a Member of the Board of Commissioners Telkomsel (Indonesia) and St George & Sutherland Medical Research Foundation.

His experience spans the telecommunications, banking and oil & gas sectors both in Australia and overseas. In his executive career, Paul held senior executive roles with Singapore Telecommunications (Singtel). He was previously the CEO of Optus and has also held international management roles with the Colonial Group and the Royal Dutch Shell Group.

Mr O'Sullivan was previously a Member of the Board Bharti Airtel (India).

He holds a Bachelor of Arts Degree in Economics from Trinity College, Dublin and has attended the Advanced Management Program at Harvard Business School, USA.

The Board considers Mr O'Sullivan to be independent.

Recommendation

The Board (with Mr O'Sullivan abstaining) recommends that shareholders vote **in favour** of resolution 2.2.

Explanatory Memorandum

2.3 Election of Zygmunt (Ziggy) Switkowski AO

Ziggy Switkowski has been a director of Healthscope since 4 April 2016.

Dr Switkowski is the Chairman of Suncorp Group Ltd and NBN Co limited and is a Director of Tabcorp Holdings Limited, Oil Search Limited and Chancellor of RMIT.

Ziggy is an established Non Executive Director. He has previously held positions as Chief Executive Officer of Telstra Corporation Limited and Optus Communications Ltd, and is a former Chairman and Managing Director of Kodak Australasia Pty Ltd.

Dr Switkowski was previously the Chairman of Opera Australia and Australian Nuclear Science and Technology Organisation and a Director at Healthscope (2006 - 2010).

Dr Switkowski holds a Bachelor of Science (Honours) and a Ph.D from the University of Melbourne. He has attended the Advanced Management Program at Harvard Business School, USA. He is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Academy of Science and a Fellow of the Australian Academy of Technological Sciences and Engineering.

The Board considers Dr Switkowski to be independent.

Recommendation

The Board (with Dr Switkowski abstaining) recommends that shareholders vote **in favour** of resolution 2.3.

3. Remuneration Report

Shareholders will have a reasonable opportunity at the meeting to ask questions about or make comments on the Remuneration Report. The Remuneration Report on pages 31 - 46 of the Company's 2016 Annual Report sets out the remuneration policies of the Company and reports on the remuneration arrangements in place for the Company's KMP during the year ended 30 June 2016.

As prescribed by the Corporations Act, the vote on the adoption of the Remuneration Report is advisory only and does not bind the Directors or the Company. However, the Board will take the outcome of the vote and discussion at the meeting into account in setting remuneration policy for future years.

A voting exclusion statement applies to this resolution, as set out in the Notice of Meeting.

Recommendation

The Board recommends that shareholders vote **in favour** of the adoption of the Remuneration Report.

4. Approval of deferred short term incentive grant of performance rights to the MD and CEO

Pursuant to ASX Listing Rule 10.14, the Company is seeking shareholder approval for the grant of performance rights to Mr Cooke, Managing Director and Chief Executive Officer (**MD and CEO**), as part of his Short Term Incentive (**STI**) award for the year ended 30 June 2016 (**FY16**).

Subject to shareholder approval, the performance rights will be granted under Healthscope's Equity Incentive Plan within 12 months of the meeting.

Key terms of the FY16 STI award

The STI plan (including its performance conditions) is designed to provide increased focus on, and reward for, performance against those areas that most significantly drive the delivery of the Company's strategic initiatives.

The Board introduced a deferred equity component for STI awards for FY16.

For FY16, the MD and CEO was entitled to receive an STI award of up to 150% of his total fixed remuneration with:

- 70% of his STI award payable in cash; and
- 30% deferred into equity in the form of performance rights, subject to shareholder approval.

As disclosed in the 2016 Remuneration Report, Mr Cooke was awarded a total STI of \$1,899,034 for FY16.

This award equates to an achievement of 82% of the maximum STI opportunity (or 123.2% of the target STI opportunity). 30% of this award is to be deferred into STI performance rights.

Subject to shareholder approval, the Board proposes to grant the MD and CEO 187,405 STI performance rights. The number of STI performance rights to be granted has been determined by dividing the deferred STI amount (i.e. 30% of Mr Cooke's total STI award relating to FY16 performance, being \$569,710) by the volume weighted average share price of Healthscope shares traded over the ASX on the five trading days following the release of the FY16 full year financial results, rounded up to the nearest whole number.

As the STI performance rights will form part of Mr Cooke's remuneration for FY16, they will be granted at no cost and there will be no amount payable on vesting.

