

Notice of Annual General Meeting

In accordance with rules 13.2 and 13.3 of the constitution, notice is hereby given that the inaugural Annual General Meeting of members of Austin Engineering Limited (*"the Company"*) will be held at the offices of Phillips Fox, Level 29, Waterfront Place, 1 Eagle Street, Brisbane, Queensland 4000, at 10.00am on Friday 26 November 2004.

Ordinary Business

1. Consideration of reports:

To receive and consider the Financial Statements and Directors' Report for the year ended 30 June 2004 and the Auditor's Report on the financial report.

2. To re-elect three Directors:

Resolution 1: Re-election of Mr Peter George Fitch

To consider and if thought fit to pass, with or without amendment, the following ordinary resolution:

"That Mr P.G. Fitch, a non-executive Director retiring in accordance with rule 3.3 of the Constitution of the Company and, being eligible, is re-elected as a Director of the Company".

Resolution 2: Re-election of Mr Peter Louis Pursey

To consider and if thought fit to pass, with or without amendment, the following ordinary resolution:

"That Mr P.L. Pursey, a non-executive Director retiring in accordance with rule 3.3 of the Constitution of the Company and, being eligible, is re-elected as a Director of the Company".

Resolution 3: Re-election of Mr Eugene Fung

To consider and if thought fit to pass, with or without amendment, the following ordinary resolution:

"That Mr E. Fung, a non-executive Director retiring in accordance with rule 3.3 of the Constitution of the Company and, being eligible, is re-elected as a Director of the Company".

3. Non-executive Directors fees:

Resolution 4: Approve an increase in non-executive Directors' fees

To consider and if thought fit to pass, with or without amendment, the following resolution as an ordinary resolution:

"That the maximum aggregate amount payable to non-executive Directors by way of Directors' fees be increased from \$120,000 to \$200,000 per year, to be divided among them in such a proportion and manner as the Directors determine."

Voting exclusion statement

The Company will disregard any votes cast on this resolution by the Directors or their associates.

However, the Company will not disregard a vote if:

- a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with directions on the proxy form; or
- b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with directions on the proxy form to vote as the proxy decides

Special Business

4. Proposed grant of options over 1,250,000 fully paid shares in the Company to the Directors:

Resolution 5: Proposed grant of options to Mr Peter George Fitch

To consider and if thought fit to pass, with or without amendment, the following as an ordinary resolution:

"That for the purposes of Part 2E.1 of the Corporations Act 2001 (Cth) and Rule 10.11 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, shareholder approval is given for:

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Special Business (Cont'd)

4. Proposed grant of options over 1,250,000 fully paid shares in the Company to the Directors:

Resolution 5: Proposed grant of options to Mr Peter George Fitch (Cont'd)

- a) the granting of 250,000 options to acquire 250,000 fully paid ordinary shares to Mr P.G. Fitch, or his nominees, on terms as outlined in the explanatory memorandum attached the notice of meeting; and
- b) the issue and allotment of 250,000 fully paid ordinary shares to Mr P.G. Fitch on exercise of the options in accordance with the terms and conditions of the grant."

Voting exclusion statement

The Company will disregard any votes cast on this resolution by Mr Fitch and his associates. However, the Company will not disregard a vote if:

- a) it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution; and
- b) it is not cast on behalf of Mr Fitch or his associates.

Resolution 6: Proposed grant of options to Mr Peter Louis Pursey

To consider and if thought fit to pass, with or without amendment, the following as an ordinary resolution:

"That for the purposes of Part 2E.1 of the Corporations Act 2001 (Cth) and Rule 10.11 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, shareholder approval is given for:

- a) the granting of 250,000 options to acquire 250,000 fully paid ordinary shares to Mr P.L. Pursey, or his nominees, on terms as outlined in the explanatory memorandum attached the notice of meeting; and
- b) the issue and allotment of 250,000 fully paid ordinary shares to Mr P.L. Pursey on exercise of the options in accordance with the terms and conditions of the grant."

Voting exclusion statement

The Company will disregard any votes cast on this resolution by Mr Pursey and his associates. However, the Company will not disregard a vote if:

- a) it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution; and
- b) it is not cast on behalf of Mr Pursey or his associates.

