

# NOVACOAT

NOVACOAT HOLDINGS LIMITED

59 Belmont Avenue Belmont WA 6104  
PO Box 414 Belmont WA 6984

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[www.novacoat.com.au](http://www.novacoat.com.au)

21 October 2005

Company Announcements Office  
Australian Stock Exchange  
Level 10, 20 Bond Street  
SYDNEY NSW 2000

*By ASX Online*

*No. of pages: 47*

## **NOTICE OF MEETING AND PROXY FORM**

Please find attached Novacoat Holdings Limited's (ASX Code: NVC) Notice of Annual General Meeting and Proxy Form which is being mailed to shareholders today together with the 2005 Annual Report.

The Annual General Meeting will be held at 2.00pm on Thursday, 24 November 2005, at the Traders' Lounge, Hyatt Regency Perth.

Yours faithfully,  
NOVACOAT HOLDINGS LIMITED



Len Troncone  
**Company Secretary**

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**NOVACOAT HOLDINGS LIMITED  
(TO BE RENAMED PALADIO GROUP LIMITED)  
ACN 111 210 390**

**NOTICE OF ANNUAL GENERAL MEETING,  
EXPLANATORY STATEMENT AND PROXY  
FORM**

**For the Annual General Meeting to be held on  
Thursday, 24 November 2005 at 2.00pm (WST) at  
The Traders Lounge, Hyatt Regency Perth  
99 Adelaide terrace, Perth  
Western Australia**

*This is an important document. Please read it carefully.*

*If you are unable to attend the Annual General Meeting, please complete the form of proxy enclosed and return it in accordance with the instructions set out on that form.*

*If you have any questions regarding the matters set out in this document, please contact the Company Secretary on (08) 9262 9999, your stockbroker or other professional adviser.*

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## TIME AND PLACE OF MEETING AND HOW TO VOTE

### Venue

The Annual General Meeting of the Shareholders of Novacoat Holdings Limited will be held at:

**The Traders Lounge, Hyatt Regency Perth  
99 Adelaide Terrace  
Perth, Western Australia**

**Commencing at  
2.00pm (WST)  
on Thursday, 24 November 2005**

### How to Vote

You may vote by attending the meeting in person, by proxy or authorised representative.

### Voting in Person

To vote in person, attend the meeting on the date and at the place set out above. The meeting will commence at 2.00pm.

### Voting by Proxy

To vote by proxy, please complete and sign the proxy form enclosed with this Notice of Annual General Meeting as soon as possible and either:

- Send the proxy by facsimile to the Company on facsimile number (08) 9262 9998 (International: + 61 8 9262 9998) or to Computershare Investor Services Pty Ltd on facsimile number (08) 9323 2033 (International: + 61 8 9323 2033);
- Deliver the proxy to the registered office of the Company at 59 Belmont Avenue, Belmont Western Australia 6104 or Computershare Investor Services Pty Ltd at Level 2, 45 St George's Terrace, Perth, Western Australia 6000; or
- Mail the proxy to the Company at PO Box 414, Belmont Western Australia 6984 or Computershare Investor Services Pty Ltd at GPO Box D182, Perth, Western Australia 6840 (in the reply paid envelope provided),

so that it is received not later than 2.00pm (WST) on Tuesday, 22 November 2005 (48 hours prior to commencement of the meeting).

**Your proxy form is enclosed.**

# NOVACOAT HOLDINGS LIMITED

ACN 111 210 390

## NOTICE OF ANNUAL GENERAL MEETING

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Notice is given that the first Annual General Meeting of Shareholders of Novacoat Holdings Limited will be held at the Traders Lounge, Hyatt Regency Perth, 99 Adelaide Terrace, Perth, Western Australia, at 2.00pm on Thursday, 24 November 2005.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement and the proxy form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders of the Company on Tuesday, 22 November 2005 at 5.00pm (WST).

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

### AGENDA

The Explanatory Statement that accompanies and forms part of the Notice of Meeting describes the matters to be considered as Ordinary and Special Business.

#### ORDINARY BUSINESS

##### **2005 Financial Statements and Reports**

To receive the Financial Statements of the Company and its controlled entities for the reporting period 1 October 2004 to 30 June 2005, and the reports of the Directors and the Auditors therein.

##### ***Resolution 1 - Adoption of Remuneration Report***

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

*"That, for the purposes of Section 250R(2) of the Corporations Act and for all other purposes, the Shareholders hereby approve the adoption of the Remuneration Report as contained in the 2005 Annual Report for the Company for the year ended 30 June 2005."*

##### ***Resolution 2 - Re-election of Geoff Gander as a Director of the Company***

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

*“That Mr Geoff Gander, who retires as a Director of the Company by rotation in accordance with clause 11.3 of the Constitution of the Company and who is eligible and has submitted himself for re-election, be re-elected as a Director of the Company.”*

### **Resolution 3 – Approval of Kwinana Lease**

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

*“That for the purposes of Rule 10.1 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, the Shareholders hereby approve the Company continuing with the Kwinana Lease in accordance with the terms and conditions outlined in the Explanatory Statement.”*

**Voting Exclusions:** The Company will disregard any votes cast on this resolution by Emmerick Pty Ltd and any associate of Emmerick Pty Ltd unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### **Resolution 4 – Approval of Belmont Lease**