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Each performance right entitles Mr Cooke to one ordinary share in the Company on vesting. The Board retains a discretion to make a cash equivalent payment in lieu of an allocation of shares. Prior to vesting, performance rights do not entitle Mr Cooke to any dividends or voting rights.

Vesting condition

STI performance rights will vest after the satisfaction of a two-year service period ending on 31 August 2018 (**Deferral Period**).

Other key terms of the STI performance rights

Cessation of employment

Where employment is terminated for cause or ceases due to resignation (other than due to death, ill health or disability) all unvested performance rights will automatically lapse.

In all other circumstances, the performance rights will remain on foot and subject to the terms of the offer, as if the MD and CEO had not ceased employment.

However, pursuant to the Equity Incentive Plan Rules, the Board retains discretion to vest or lapse some or all performance rights in all circumstances.

Change of control

In the event of a takeover bid or other transaction, event or state of affairs that in the Board's opinion is likely to result in a change in control of the Company, the STI performance rights will vest, unless the Board determines otherwise.

Clawback

The Board has broad "clawback" powers to determine that performance rights lapse, any shares allocated on vesting are forfeited, or that amounts are to be repaid in certain circumstances (for example, in the case of serious misconduct).

Restrictions on dealing

Mr Cooke must not sell, transfer, encumber, hedge or otherwise deal with performance rights.

Mr Cooke will be free to deal with the shares allocated on vesting of the performance rights, subject to the requirements of Healthscope's Policy for Dealing in Securities.

Additional information provided in accordance with ASX Listing Rule 10.15

- This is the first time the Company is seeking approval for a grant of STI performance rights under the Company's Equity Incentive Plan. Following shareholder approval at the 2015 Annual General Meeting, 697,925 LTI performance rights were issued to Mr Cooke (at no cost) under the Company's Equity Incentive Plan as his FY16 LTI award. More details on the LTI performance rights are contained in the notes to item 5.
- Mr Cooke is the only Director entitled to participate in, and receive performance rights under, the Equity Incentive Plan.
- No loan will be made by the Company in relation to the acquisition of STI performance rights or allocation to Mr Cooke of any shares on vesting of those rights.
- Under ASX Listing Rule 7.1, every listed entity has the ability to issue 15% of its issued capital without security holder approval in a 12 month period. When an entity issues or agrees to issue securities under ASX Listing Rule 7.1 without security holder approval, that issue or agreement to issue uses up part of the 15% available under that rule. However, if approval is given under ASX Listing Rule 10.14, approval will not be required under ASX Listing Rule 7.1. This means that the performance rights granted to Mr Cooke and any shares issued pursuant to this approval will not use up part of the 15% available under ASX Listing Rule 7.1.

A voting exclusion statement applies to this resolution, as set out in the Notice of Meeting.

Recommendation

The Board (with Mr Cooke abstaining) recommends that shareholders vote **in favour** of the grant of performance rights to Mr Cooke.

5. Approval of long term incentive grant of performance rights to the MD and CEO

Pursuant to ASX Listing Rule 10.14, the Company is seeking shareholder approval for the grant of performance rights to Mr Robert Cooke, MD and CEO, as part of his Long Term Incentive (**LTI**) award for the year ended 30 June 2017 (**FY17**).

Subject to shareholder approval, the performance rights will be granted under Healthscope's Equity Incentive Plan within 12 months of the meeting.

Explanatory Memorandum

Key terms of the FY17 LTI award

The LTI plan is designed to align the interests of the MD and CEO with the interests of shareholders by providing the opportunity to receive an equity interest in Healthscope through the granting of performance rights.

Mr Cooke will be granted 625,119 LTI performance rights, which have been determined by dividing Mr Cooke's LTI opportunity (i.e. 120% of Mr Cooke's total fixed remuneration, being \$1,900,361) by the volume weighted average share price of Healthscope shares traded on the ASX over the five trading days following the announcement of the FY16 full year financial results, rounded up to the nearest whole number.

As the LTI performance rights will form part of Mr Cooke's remuneration, they will be granted at no cost and there will be no amount payable on vesting. Each performance right entitles Mr Cooke to one ordinary share in the Company on vesting. The Board retains a discretion to make a cash equivalent payment in lieu of an allocation of shares. Prior to vesting, performance rights do not entitle Mr Cooke to any dividends or voting rights

Performance conditions

The LTI award will be split into two tranches:

- Tranche one – 75% of the performance rights will be subject to an Absolute Earnings Per Share (EPS) hurdle. An average threshold of 50% of target over the performance period must be reached before any performance rights measured against the EPS target can vest.
- Tranche two – 25% of the performance rights will be subject to a Relative Total Shareholder Return (RTSR) hurdle. Additionally, this tranche will not be tested or vest unless the absolute TSR gate or threshold of 7.5% is achieved.