Resolution 7: Proposed grant of options to Mr Eugene Fung

To consider and if thought fit to pass, with or without amendment, the following as an ordinary resolution:

"That for the purposes of Part 2E.1 of the Corporations Act 2001 (Cth) and Rule 10.11 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, shareholder approval is given for:

- a) the granting of 250,000 options to acquire 250,000 fully paid ordinary shares to Mr E. Fung, or his nominee, on terms as outlined in the explanatory memorandum attached the notice of meeting; and
- b) the issue and allotment of 250,000 fully paid ordinary shares to Mr E. Fung on exercise of the options in accordance with the terms and conditions of the grant."

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Special Business (Cont'd)

4. Proposed grant of options over 1,250,000 fully paid shares in the Company to the Directors:

Resolution 7: Proposed grant of options to Mr Eugene Fung (Cont'd):

Voting exclusion statement

The Company will disregard any votes cast on this resolution by Mr Fung and his associates. However, the Company will not disregard a vote if:

- a) it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution; and
- b) it is not cast on behalf of Mr Fung or his associates.

Resolution 8: Proposed grant of options to Mr Michael Douglas Buckland

To consider and if thought fit to pass, with or without amendment, the following as an ordinary resolution:

"That for the purposes of Part 2E.1 of the Corporations Act 2001 (Cth) and Rule 10.11 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, shareholder approval is given for:

- a) *the granting of 500,000 options to acquire 500,000 fully paid ordinary shares to Mr M.D. Buckland, or his nominee, on terms as outlined in the explanatory memorandum attached the notice of meeting; and*
- b) *the issue and allotment of 500,000 fully paid ordinary shares to Mr M.D. Buckland on exercise of the options in accordance with the terms and conditions of the grant."*

Voting exclusion statement

The Company will disregard any votes cast on this resolution by Mr Buckland and his associates. However, the Company will not disregard a vote if:

- a) it is cast by a person as a proxy appointed in writing that specifies how the proxy is to vote on the proposed resolution; and
- b) it is not cast on behalf of Mr Buckland or his associates.

5. Proposed grant of options over 100,000 fully paid shares in the Company to the Company Secretary:

Resolution 9: Proposed grant of options to Mr Colin McIntosh Anderson

To consider and if thought fit to pass, with or without amendment, the following as an ordinary resolution:

"That for the purposes of Listing Rule 7.1 and for all other purposes, shareholder approval is given for:

- a) *the granting of 100,000 options to acquire 100,000 fully paid ordinary shares to Mr C.M. Anderson, or his nominee, on terms as outlined in the explanatory memorandum attached the notice of meeting; and*
- b) *the issue and allotment of 100,000 fully paid ordinary shares to Mr C.M. Anderson on exercise of the options in accordance with the terms and conditions of the grant."*

Voting exclusion statement

The Company will disregard any votes cast on this resolution by Mr Anderson or his associates. However, the Company will not disregard a vote if:

- a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with directions on the proxy form; or
- b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with directions on the proxy form to vote as the proxy decides.

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Other business

6. To transact any other business which may be lawfully brought before the meeting.

By Order of the Board

Colin M. Anderson
Company Secretary
1 October 2004

NOTES

1. For the purposes of Regulation 7.11.37 of the Corporations Regulations 2001, the Directors have determined that the voting entitlements for the purposes of the General Meeting will be based on the registered holdings as at 7.00pm (Brisbane time) on Wednesday 24 November 2004. Accordingly those persons will be entitled to attend and vote at the meeting.
2. You may vote by attending the General Meeting in person, by proxy, attorney or authorised representative.
3. A proxy form is enclosed with the Notice. If an additional proxy form is required, the Company's share registry will supply it on request.
4. Each shareholder who is entitled to attend and vote at the General Meeting has a right to appoint a proxy. A shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, then each proxy may exercise one-half of the votes. Fractions of votes will be disregarded. A proxy need not be a shareholder of the Company.
5. To be effective, the Company must receive the completed proxy form and, if the form is signed by the shareholder's attorney, the authority under which the proxy form is signed (or a certified copy of the authority) by no later than 48 hours before the meeting:
 - a) at its registered office at 173 Cobalt Street, Carole Park, Queensland, 4300; or
 - b) by facsimile to its registered office on fax number +61 7 3271 3689; or
 - c) at its share registry, Advanced Share Registry Services, Level 7, 200 Adelaide Terrace, Perth, Western Australia, 6000 (fax number +61 8 9221 7869)
6. Proxies given by corporate shareholders must be executed in accordance with their constitutions, or under the hand of a duly authorised officer or attorney.
7. A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business, the proxy may vote on that item only in accordance with the direction. If a proxy is not directed how to vote on an item of business, the proxy may vote as he or she thinks fit.