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

*“That for the purposes of Section 208 of the Corporations Act and in accordance with Rule 10.1 of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, the Shareholders hereby approve the Company to enter into the Belmont Lease in accordance with the terms and conditions outlined in the Explanatory Statement.”*

**Voting Exclusions:** The Company will disregard any votes cast on this resolution by Robert Franco, Michael Franco or Laura Franco and any associate of those persons unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### **Resolution 5 – Adoption of Employee Share Option Plan**

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

*“That, for the purposes of Rule 7.2 (Exception 9) of the Listing Rules of the Australian Stock Exchange Limited and for all other purposes, the Directors are authorised to adopt and implement the “Novacoat Holdings Limited Employee Share Option Plan” (Plan) on the terms and conditions of the Plan, a summary of which is included in the Explanatory Statement.”*

**Voting Exclusions:** The Company will disregard any votes cast on this resolution by the directors of the Company (except those ineligible to participate in the Plan) and any of their associates unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or is cast by the person chairing the meeting as

proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**Resolution 6 – Approval of Executive Options – Richard Wright**

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

*“That, for the purposes of Chapter 2E of the Corporations Act and Rule 10.11 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, the Shareholders hereby approve and authorise the Directors to grant Richard Wright 250,000 2007 Options and 500,000 Incentive Options on the terms and conditions outlined in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Mr Wright and any associate of Mr Wright unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**Resolution 7 – Approval of Executive Options – Robert Franco**

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

*“That, for the purposes of Chapter 2E of the Corporations Act and Rule 10.11 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, the Shareholders hereby approve and authorise the Directors to grant Robert Franco 250,000 2007 Options on the terms and conditions outlined in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Mr Franco and any associate of Mr Franco unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**Resolution 8 – Approval of Executive Options – Geoff Gander**

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

*“That, for the purposes of Chapter 2E of the Corporations Act and Rule 10.11 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, the Shareholders hereby approve and authorise the Directors to grant Geoff Gander 150,000 2007 Options on the terms and conditions outlined in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Mr Gander, and any associate of Mr Gander unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### ***Resolution 9 - Approval of Executive Options - Len Troncone***

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

*"That, for the purposes of Rule 7.1 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, the Shareholders hereby approve and authorise the Directors to grant Len Troncone 150,000 December 2007 Options and 50,000 December 2008 Options on the terms and conditions outlined in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Mr Troncone and any person who might participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed and any associates of those persons unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

### ***Resolution 10 - Approval of Executive Options - Vincent Ferritto***

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

*"That, for the purposes of Rule 7.1 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, the Shareholders hereby approve and authorise the Directors to grant Vincent Ferritto 100,000 December 2008 Options on the terms and conditions outlined in the Explanatory Statement."*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Mr Ferritto and any person who might participate in the proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed and any associates of those persons unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

### ***Resolution 11 - Ratification of Issue of Options - Carmelo Bontempo***

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

*"That, for the purposes of Rule 7.3 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, the Shareholders hereby ratify and approve the issue to Carmelo Bontempo on 30 June 2005 of 750,000 options to acquire ordinary shares exercisable at \$0.40 each and 250,000 options to acquire ordinary shares exercisable at \$0.50 each, all with an expiry date of 31 December 2010, issued in accordance with the terms outlined in the Explanatory Statement"*.

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by Mr Bontempo and any associates of Mr Bontempo unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or cast by the

person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

**Resolution 12 – Ratification of Issue of Securities – Acquisition of McFee Business**

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

*“That, for the purposes of Rule 7.3 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, the Shareholders hereby ratify and approve the issue to McFee Holdings Pty Ltd of 666,666 fully paid ordinary shares at \$0.30 each and 500,000 December 2008 Options all issued as part consideration of the Company’s acquisition of the McFee business on 28 April 2005 as outlined in the Explanatory Statement”.*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by McFee Holdings Pty Ltd and any associates of McFee Holdings Pty Ltd unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

**Resolution 13 – Ratification of Issue of Shares – Private Placement**

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

*“That, for the purposes of Rule 7.3 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, the Shareholders hereby ratify and approve the issue on 2 September 2005 of 950,000 fully paid ordinary shares at \$0.40 each in accordance with the terms outlined in the Explanatory Statement”.*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by any person who participated in the private placement and any associates of a person who participated in the private placement unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

**Resolution 14 – Approval to Issue Shares**

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

*“That, for the purposes of Rule 7.1 of the Listing Rules of the Australian Stock Exchange Limited, and for all other purposes, the Shareholders hereby approve and authorise the Directors to issue up to 3,000,000 fully paid ordinary shares at a price of not less than 85% of the average market price of Shares for sales 5 trading days immediately prior to the issue of Shares or if a disclosure document is used for the issue, the 5 days immediately prior to the execution of the disclosure document”.*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a person who may participate in the proposed issue and any person who might participate in the

proposed issue and a person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the resolution is passed and any associates of those persons unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

***Resolution 15 – Non-Executive Directors’ Remuneration***

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

*“That, for the purposes of clause 11.15 of the Constitution, and all other purposes, the Shareholders hereby approve the maximum aggregate amount that may be paid to non-executive Directors as remuneration for their services in each financial year be set at \$150,000 which may be divided among those Directors in the manner determined by the Board of the Company from time to time.”*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a non-executive Director of the Company and any of their associates unless the vote is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