RTSR measures the performance of an ordinary Healthscope share (including the value of any cash dividend and any other shareholder benefits paid during the period) against total shareholder return performance of a comparator group of companies, comprising the S&P ASX100 Index, over the same period.

These hurdles and vesting schedules are set out below:

Tranche one: Absolute EPS Performance (75% Weighting)	Tranche two: Relative TSR Performance (25% Weighting)	Portion of performance rights that will vest against relevant target
Less than the threshold target	Less than the 50th percentile	Nil
Equal to the threshold target	At 50th percentile	50%
Greater than the threshold target, up to maximum target	Between 50th and 75th percentile	Straight line vesting between 50% and 100%
At or above maximum target	At or above the 75th percentile	100%

Testing of the performance conditions

The performance period will run from 1 July 2016 to 30 June 2019.

Tranche one: EPS

EPS is calculated using Continuing Business net profit after tax excluding other income and expense items (Operating NPAT) divided by the weighted average number of shares on issue during the year. As a recently listed company, Healthscope does not have the history of EPS data to use as a basis for setting three year EPS targets. For the FY17 grant the EPS target will therefore consist of three annual EPS targets set by the Board and based on projected performance for each year. The EPS vesting outcome for each of the three years will be averaged to provide an overall outcome for the performance period. In assessing performance against EPS targets, the Board retains discretion to review outcomes to ensure that any aberrant results of testing are avoided. The Board will disclose the EPS targets used in the calculation of executive reward after the conclusion of each performance period.

Tranche two: RTSR

Before the RTSR hurdle is measured, the Company must obtain a minimum TSR of 7.5% over the performance period. If this gateway is not achieved, no awards will vest, regardless of the RTSR performance.

For the FY17 award, RTSR performance will be independently assessed over the performance period against a peer group comprising constituents of the S&P ASX 100 index.

No retesting is permitted.

Other key terms of the LTI performance rights

Cessation of employment

Where employment is terminated for cause or ceases due to resignation (other than due to death, ill health or disability) all unvested performance rights will automatically lapse.

Explanatory Memorandum

In all other circumstances, the performance rights will remain on foot and subject to the original performance conditions, as if the MD and CEO had not ceased employment.

However, pursuant to the Equity Incentive Plan Rules, the Board retains discretion to vest or lapse some or all performance rights in all circumstances.

Change of control

Where there is likely to be a change of control, the Board has the discretion to accelerate vesting of some or all of the performance rights. Where only some of the performance rights are vested on a change of control, the remainder of the performance rights will immediately lapse.

If a change of control occurs before the Board exercises its discretion, a pro-rata portion of the performance rights (equal to the portion of the relevant performance period that has elapsed up to the change of control) will vest.

Clawback

The Board has broad “clawback” powers to determine that performance rights lapse, any shares allocated on vesting are forfeited, or that amounts are to be repaid in certain circumstances (for example, in the case of serious misconduct).

Restrictions on dealing

Mr Cooke must not sell, transfer, encumber, hedge or otherwise deal with performance rights.

Mr Cooke will be free to deal with the shares allocated on vesting of the performance rights, subject to the requirements of Healthscope’s Policy for Dealing in Securities.

Additional information provided in accordance with ASX Listing Rule 10.15

- Since the last shareholder approval at the 2015 Annual General Meeting, 697,925 LTI performance rights were issued to Mr Cooke (at no cost) as his FY16 LTI award. These are the only performance rights that have been granted under the Company’s Equity Incentive Plan since last shareholder approval was received.
- Mr Cooke is the only Director entitled to participate in, and receive performance rights under, the Equity Incentive Plan.
- No loan will be made by the Company in relation to the acquisition of performance rights or allocation to Mr Cooke of any shares on vesting of those rights.
- Under ASX Listing Rule 7.1, every listed entity has the ability to issue 15% of its issued capital without security holder approval in a 12 month period. When an entity issues or agrees to issue securities under ASX Listing Rule 7.1 without security holder approval, that issue or agreement to issue uses up part of the 15% available under that rule. However, if approval is given under ASX Listing Rule 10.14, approval will not be required under ASX Listing Rule 7.1. This means that the performance rights granted to Mr Cooke and any shares issued pursuant to this approval will not use up part of the 15% available under ASX Listing Rule 7.1.

A voting exclusion statement applies to this resolution, as set out in the Notice of Meeting.