Explanatory Notes to Notice of Annual General Meeting

The following information is provided to shareholders to assist them in deciding how to vote on each resolution set out in the Notice of Annual General Meeting.

1. ITEM 1: FINANCIAL STATEMENTS AND REPORTS

Section 317 of the Corporations Act 2001 (Cth) requires each of the Financial Report (which includes the Financial Statements and Directors' Declaration), the Directors' Report and the Auditor's Report for the last financial year to be laid before the Annual General Meeting.

There is no requirement for the Financial Statements and Reports to be formally approved by shareholders. The Financial Statements and Reports referred to in item 1 of the Notice of Meeting are included in the Annual Report sent to shareholders.

Shareholders will be given a reasonable opportunity at the Meeting to ask questions and to make comments on those reports and on the business, operations and management of the Company. The Company's external auditor, Rothsays, will be in attendance to respond to questions in relation to the conduct of the audit and the preparation and content of the Auditor's Report.

2. ITEM 2: RE-ELECTION OF DIRECTORS

Resolutions 1, 2 and 3 – re-election of Mr Peter George Fitch, Mr Peter Louis Pursey and Mr Eugene Fung

As disclosed in the Company's prospectus, the Company's intention after listing was to appoint a new Board to take the newly-listed Company forward. Accordingly, after listing, Mr D.A. Hamlyn and Mr L.A. Colless resigned from the Board and were replaced by Mr P.G. Fitch (as the new independent non-executive Chairman) and Mr P.L. Pursey and Mr E. Fung as independent non-executive Directors. Each of the new Directors were appointed to fill the casual vacancies created by the resigning Directors.

Rule 3.3 of the Company's Constitution requires that any Director appointed by the Board automatically retires at the next Annual General Meeting and is eligible for re-election. At this Annual General Meeting, Mr P.G. Fitch, Mr P.L. Pursey and Mr E. Fung are retiring from office in accordance with rule 3.3 of the Company's Constitution and, being eligible, are all seeking re-election as Directors of the Company. Their details are:

Mr Peter George Fitch

Independent Non-Executive Director, Aged 64

Mr Fitch was appointed a Director of the Company on 10 March 2004. He is a professional engineer and has over 35 years experience in the engineering and mining industries. He is Chairman of Oldenburg Stamler Australasia and Oldenburg Mining South Africa.

The Directors (with Mr Fitch absent and not voting) recommend that shareholders vote in favour of this resolution.

Mr Peter Louis Pursey, AM

Independent Non-Executive Director, Aged 54

Mr Pursey was appointed a Director of the Company on 10 March 2004. He has extensive experience as a Company Director of both listed and non-listed public companies in Australia and the USA. He is experienced in executive management and currently provides corporate advisory and development services to emerging and growth companies, particularly in the areas of strategic planning, capital raising and project management.

The Directors (with Mr Pursey absent and not voting) recommend that shareholders vote in favour of this resolution.

Explanatory Notes to Notice of Annual General Meeting

2. ITEM 2: RE-ELECTION OF DIRECTORS

Resolutions 1, 2 and 3 – re-election of Mr Peter George Fitch, Mr Peter Louis Pursey and Mr Eugene Fung (Cont'd)

Mr Eugene Fung

Independent Non-executive Director, Aged 35

Mr Fung was appointed a Director of the Company on 21 April 2004. He is a corporate lawyer and partner of the national law firm, Phillips Fox. He advises both listed and unlisted companies regularly on corporate finance matters, mergers and acquisitions, corporate governance and the ASX listing rules. He holds degrees in law and commerce from the University of Queensland and a Graduate Diploma in Applied Finance from the Securities Institute and is a member of the Australian Institute of Company Directors and an Associate of the Securities Institute of Australia.

The Directors (with Mr Fung absent and not voting) recommend that shareholders vote in favour of this resolution).

3. ITEM 3: NON-EXECUTIVE DIRECTORS' FEES

Resolution 4: *Approve an increase in non-executive Directors' fees*

The current remuneration of \$120,000 per annum was disclosed to investors in the Company's replacement prospectus dated 8 December 2003. The current remuneration of Directors is \$35,000 per annum for each of the non-executive Directors and \$40,000 per annum for the Chairman.