**SPECIAL BUSINESS**

***Resolution 16 - Change of Company Name***

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

*“That, subject to Section 157 of the Corporations Act and for all other purposes, the Shareholders approve and authorise the Company to change its name to Paladio Group Limited and to amend all Company records accordingly.”*

***Resolution 17 – Adoption of New Constitution***

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

*“That, for the purposes of Section 136 of the Corporations Act and for all other purposes, the Shareholders approve and authorise the repealing of the existing constitution of the Company and the adoption of the Constitution placed before this meeting and signed by the Chairman for identification purposes.”*

**By Order of the Board**



**L Tronccone  
Company Secretary**

**Date: 17 October 2005**

# EXPLANATORY STATEMENT

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## GENERAL INFORMATION

This Explanatory Statement has been prepared for the Shareholders of the Company in connection with the Annual General Meeting of the Company to be held on Thursday, 24 November 2005 at 2.00pm.

The purpose of this Explanatory Statement is to provide Shareholders with information that the Board believes to be material to Shareholders in deciding whether or not to approve the resolutions detailed in the Notice of Meeting.

This Explanatory Statement and all attachments are important documents. They should be read carefully.

If you have any questions regarding the matters set out in this Explanatory Statement or the preceding Notice of Meeting, please contact your stockbroker or other professional adviser.

## ORDINARY RESOLUTIONS

### **1 Resolution 1: Adoption of the Remuneration Report**

For financial years beginning on or after 1 July 2004, at a listed Company's Annual General Meeting, a resolution that the Remuneration Report be adopted must be put to the Shareholders. The vote on this Resolution 1 is advisory only and does not bind the Directors or the Company.

### **2 Resolution 2: Re-election of Geoff Gander as a Director of the Company**

Mr Geoff Gander, BCom (UWA)  
*Non-Executive Director*

Mr Gander is a founding Director of the Company having been appointed a non-executive Director on 1 October 2004. Mr Gander has over 20 years' experience in the information technology industry where he has held various senior and general management roles. Mr Gander now works as an industry consultant to various public and private companies. He is a non-executive Director of Virtualplus Holdings Limited, Jupiter Energy Limited, Entek Energy Limited and Acuity Investment Management Limited.

Mr Gander retires by rotation and offers himself for re-election in accordance with clause 11.3 of the Constitution.

### 3 **Resolution 3: Approval of Kwinana Lease**

On 7 December 2004 the shareholders of mBox.com Limited (now called Virtualplus Holdings Limited) gave approval pursuant to ASX Listing Rule 10.1 and Chapter 2E of the Corporations Act for the Company (which was then a wholly owned subsidiary of mBox.com Limited) to enter into the Kwinana Lease.

The ASX imposed as a condition to the listing of the Company on ASX that approval be sought from Novacoat Shareholders at the next general meeting for the continuation of the Kwinana Lease for the purpose of ASX Listing Rule 10.1. Resolution 3 seeks this Shareholder approval. This approval will ensure full disclosure to Shareholders whom invested in the Company pursuant to the Novacoat Holdings Limited prospectus dated 14 February 2005.

#### **Summary of Terms and Conditions of Kwinana Lease**

##### **Location**

60 Office Rd, East Rockingham, is located approximately 30 km south of the Perth CBD, and is within the Kwinana heavy industrial precinct. It is in close proximity to rail and port terminals, as well as major arterial roads including the Kwinana Freeway.

##### **Workshop Facilities**

The workshop facility comprises a workshop and associated office, amenities and annexure totalling 9,300 m<sup>2</sup>. A breakdown of improvements include:

- |                 |                     |
|-----------------|---------------------|
| ▪ Workshop Area | 9,209m <sup>2</sup> |
| ▪ Main Office   | 100m <sup>2</sup>   |

The buildings are located on a rectangular site with a total area of 40,494 m<sup>2</sup>.

All standard services including water, electricity and telephone are provided to the property.

##### **Lessee Details**

Novacoat Holdings Limited of 59 Belmont Avenue, Belmont WA 6104.

##### **Lessor**

Emmerick Pty Ltd of 183 Main St, Osborne Park WA 6017.

##### **Term**

An initial Lease term of ten (10) years, followed by 2 x five (5) year options.

##### **Commencing Annual Rental**

For the facilities, a commencing net rental of 80% of independent market valuation per annum plus GST and outgoings. The independent market valuation of the rental return, prepared by Burgess Rawson (WA) Pty Ltd on 13 October 2004, is \$221,526 per annum.

As such, the Company is committed to pay rental of 80% of \$221,526 being \$177,220 per annum (net of outgoings and GST). After the 24 month period the rent shall be at the agreed rate, or if this is not mutually acceptable then the rent shall be determined by an independent market valuation of the rental return. Any Shareholder may request or inspect a copy of the independent market valuation prepared by Burgess Rawson (WA) Pty Ltd at the Company's registered office.

### **Rent Reviews**

Annual rent increases are linked to CPI with market rent review due on the third and fifth anniversary of the initial lease term. Annual CPI increases also apply during the 2 x five year option periods with market rent reviews applicable on the first anniversary of each five year option period.