Recommendation

The Board (with Mr Cooke abstaining) recommends that shareholders vote **in favour** of the grant of performance rights to Mr Cooke.

6. Renewal of proportional takeover approval provisions

The Company’s Constitution currently contains provisions dealing with proportional takeover bids for Healthscope shares in accordance with the Corporations Act. The provisions, which are contained in Rule 6 of the Constitution, are designed to assist shareholders to receive proper value for their shares if a proportional takeover bid is made for the Company.

Under the Corporations Act, these provisions must be renewed every three years or they will cease to have effect. The current provisions will automatically cease to have effect after 28 June 2017 unless renewed by the proposed special resolution. Therefore, these provisions must be renewed at this Annual General Meeting in order to apply to any future proportional takeover offers.

If these provisions are renewed by shareholders at the meeting, they will be in exactly the same terms as the existing provisions and will operate for three years.

A copy of the Company’s current Constitution is available on the Company’s website www.healthscope.com.au.

Statement under the Corporations Act

The Corporations Act requires that the following information be provided to shareholders when they are considering the inclusion of proportional takeover provisions in a Constitution.

Explanatory Memorandum

Effect

A proportional takeover offer is where an offer is made to each shareholder for a proportion of that shareholder's shares, and not for the shareholder's entire shareholding.

The current provisions of the Constitution state that, if a proportional takeover bid is made, the Directors must ensure that shareholders vote on a resolution to approve the bid more than 14 days before the bid period closes (or such later date as is approved by the Australian Securities and Investments Commission).

The vote is decided on a simple majority. Each person who, as at the end of the day on which the first offer under the bid was made, held bid class securities is entitled to vote, but the bidder and its associates are not allowed to vote.

If the resolution is not passed, transfers which would have resulted from the acceptance of a bid will not be registered and the bid will be taken to have been withdrawn. If the bid is approved (or taken to have been approved), the transfers must be registered if they comply with the Corporations Act and the Company's Constitution.

The Directors will breach the Corporations Act if they fail to ensure the approving resolution is voted on. However, if the resolution is not voted on, the bid will be taken to have been approved.

The proportional takeover approval provisions do not apply to full takeover bids and only apply for 3 years after approval. The provisions may be renewed, but only by a special resolution.

Reasons for renewing the provisions

If the proportional takeover approval provision is not in the Constitution, a proportional takeover bid may enable control of the Company to pass without shareholders having the opportunity to sell all of their shares to the bidder. Shareholders may therefore be exposed to the risk of being left as a minority in the Company and the risk of the bidder being able to acquire control of the Company without payment of an adequate control premium for their shares. The proposed proportional takeover provisions decrease this risk because they allow shareholders to decide whether a proportional takeover bid is acceptable and should be permitted to proceed.

Review of proportional takeover provisions

While proportional takeover approval provisions have previously been in force under the Company's Constitution, there have been no full or proportional takeover bids for the Company. Therefore, there is no example against which to review the advantages or disadvantages of the provisions for the Directors and the shareholders.

Potential advantages and disadvantages

The Directors consider that the renewal of the proportional takeover approval provisions has no potential advantages or disadvantages for them. They remain free to make a recommendation as to whether an offer under a proportional takeover bid should be accepted.

The potential advantages of the proportional takeover approval provisions for shareholders of the Company are:

- shareholders have the right to decide by majority vote whether an offer under a proportional takeover bid should proceed;
- the provisions may help shareholders avoid being locked in as a minority;
- the bargaining power of shareholders is increased (this may help ensure that any partial offer is adequately priced); and
- knowing the view of the majority of shareholders may help each individual shareholder assess the likely outcome of the proportional takeover bid and to decide whether to accept or reject that offer.

The potential disadvantages for shareholders of the Company include:

- proportional takeover bids for shares in the Company may be discouraged;
- shareholders may lose an opportunity of selling some of their shares at a premium; and
- the chance of a proportional takeover bid being successful may be reduced.

The Board considers that the potential advantages for shareholders of the proportional takeover approval provisions outweigh the potential disadvantages. In particular, shareholders as a whole are able to decide whether or not a proportional takeover bid is successful.

No knowledge of any acquisition proposals

At the date of this Notice of Meeting, no Director is aware of a proposal by a person to acquire, or to increase the extent of, a substantial interest in the Company. Rule 6 of the Company's current Constitution provides that the Company can refuse to register shares acquired under a proportional takeover bid unless a resolution is passed by shareholders in general meeting approving the offer.

Recommendation

The Board recommends that shareholders vote **in favour** of the renewal of the proportional takeover approval provisions in the Company's Constitution.

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