Clause 10.2 of the Constitution provides that non-executive Directors may be paid an amount of fees not exceeding in aggregate an amount last fixed by ordinary resolution.

Further, listing rule 10.17 provides that a listed company must not, without shareholder approval, increase the total amount of non-executive Directors' fees.

Accordingly, for the purposes of the constitution and listing rule 10.17 and all other purposes, shareholder approval is sought to increase the maximum aggregate amount which can be paid as fees to non-executive Directors from \$120,000 to \$200,000 per year.

Increasing the maximum amount of non-executive Directors' fees payable will give the Board the ability to secure for the Company the services of an additional non-executive Director, should the Board determine that such an appointment is desirable or necessary. Further, it will enable the Company, following a review, to increase non-executive Directors' fees over the coming twelve months to a level of Directors' remuneration which reflects market conditions and their increased responsibilities following the recent acquisition of the Company's West Australian business division, John's Engineering.

4. ITEM 4: PROPOSED GRANT OPTIONS TO DIRECTORS

Resolutions 5, 6, 7 and 8: Proposed grant of 250,000 options each to Messrs Fitch, Pursey and Fung and 500,000 options to Mr Buckland

4.1 Reason for the proposals

The proposed options to be granted form part of the remuneration package promised by the Company to the Managing Director, Mr Buckland, and to the new non-executive Directors on their appointment.

The Company's intention was disclosed to investors in its replacement prospectus dated 8 December 2003. Consistent with that intention each Director's entitlement to be granted the options (subject to shareholder approval) was disclosed to ASX on 15 March 2004 (for Messrs Fitch, Pursey and Buckland) and 28 April 2004 (for Mr Fung).

The Board could have convened a special general meeting of shareholders to approve the grant of the options to Messrs Fitch, Pursey and Buckland and to the new non-executive director, Mr Fung, when they were appointed earlier this year. However, the Board decided to wait until the Annual General Meeting in order to save the administrative cost of convening and holding a special general meeting so soon after the listing of the Company.

Explanatory Notes to Notice of Annual General Meeting

4. ITEM 4: PROPOSED GRANT OPTIONS TO DIRECTORS

Resolutions 5, 6, 7 and 8: Proposed grant of 250,000 options each to Messrs Fitch, Pursey and Fung and 500,000 options to Mr Buckland

4.1 Reason for the proposals (Cont'd)

The Board believes that the proposed grant of options is fair and reasonable because:

- the cash component of the Directors' fees of \$35,000 for each non-executive and \$40,000 for the Chairman are relatively low given the responsibilities and liabilities of being a Director of a listed company carrying on a manufacturing business; and
- at the time the Directors' remuneration was structured, the option exercise price was more than 50% higher than the prospectus issue price.

4.2 Corporations Act and Listing Rules requirements

Section 208 of the Corporations Act 2001 ("the Act") provides that the Company must not give a financial benefit to a related party except under certain circumstances, including circumstances in which the shareholders approve the giving of the financial benefit.

Listing Rule 10.11 provides that a listed company must not issue or agree to issue any equity securities (which includes options over unissued shares) to a related party without the approval of shareholders.

Accordingly, shareholder approval is sought under Section 208 and Listing Rule 10.11 for the proposed grant of options to Directors. If approval is given to grant these options under Section 208 and Listing Rule 10.11, then further approval is not required under Listing Rule 7.1 because of the exception to that rule set out in Listing Rule 7.2 exception 14.

4.3 Section 219 information

In accordance with Section 219 of the Act the Directors provide the following information:

Related parties:

The related parties to whom the proposed resolutions would permit the financial benefit to be given are the Directors of the Company, namely, Mr P.G. Fitch (Chairman), Mr P.L. Pursey, Mr E. Fung and Mr M.D. Buckland (Managing Director).

Nature of financial benefit:

The nature of the proposed financial benefit to be given is the grant of the following unlisted options to acquire fully paid ordinary shares in the capital of the Company on the terms and conditions set out in this explanatory note:

Name of Director	Number of Options to be Granted
Peter George Fitch	250,000
Peter Louis Pursey	250,000
Eugene Fung	250,000
Michael Douglas Buckland	500,000
Total	1,250,000

Recommendations:

Resolution 5 (proposed grant of options to Mr Fitch) - each of the Directors (with Mr Fitch absent and not voting) recommend that shareholders vote in favour of the resolution.