### **Outgoings**

The Lessee is responsible for the payment of its portion of all outgoings, both statutory and variable (plus GST) with effect from the lease commencement date. The statutory outgoings incorporate water rates, water consumption, council rates and land tax, estimated to be a total of \$28,788 per annum (note that these are subject to final valuation and any rate increase for future financial years).

### **Commencement/Conclusion Date**

Lease commencement date was on 8 December 2004.

### **ASX Listing Rule 10.1**

ASX Listing Rule 10.1 provides that an entity must not acquire a substantial asset from, or dispose of a substantial asset to a related party.

A substantial asset is an asset valued at greater than 5% of the equity interests of the Company. For the purposes of ASX Listing Rule 10.1, Emerick Pty Ltd is a related party of the Company as it is controlled by Mario Franco who is the father of Robert Franco, a Director of the Company.

The deemed value of the Kwinana Lease is greater than 5% of the Company's equity interests as set out in the latest accounts given to the ASX by the Company.

On 7 December 2004 the shareholders of mBox.com Limited gave approval pursuant to ASX Listing Rule 10.1 for the Company to enter into the Kwinana Lease. Shareholder approval is being obtained for the continuation of the Kwinana Lease as ASX imposes this as a condition to the listing of Novacoat on ASX.

ASX Listing Rule 10.1 provides that Shareholder approval sought for the purpose of ASX Listing Rule 10.1 must include a report on the proposed acquisition from an independent expert. Accompanying this Explanatory Statement is an Independent Expert's Report prepared by Ernst & Young Valuation Advisory Services on 6 October 2005, concluding that the Kwinana Lease is fair and reasonable to the non-associated Shareholders.

#### **4 Resolution 4: Approval of Belmont Lease**

Resolution 4 seeks approval for the purposes of Chapter 2E of the Corporations Act and ASX Listing Rule 10.1 and for all other purposes, for the Company to enter into the Belmont Lease with the LMR Partnership in respect of the Novacoat corporate head office and McFee business premises.

##### **Summary of Terms and Conditions of Belmont Lease**

##### **Term**

It is proposed that an initial two (2) year Belmont Lease term be entered into with an additional two seven (7) year Belmont Lease options.

##### **Commencing Annual Rental**

A commencing net rental for the Belmont facilities has been based on a discount to an independent market valuation of the building and office rental rates paid by the adjoining tenant Fuji Xerox. Based on this approach, a commencing net rental of \$54,000 per annum (\$4,500 per month) plus GST and outgoings has been proposed. An independent market valuations for the property indicates a rent above \$135 per square metre as reasonable which would indicate an approximate annual fair market rental of \$59,400 for the fully finished premises and this would include all proposed office areas, carpet, ceilings, air-conditioning to internal offices, tiling to all wet areas, external landscaping and finishing, and on site car-parking bays.

It is proposed that the LMR Partnership also arrange construction and pay costs for office fitout requirements.

This has included:

- fixed stud wall and glazed framing to provide for required offices, meeting and board rooms;
- conventional lighting to office area;
- provision for standard electrical GPO's, exit signage and office emergency lighting; and
- cabinets to amenities areas.

The estimated total cost of these additional fitout works is \$150,000 (plus 10% GST). It is proposed that the fitout be organised and paid for by the LMR Partnership to reduce Novacoat's initial relocation costs.

All other fitout works such as reception area, data cabling, security, signage, office furniture and shelving remains the responsibility of the Company.

### **Rent Reviews**

Annual CPI reviews would apply to the Belmont Lease in addition to market rent reviews at the commencement of the renewal of the Belmont Lease options.

### **Outgoings**

The Company is responsible for the payment of its portion of all outgoings, both statutory and variable (plus GST) with effect from the Belmont Lease commencement date. The statutory outgoings incorporate building insurance, water rates, council rates and land tax, estimated to be a total of \$10,400 per annum.

These figures are based on 35% of the applicable outgoings of the whole of Unit 2 of which the Belmont Lease partly covers (note that these will be subject to final valuation and any rate increase for future financial years).

### **Location**

59 Belmont Avenue, Belmont, is in close proximity to the CBD with excellent access to the CBD and West Perth area via the Graham Farmer Freeway making it one of Perth's most centrally located commercial suburbs. Belmont is also in close proximity to rail, freight and airport terminals, as well as major arterial roads including Graham Farmer Freeway, Orrong Road, Great Eastern Highway, Tonkin Highway and Abernethy Road.

### **Owner**

Robert Franco, Laura Franco and Michael Franco on behalf of the LMR Partnership  
c/- PO Box 495 Cloverdale WA 6985

### **Building Premises**

The building is a newly constructed two-storey high quality office/showroom development. It is proposed that the Company occupy the entire ground floor of Unit 2, comprising a total area of approximately 440 sqm.

A 12m high x 4.5m wide signage panel currently stands at the front of the development with potential for excellent signage exposure to Belmont Avenue.

All standard services including water, electricity and telephone are provided to the property.

## **Chapter 2E of the Corporations Act**

All the Directors are a related party of the Company within the definition of that term in Part 2E of the Corporations Act.

Section 208 of the Corporations Act also prohibits, subject to specified exceptions, a Company giving a financial benefit to a related party of the Company without Shareholder approval. The proposed transaction with the LMR Partnership represents the giving of a financial benefit to a related party for the purposes of Chapter 2E of the Corporations Act.