Resolution 6 (proposed grant of options to Mr Pursey) - each of the Directors (with Mr Pursey absent and not voting) recommend that shareholders vote in favour of the resolution.

Resolution 7 (proposed grant of options to Mr Fung) - each of the Directors (with Mr Fung absent and not voting) recommend that shareholders vote in favour of the resolution.

Explanatory Notes to Notice of Annual General Meeting

4. ITEM 4: PROPOSED GRANT OPTIONS TO DIRECTORS

Resolutions 5, 6, 7 and 8: Proposed grant of 250,000 options each to Messrs Fitch, Pursey and Fung and 500,000 options to Mr Buckland

4.3 Section 219 information (Cont'd)

Recommendations:

Resolution 8 (proposed grant of options to Mr Buckland) - each of the Directors (with Mr Buckland absent and not voting) recommend that shareholders vote in favour of the resolution.

Directors' Interests:

Resolution 5 (proposed grant of options to Mr Fitch) – none of the Directors (other than Mr Fitch) have any personal or other interest in the outcome of the resolution.

Resolution 6 (proposed grant of options to Mr Pursey) – none of the Directors (other than Mr Pursey) have any personal or other interest in the outcome of the resolution.

Resolution 7 (proposed grant of options to Mr Fung) – none of the Directors (other than Mr Fung) have any personal or other interest in the outcome of the resolution.

Resolution 8 (proposed grant of options to Mr Buckland) – none of the Directors (other than Mr Buckland) have any personal or other interest in the outcome of the resolution.

Opportunity Costs:

(i) *Dilution of Capital*

If all options are exercised the capital structure of the Company will be as follows:

	Existing Capital Structure	After Exercise Of Options
Ordinary shares	35,705,740	36,955,740

Until exercised, the grant of the options will not impact on the number of ordinary shares on issue in the Company. But if all Directors' options were exercised, an additional 1,250,000 ordinary shares would be issued representing approximately 3.5% of all ordinary shares.

(ii) *Foregone capital inflow*

The rights of option holders to, and the obligation of the Company to issue, fully paid ordinary shares at an exercise (issue) price of 30 cents each may result in capital foregone by the Company to the extent that the market price of the Company's securities exceeds the issue price of the shares under the options on the day of allotment of the shares by the Company.

Taxation

As far as the Company is aware, there are no adverse taxation consequences to the Company arising from the proposed grant of the options.

Other information

There is no other information known to the Company or any of its Directors that is reasonably required by shareholders in order to decide whether or not it is in the Company's interest to pass the proposed resolution that is not contained in this Notice and Explanatory Note.

4.4 Value of benefit

The options will not be listed on the Australian Stock Exchange (ASX) and accordingly have no readily identifiable market value. However, the options have been valued at 17.7 cents each (\$221,250 in total) by the Directors using the valuation model contained in the International Accounting Standards Board's Exposure Draft ED2 "Share Based Payment".

Explanatory Notes to Notice of Annual General Meeting

4. ITEM 4: PROPOSED GRANT OPTIONS TO DIRECTORS

Resolutions 5, 6, 7 and 8: Proposed grant of 250,000 options each to Messrs Fitch, Pursey and Fung and 500,000 options to Mr Buckland

4.4 Value of benefit (Cont'd)

This model is based on the Black-Scholes Model, which is a function of the relationship between a number of variables principally being the share price, the option exercise price, the time to expiry, the risk-free interest rate and the volatility of the Company's underlying share price. The application of the model therefore requires a number of inputs, some of which must be assumed. The material assumptions used in the model were:

- Share price of the Company as at 20 September 2004 is 43.5 cents
- Exercise price of the options is 30 cents
- Expiry date of options is 26 November 2007
- Risk-free rate is 5.07%
- A volatility factor of 61%. This measure was determined having regard to the low and high values of the Company's shares from the listing of the Company's shares on the Australian Stock Exchange on 9 March 2004 to 20 September 2004; and
- A dividend yield of 2% over the period of the options

Some relatively minor variables were excluded in the calculation as theoretically the Black-Scholes model prices options that are only exercisable on a specific date whereas the options proposed to be issued are exercisable at any time on or before the stated expiry date.

4.5 Current remuneration of Directors (\$)

<u>Director</u>	<u>Fees</u>	<u>Salary</u>	<u>Car Benefits</u>	<u>Total</u>
P.G. Fitch	40,000	-	-	40,000
P.L. Pursey	35,000	-	-	35,000
E. Fung	35,000	-	-	35,000
M.D. Buckland	-	<u>163,500</u>	<u>19,752</u>	<u>183,252</u>
Total	<u>110,000</u>	<u>163,500</u>	<u>19,752</u>	<u>293,252</u>

4.6 Directors' interest in shares and options

The Directors' interest (before the proposed grant) in shares and options.

<u>Director</u>	<u>Shares</u>	<u>Options</u>
P.G. Fitch	Nil	Nil
P.L. Pursey	Nil	Nil
E. Fung	Nil	Nil
M.D. Buckland	1,800,000	Nil

4.7 Use of funds

All funds received from the exercise of the options will be applied towards the working capital and cash requirements of the Company at the time of the exercise of the options.

4.8 Proposed date of issue of the options

If the proposed resolution is passed, the Company will grant the options to the Directors immediately and in any event not later than one month after the resolution is passed.

Explanatory Notes to Notice of Annual General Meeting

4. ITEM 4: PROPOSED GRANT OPTIONS TO DIRECTORS

Resolutions 5, 6, 7 and 8: Proposed grant of 250,000 options each to Messrs Fitch, Pursey and Fung and 500,000 options to Mr Buckland

4.9 Option terms

1. Each option entitles the option holder to one (1) fully paid ordinary share in the capital of the Austin Engineering Limited.
2. The options shall expire on 5.00 pm Eastern Standard Time three (3) years from the date of grant ("expiry date").
3. The options are exercisable at a price of 30 cents at any time prior to the expiry date ("exercise price").
4. The options are freely transferable unless they are classified as restricted securities.
5. All shares to be allotted pursuant to the exercise of options will be allotted within 10 business days of exercise of the options and will rank pari passu in all respects with Austin Engineering Limited's then existing ordinary fully paid shares. Subject to the securities of Austin Engineering Limited being listed on ASX and to any restrictions imposed on the options or shares issued upon exercise of the options under the Listing Rules of ASX, Austin Engineering Limited will apply for Official Quotation by ASX of all shares issued upon exercise of the options on or before the third business day on which the ASX is open after the date of allotment of the shares.
6. A certificate will be issued for the options. Exercise of the options is effected by completing the notice of exercise of the options on the reverse side of the option certificate and surrendering the certificate to Austin Engineering Limited together with the required exercise price. If there is more than one option on a certificate and prior to the expiry date of those options are exercised in part, Austin Engineering Limited will issue another certificate for the balance of the options held and not yet exercised.
7. There are no participating rights or entitlement inherent in the options and holders will not be entitled to participate in new issues of capital offered to shareholders during the currency of the options. However, Austin Engineering Limited will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 10 business days after the issue is announced. This will give option holders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue.
8. If the Company makes an issue of ordinary shares pro rata to existing shareholders (other than an issue in lieu of in satisfaction of dividends or by way of dividend reinvestment) the exercise price of the option will be reduced according to the following formula:

$$\text{New exercise price} = O - \frac{E[P-(S+D)]}{N + 1}$$

O = the old exercise price of the option.

E = the number of underlying shares into which one option is exercisable.

P = the average market price per of Share (weighted by reference to volume) of the underlying shares during the 5 trading days ending on the day before the ex-rights date or ex-entitlements date.

S = the subscription price of a share under the pro rata issue.

D = the dividend due but not yet paid on the existing underlying shares (except those to be issued under the pro rata issue).

N = the number of shares with rights or entitlements that must be held to receive a right to one new share.