Whilst the Company believes an exemption in Chapter 2E of the Corporations Act applies in these circumstances, approval of the proposed transaction pursuant to this Resolution 4 is sought from the Shareholders pursuant to Section 208 of the Corporations Act as a matter of prudence and transparency.

The following information is provided for the purposes of Section 219 of the Corporations Act:

1. the related party is Robert Franco who has a direct beneficial interest in the Belmont Lease as he is a partner in the LMR Partnership;
2. the nature of financial benefit is rental income to be received by the LMR Partnership pursuant to the terms and conditions of the Belmont Lease;
3. the total remuneration package of Robert Franco is set out in Section 6.4(g) of this Explanatory Statement;
4. this particular financial benefit is being provided to Robert Franco as the premises which Robert Franco has an interest in are highly suitable for the Company's business needs and are being provided to the Company at a reduced rate;
5. Robert Franco's existing interests in the Company are set out in Section 6.4(d) of this Explanatory Statement; and
6. the Directors, other than Robert Franco, do not have any personal interests in the outcome of Resolution 4. The Directors, other than Robert Franco, are of the opinion that the Belmont Lease is in the best interests of the Company and its Shareholders and accordingly recommend Shareholders to vote in favour of Resolution 4.

The Directors' recommendations are based on the following reasons:

- The Company needs to have a presence near the Perth CBD as a result of the acquisition of the McFee business and to locate its management team.
- An independent market valuation prepared by CB Richard Ellis Pty Ltd is consistent with the rental under the Belmont Lease.

- An independent expert report prepared by Ernst & Young Valuation Advisory Services has found that the terms and conditions of the proposed Belmont Lease are fair and reasonable to non-associated Shareholders.

### **ASX Listing Rule 10.1**

ASX Listing Rule 10.1 provides that an entity must not acquire a substantial asset from, or dispose of a substantial asset to a related party.

A substantial asset is an asset valued at greater than 5% of the equity interests of the Company. For the purposes of ASX Listing Rule 10.1, Robert Franco is a related party of the Company as he is a Director of the Company.

The deemed value of the Belmont Lease is greater than 5% of the Company's equity interests as set out in the latest accounts given to the ASX by the Company.

Accordingly, the Company is seeking Shareholder approval for the purpose of ASX Listing Rule 10.1.

ASX Listing Rule 10.1 provides that Shareholder approval sought for the purpose of ASX Listing Rule 10.1 must include a report on the proposed acquisition from an independent expert. Accompanying this Explanatory Statement is an Independent Expert's Report prepared by Ernst & Young Valuation Advisory Services dated 6 October 2005 concluding that the proposed lease of 59 Belmont Avenue, Belmont is fair and reasonable to the non-associated Shareholders.

## **5 Resolution 5: Adoption of an Employee Share Option Plan ("Plan")**

### **5.1 Background**

Resolution 5 seeks the approval of Shareholders for the adoption of a Plan to allow the granting of Options as an exception to ASX Listing Rule 7.1 in accordance with ASX Listing Rule 7.2 exception 9(b).

Shareholders should note that no Options have previously been issued under this Plan. The objective of the Plan is to attract, motivate and retain key employees.

It is considered by the Directors that the adoption of the Plan and the future grant of Options under the Plan will provide select employees with the opportunity to participate in the future growth of the Company.

### **5.2 Terms of Plan**

A summary of the terms and conditions of the Plan is set out below:

#### **Introduction**

The Plan is designed to provide employees with an ownership interest in the Company and to provide additional incentive for employees to increase profitability and returns to Shareholders.

The detailed terms and conditions of the Plan may be obtained free of charge by contacting the Company or by downloading a copy from the Company's web site at [www.novacoat.com.au](http://www.novacoat.com.au).

### **General**

The Directors may, in their absolute discretion, offer to grant Options to eligible employees under the Plan. The total number of Options that may be issued and remain outstanding under the Plan at any one time shall not exceed 5% of the total number of Shares on issue in the capital of the Company.

The Options will be issued for no consideration and will carry the right in favour of the option holder to subscribe for one (1) fully paid ordinary share in the capital of the Company for each Option held.

The exercise price of the Options shall be as the Directors in their absolute discretion determine, provided the exercise price shall not be less than the weighted average market price of the Company's Shares as quoted on ASX during the 5 business days immediately preceding the date on which the Directors resolve to grant the Options.

The Options will have an expiry period of five years from the date of granting.

The vesting terms of the Options are:

- (a) one third of the granted Options may be exercised within 12 months from the date of granting the Options;
- (b) another third of the granted Options may be exercised within the next 12 months after the expiry of the initial 12 months from the date of granting the Options; and
- (c) all the granted Options may be exercised after 24 months from the date of granting of the Options.

### **Eligible Participants**

Full time and part time employees of the Company are eligible to participant in the Plan (**Eligible Participants**). Directors and consultants of the Company will not be eligible to participate.

### **Lapse of Incentive Options**

Unless the Directors in their absolute discretion determine otherwise, Options shall lapse upon the earlier of:

- (a) the expiry of the exercise period;
- (b) unless otherwise determined by the Board, upon the Eligible Person ceasing to be an Eligible Person for any reason other than retirement, permanent

disability, redundancy or death, all Options held by such Eligible Person, whether vested or not, will automatically lapse at the expiry of 14 days of such cessation; and

- (c) a determination by the Directors that the option holder has acted fraudulently, dishonestly or in breach of his or her obligations to the Company or an associated body corporate.