Explanatory Notes to Notice of Annual General Meeting

4. ITEM 4: PROPOSED GRANT OPTIONS TO DIRECTORS

Resolutions 5, 6, 7 and 8: Proposed grant of 250,000 options each to Messrs Fitch, Pursey and Fung and 500,000 options to Mr Buckland

4.9 Option terms (Cont'd)

9. In the event of any reconstruction (including a consolidation sub-division, reduction or return) of the issued capital of Austin Engineering Limited, the number of options or the exercise price of the options or both shall be reconstructed (as appropriate) in the manner required by the Listing Rules of ASX.
10. In such event Austin Engineering Limited has the power to vary the number of options or the exercise price of the options or the number of the shares to be issued upon exercise of the options or any all of these as the Directors reasonably consider necessary solely in order to comply with the Listing Rules. This compliance with the Listing Rules will be applied whether the securities of Austin Engineering Limited are listed or not on ASX.
11. Austin Engineering Limited will at least 10 business days before the expiry date of the options send notices to the option holders stating the name of the option holder, the number of options held and the number of securities to be issued on exercise of the option, the exercise price, the due date for payment and the consequences of non-payment.
12. Words and expressions in these terms and conditions of grant which are used in the ASX's Listing Rules have the same meanings given to them in the Listing Rules.

The options for Messrs Fitch, Pursey and Buckland must not be sold until after 9 March 2006 in accordance with escrow conditions required by ASX prior to the Company being admitted to the Official List of the ASX.

5. Item 5: PROPOSED GRANT OPTIONS TO COLIN McINTOSH ANDERSON

5.1 Resolution 9: Proposed grant of 100,000 options to Mr Colin McIntosh Anderson

Directors seek shareholder approval to grant options to the Company Secretary/Chief Financial Officer.

5.2 Reason for the proposal

The Board believes that there should be an appropriate mix of remuneration for executives comprising both cash and other components, including share-related securities to link the remuneration of the executives of the Company to the financial performance of the Company. Equity-based incentives consistent with the Company's remuneration policy better aligns individual executive performance with the financial performance and position of the Company. The Board also believes that remuneration that contains a component of equity assists the Company to attract and retained the best executives.

The Board believes that this remuneration policy is a balanced policy and contains the flexibility to enable the Board to adapt it to the Company's changing circumstances.

5.3 Listing Rule 7.3

In accordance with Listing Rule 7.3 the following information is provided:

5.3.1 Number of options to be granted

If the proposed resolution is passed, the Company will grant to Mr Anderson 100,000 options to acquire 100,000 fully paid ordinary shares subject to the terms and condition below.

5.3.2 Proposed date of issue of the options

If the proposed resolution is passed, the Company will grant the options to Mr Anderson immediately and in any event not later than one month after the resolution is passed.

5.3.3 Issue price of options

The options are granted as part of Mr Anderson's remuneration for no consideration and will have an exercise price of 55 cents per option.

Explanatory Notes to Notice of Annual General Meeting

5. Item 5: PROPOSED GRANT OPTIONS TO COLIN McINTOSH ANDERSON

5.3 Listing Rule 7.3 (Cont'd)

5.3.4 Allottee

The options will be issued to Mr Anderson personally. He is a full-time executive of the Company, but is not a related party of the Company. Prior to the grant of the options, he has an interest of 20,000 ordinary shares in the Company as beneficial owner of the shares.

5.3.5 Option terms and conditions

The terms and conditions of grant will be the same as the proposed options to be granted to the Directors except that the exercise price will be 55 cents.

5.3.6 Use of funds

All funds received from the exercise of the options will be applied towards the working capital and cash requirements of the Company at the time of the exercise of the options.

5.4 Value of benefit

The options will not be listed on the Australian Stock Exchange (ASX) and accordingly have no readily identifiable market value. However, the options have been valued at 11.8 cents (\$11,800 in total) by the Directors using the valuation model contained in the International Accounting Standards Board's Exposure Draft ED2 "Share Based Payment". This model is based on the Black-Scholes Model, which is a function of the relationship between a number of variables principally being the share price, the option exercise price, the time to expiry, the risk-free interest rate and the volatility of the Company's underlying share price. The application of the model therefore requires a number of inputs, some of which must be assumed. The material assumptions used in the model were:

- Share price of the Company as at 20 September 2004 is 43.5 cents
- Exercise price of the options is 55 cents
- Expiry date of options is 26 November 2007
- Risk-free rate is 5.07%
- A volatility factor of 61%. This measure was determined having regard to the low and high values of the Company's shares from the listing of the Company's shares on the Australian Stock Exchange on 9 March 2004 to 20 September 2004; and
- A dividend yield of 2% over the period of the options

Some relatively minor variables were excluded in the calculation as theoretically the Black-Scholes model prices options that are only exercisable on a specific date whereas the options proposed to be issued are exercisable at any time on or before the stated expiry date.

Form of Proxy

Austin Engineering Limited
 ABN 60 078 480 136

[Insert shareholder name and address here]

If your address as shown here is incorrect mark "X" here and write correct address

Appointment of Proxy

I/we being member/s of **Austin Engineering Limited** and entitled to attend and vote hereby appoint

The Chairman of the Meeting (mark with an "X") **OR**

Write here the name of your proxy if someone other than the Chairman of the Meeting

or failing the person named, or if no person is named, the **Chairman of the Meeting**, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of the Company to be held at the offices of Phillips Fox, Level 29, Waterfront Place, 1 Eagle Street, Brisbane, Queensland 4000, at 10.00am on 26 November 2004 and any adjournment of that meeting.

Important information

If the Chairman of the Meeting is your nominated proxy, or may be appointed by default, and you have **not** directed your proxy how to vote on a particular Resolution, **please place a mark in the box at the left.**

By marking this box, you acknowledge that the Chairman of the Meeting may exercise your *undirected proxies* even if he has an interest in the outcome of that Resolution and that votes cast by him, other than the proxy holder, will be disregarded because of that interest.

If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on the Resolution and your votes will not be counted in computing the required majority if a poll is called on this Resolution.

The Chairman of the Meeting intends to vote undirected proxies *in favour* of each Resolution.

Proxy Instructions

To instruct your proxy how to vote, insert "X" in the appropriate box against each Resolution set out below.
 (if you do not instruct your proxy how to vote on a resolution, your proxy may vote as they think fit or abstain from voting)

Ordinary Business

- Resolution 1 – Re-election of Mr Peter Fitch
- Resolution 2 – Re-election of Mr Peter Pursey
- Resolution 3 – Re-election of Mr Eugene Fung
- Resolution 4 – Approve increase in non-executive Directors' fees

For

Against

Abstain*

Special Business

- Resolution 5 – Grant options to Mr Peter Fitch
- Resolution 6 – Grant options to Mr Peter Pursey
- Resolution 7 – Grant options to Mr Eugene Fung
- Resolution 8 – Grant options to Mr Michael Buckland
- Resolution 9 – Grant options to Mr Colin Anderson

* If you mark the Abstain box for a particular Resolution, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Signature of shareholder(s) – This section must be signed in accordance with the instructions overleaf

Individual or first shareholder

Shareholder 2

Shareholder 3

Sole Director and Sole Company Secretary

Director

Director/Company Secretary

How to complete this Proxy Form

1. Your name and Address

This is your name and address as it appears on the Company's share register. If this information is incorrect, please mark the box and make the correction on the form. Security holders sponsored by a broker should advise their brokers of any changes. **Please note: you cannot change ownership of your securities using this form.**

2. Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person. If you leave this section blank, or your named proxy does not attend the Meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the Company.

3. Voting on Resolutions

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each Resolution. All your shares will be voted in accordance with such directions unless you indicate only a portion of your voting rights are to be voted on any Resolution by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as they chose. If you mark more than one box against a Resolution your vote on that resolution will be invalid.

4. Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the Meeting and to vote on your behalf. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry (see contact details below) or you may copy this Proxy Form.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that Proxy Form. If the Proxy Forms do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half of your votes. Fractions of votes will be disregarded.
- (b) Return both forms together in the same envelope.

5. Signing Instructions

You must sign this Proxy Form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint holding: where the holding is in more than one name, all of the shareholders must sign

Power of attorney: to sign under Power of Attorney, you must have already lodged the Power of Attorney with the Company's share registry. If you have not previously lodged the Power of Attorney, please attach a notarially certified photocopy of it to this Proxy Form when you return it.

Companies: where the company has a sole director who is also the company secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a company secretary, a sole director can sign alone. Please indicate the office held by signing in the appropriate place.

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company's share registry (see address details below).

Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at the share registry address given below **not later than 48 hours before** the commencement of the meeting i.e. **no later than 10.00am (Brisbane time) on 24 November 2004**. Any Proxy Form received after that time **will not** be valid for the scheduled Meeting.

Address of Company's Share Registry

Proxies can be delivered, mailed or faxed to:

Advanced Share Registry Services
Level 7, 200 Adelaide Terrace, Perth, Western Australia 6000
PO Box 6283, East Perth, Western Australia 6892

Telephone: +61 8 9221 7288

Facsimile: +61 8 9221 7869