### **New Issues**

An Eligible Employee may only participate in new issues of securities to holders of Shares if an Option has been exercised and Shares allotted in respect of the Option before the record date for determining entitlements to the issue. The Company must give notice as required under the Listing Rules to holders of any new issue before the record date for determining entitlements to the issue in accordance with the Listing Rules.

### **Bonus Issues**

If there is a bonus share issue (**Bonus Issue**) to the holders of Shares, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the Holder would have received if the Option had been exercised before the record date for the Bonus Issue (**Bonus Shares**). The Bonus Shares must be paid up by the Company out of the profits or reserves (as the case may be) in the same manner as was applied in the Bonus Issue and upon issue rank pari passu in all respects with the other shares of that class on issue at the date of issue of the Bonus Shares.

### **Pro Rata Issues**

If there is a pro rata issue (other than a Bonus Issue) to the holders of Shares during the currency of, and prior to the exercise of any Options, the exercise price of an Option will be adjusted in the manner provided for in the Listing Rules.

### **Reorganisation of Capital**

If, prior to the expiry of any Options, there is a reorganisation of the issued capital of the Company, Options will be reorganised in accordance with the Listing Rules.

## **6 Resolutions 6, 7 and 8: Approval of Grant of Options to Directors**

Resolutions 6, 7 and 8 seek Shareholder approval to grant Options exercisable at \$0.30 each and expiring on 30 June 2007 ("**2007 Options**") to the Directors of the Company (together the **Related Parties**) as disclosed in the Company's prospectus dated 15 February 2005 in the following amounts:

<b>Director</b>	<b>Number of 2007 Options</b>
Richard Wright	250,000
Robert Franco	250,000
Geoff Gander	150,000

The Company has also agreed to grant to Mr Richard Wright the following Options as part of his remuneration package for being Managing Director of the McFee business (“**Incentive Options**”):

<b>Number of Incentive Options</b>	<b>Exercise Price</b>	<b>Expiry Date</b>	<b>Vesting Conditions</b>
250,000	\$0.40 each	31 December 2008	Immediate upon granting
250,000	\$0.50 each	31 December 2008	50% after 6 months of the date of granting and the remainder after 12 months of the date of granting

The full terms and conditions of the 2007 Options and Incentive Options are set out in Section 6.6 of this Explanatory Statement.

Shareholder approval for these Related Party transactions is required pursuant to ASX Listing Rule 10.11 and Chapter 2E of the Corporations Act.

#### **6.1 ASX Listing Rule 10.11**

ASX Listing Rule 10.11 requires Shareholder approval be obtained for the issue of securities to related parties of the Company.

If Resolutions 6, 7 and 8 are passed, the 2007 Options and Incentive Options will be granted to the Related Parties. The Related Parties are related parties of the Company by virtue of the fact that they are Directors. For this reason, Shareholder approval under ASX Listing Rule 10.11 is required prior to granting the 2007 Options and Incentive Options to the Related Parties.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to grant the 2007 Options and Incentive Options as approval is being obtained under ASX Listing Rule 10.11. The grant of the 2007 Options and Incentive Options to the Related Parties will not be included in the calculation of the 15% issuing threshold for the purposes of ASX Listing Rule 7.1.

## **6.2 Technical Information Required By ASX Listing Rule 10.13**

For the purposes of ASX Listing Rule 10.13, the following information is provided in relation to the Related Party transactions:

- (a) the maximum number of 2007 Options and Incentive Options to be granted to the Related Parties is set out in the introductory paragraphs in Section 6;
- (b) the terms of the 2007 Options and Incentive Options are set out in section 6.6 of this Explanatory Statement;
- (c) the 2007 Options and Incentive Options will be granted not later than 1 month after the date of the Annual General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that the 2007 Options and Incentive Options will be granted on one date; and
- (d) no funds will be raised from the grant of the 2007 Options and Incentive Options.

## **6.3 Chapter 2E of the Corporations Act**

Under Chapter 2E of the Corporations Act, a public company cannot give a financial benefit to a related party unless one of the exceptions to the section apply or Shareholders have in a general meeting approved the giving of that financial benefit to the related party.

In the current circumstances, the 2007 Options and Incentive Options constitute a financial benefit as defined in the Corporations Act. Further, the Related Parties are related parties of the Company as defined under the Corporations Act by virtue of being Directors of the Company. Accordingly, the proposed issue of the 2007 Options and Incentive Options to the Related Parties will constitute the provision of a financial benefit to a related party of the Company.

It is the view of the Directors that the exceptions under the Corporations Act to the provision of financial benefits to related parties may not apply in the current circumstances.

The Directors have determined to seek Shareholder approval under Section 208 of the Corporations Act to permit the grant of the 2007 Options and Incentive Options.

## **6.4 Technical Information Required by Sections 217 To 227 of the Corporations Act**

In accordance with the requirements of Chapter 2E of the Corporations Act and in particular, Sections 217 to 277 of the Corporations Act, the following information is provided to allow Shareholders to assess the proposed grant of the 2007 Options and Incentive Options:

- (a) the related parties to whom the financial benefit will be given are Richard Wright, Robert Franco and Geoff Gander;

- (b) the maximum number of 2007 Options and Incentive Options (being the nature of the financial benefit being provided) to be granted to the Related Parties is set out in the introductory paragraphs in Section 6;
- (c) no funds will be raised from the issue of the 2007 Options and Incentive Options;
- (d) the Related Parties currently have a relevant interest in the following securities in the Company and receive the following annual director's fees:

<b>Director</b>	<b>Shares</b>	<b>Options</b>	<b>Annual Fee</b>
Richard Wright	620,000	Nil	\$120,000
Robert Franco	7,046,189	Nil	\$120,000
Geoff Gander	200,000	Nil	\$48,000

The Related Parties do not otherwise receive any emoluments from the Company;

- (e) in the 12 months before the date of this Notice of Meeting the highest, lowest and latest trading price of Shares on ASX are as set out below:

Highest	\$0.60
Lowest	\$0.25
Last	\$0.50

- (f) if Shareholders approve the issue of 2007 Options and Incentive Options to the Related Parties, the dilution of the shareholdings of existing shareholders upon exercise of the Options will be as follows, assuming no other Options are exercised or Shares issued:

<b>Options exercised</b>	<b>Dilution effect</b>
250,000 2007 Options pursuant to Resolution 6	1.10%
500,000 Incentive Options pursuant to Resolution 6	2.18%
250,000 2007 Options pursuant to Resolution 7	1.10%
150,000 2007 Options pursuant to Resolution 8	0.65%

If all Options pursuant to Resolution 6, 7 and 8 are exercised then the effect will be to dilute the shareholding of existing Shareholders by approximately 4.88%.

The market price for Shares during the term of the 2007 Options and Incentive Options would normally determine whether or not the 2007 Options and Incentive Options are exercised. If, at any time any of the 2007 Options and Incentive Options the Company's Shares are trading on ASX at a price that is higher than the exercise price of the 2007 Options and Incentive Options, there may be a perceived cost to the Company;

- (g) the value of the 2007 Options and Incentive Options and the pricing methodology is set out in section 6.5 of this Explanatory Statement;
- (h) the 2007 Options and Incentive Options will be issued free as consideration for performance of work, both previously done by the Directors and to be done in the future by the executive Directors, for the Company and to secure the ongoing commitment of the Related Parties to the continued growth of the Company. The Board considers that the granting of the 2007 Options and Incentive Options to the Related Parties constitutes valid consideration for work performed for the Company. The total value of the 2007 Options is \$175,500 and the total value of the Incentive Options is \$101,250 (**Consideration Amount**) based on the valuation outlined in section 6.5 of this Explanatory Statement. The value of the 2007 Options being provided to each Director is as follows:

Director	Value of 2007 Options
Robert Franco	\$67,500
Richard Wright	\$67,500
Geoff Gander	\$40,500

The Company apportions 50% of the Consideration Amount to work previously done by the Related Parties and 50% to work due to be completed by the Related Parties into the future. The Company acknowledges that the grant of 2007 Options to a non-executive Director is contrary to recommendation 9.3 of the ASX Good Corporate Governance and Best Practice Recommendations. However the Board considers the grant of the 2007 Options to Geoff Gander reasonable in the circumstances, given the considerable workload undertaken by Geoff Gander in the period leading up to the Company's listing on ASX;

- (i) Richard Wright is receiving the Incentive Options as incentive for his executive role as Managing Director of McFee Pty Ltd;
- (j) the Related Parties decline to make a recommendation to Shareholders in relation to those Resolutions pursuant to which they are being issued 2007

Options and Incentive Options due to their material personal interest in the outcome of those Resolutions. The Related Parties recommend that Shareholders vote in favour of the Resolutions they do not have a material interest in as they are of the view that the grant of the 2007 Option and Incentive Options is an appropriate form of remuneration to provide the Related Parties with an incentive to maximise returns to Shareholders. The Directors are not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 6, 7 and 8; and

- (k) the primary purpose of the grant of the 2007 Options and Incentive Options is to allow the Company to provide cost effective consideration to the Related Parties for work done and, with respect to executive Directors, work proposed to be done by the Related Parties for the Company. Given this purpose and bearing in mind the exercise terms of the 2007 Options and Incentive Options, the Directors do not consider that there are any significant opportunity costs to the Company or benefits forgone by the Company in issuing the 2007 Options and Incentive Options upon the terms proposed.

#### **6.5 Valuation of the 2007 Options and Incentive Options**

The 2007 Options have been valued by Ernst & Young Valuation Advisory Services using the Binomial Option Pricing Model and based upon the following assumptions:

- (a) the 2007 Options expire on 30 June 2007 and are exercisable at \$0.30 each;
- (b) a price per Share of \$0.55 (being the underlying Share price based on the mid-range valuation determined by Ernst & Young Valuation Advisory Services);
- (c) a common volatility factor of 50% (based on the volatility factors of comparable companies due to the Company not having traded for a sufficient period to determine an appropriate volatility factor);
- (d) an interest rate of 5.20% (being the risk free interest rate on government bonds with a similar maturity as the 2007 Options);
- (e) the valuations ascribed to the 2007 Options may not necessarily represent the market price of the 2007 Options at the date of the valuation; and
- (f) the valuation date for the 2007 Options is 1 December 2005.

Based on the above, the 2007 Options have been valued at \$0.27 each.

The Incentive Options have been valued by Ernst & Young Valuation Advisory Services using the Binomial Option Pricing Model and based upon the following assumptions:

- (a) 250,000 of the Incentive Options are exercisable at \$0.40 each and 250,000 of the Incentive Options are exercisable at \$0.50 each;

- (b) the Incentive Options expire on 31 December 2008;
- (c) all Incentive Options with an exercise price of \$0.40 each vest immediately upon granting whilst 50% of the Incentive Options with an exercise price of \$0.50 each vest after 6 months of the date of granting and the balance vest 12 months after the date of granting;
- (d) any unvested Incentive Options will automatically expire upon Mr Richard Wright ceasing to be employed as an executive of the Company;
- (e) a price per Share of \$0.55 (being the underlying Share price based on the mid-range valuation determined by Ernst & Young Valuation Advisory Services);
- (f) a common volatility factor of 50% (based on the volatility factors of comparable companies due to the Company not having traded for a sufficient period to determine an appropriate volatility factor);
- (g) an interest rate of 5.18% (being the risk free interest rate on government bonds with a similar maturity as the Incentive Options);
- (h) the valuations ascribed to the Incentive Options may not necessarily represent the market price of the Incentive Options at the date of the valuation; and
- (i) the valuation date for the Incentive Options is 1 December 2005

Based on the above, the Incentive Options have been valued at \$0.22 each for the \$0.40 Options and \$0.185 each for the \$0.50 Options.

## 6.6 Terms of the 2007 Options and Incentive Options

Each 2007 Option will entitle the holder to subscribe for one Share on the following terms:

- (a) the 2007 Options shall expire at 5:00 pm (WST) on 30 June 2007 (**Expiry Date**);
- (b) the amount payable on the exercise of the 2007 Options will be \$0.30 for each 2007 Option exercised;
- (c) the 2007 Options may be exercised wholly, or in part, by notice in writing to the Directors given prior to or on the Expiry Date;
- (d) a 2007 Option may be transferred at any time prior to the Expiry Date;
- (e) there are no participating rights or entitlements inherent in the 2007 Options and option holders will not be entitled to participate in new Shares offered to Shareholders during the currency of the 2007 Options. However, the Company will ensure that for the purposes of the proposed issue notice of the new issue will be given to option holders at least seven (7) business days before the record

date. This will give option holders the opportunity to exercise their 2007 Options prior to the date for determining entitlements to participate in any such issue;

- (f) in the event of any reconstruction (including consolidation, sub-division, reduction or return) of the granted capital of the Company prior to the Expiry Date, all rights of the option holders will be varied in accordance with the ASX Listing Rules;
- (g) subject to the Listing Rules, the option holder has no right to change the exercise price of the 2007 Options nor to change the number of underlying securities over which the 2007 Options may be exercised;
- (h) the 2007 Options will not be quoted on the ASX; and
- (i) the 2007 Options not exercised by the Expiry Date will automatically expire.

Each Incentive Option will entitle the holder to subscribe for one Share on the following terms:

- (a) the Incentive Options shall expire at 5:00 pm (WST) on 31 December 2008 (**Expiry Date**);
- (b) the amount payable on the exercise of 500,000 Incentive Options will be:
  - \$0.40 for 250,000 Incentive Options; and
  - \$0.50 for 250,000 Incentive Options;
- (c) the vesting terms of the Incentive Options are as follows:
  - all of the Incentive Options exercisable at \$0.40 each vest upon granting;
  - 50% of the Incentive Options exercisable at \$0.50 each vest 6 months after the date of granting and the balance vest 12 months after the date of granting;
- (d) upon vesting, Incentive Options may be exercised wholly, or in part, by notice in writing to the Directors given prior to or on the Expiry Date;
- (e) an Incentive Option may be transferred at any time prior to the Expiry Date;
- (f) there are no participating rights or entitlements inherent in the Incentive Options and option holders will not be entitled to participate in new Shares offered to Shareholders during the currency of the Incentive Options. However, the Company will ensure that for the purposes of the proposed issue notice of the new issue will be given to option holders at least seven (7) business days before the record date. This will give option holders the opportunity to

exercise their Incentive Options prior to the date for determining entitlements to participate in any such issue;

- (g) in the event of any reconstruction (including consolidation, sub-division, reduction or return) of the granted capital of the Company prior to the Expiry Date, all rights of the option holders will be varied in accordance with the ASX Listing Rules;
- (h) the Incentive Options will not be quoted on the ASX;
- (i) any unvested Incentive Options will automatically expire in the event that Mr Richard Wright ceases to be employed as an executive of the Company; and
- (j) any Incentive Options not exercised by the Expiry Date will automatically expire.

## **7 Resolutions 9 and 10: Approval of Grant of Options to Executives**

### **7.1 General**

Resolutions 9 and 10 seek Shareholder approval for the grant of up to:

- (a) 150,000 Options exercisable at \$0.30 each and expiring on 31 December 2007 (“**December 2007 Options**”) and 50,000 Options exercisable at \$0.30 each and expiring on 31 December 2008 (“**December 2008 Options**”) to Len Troncone, pursuant to his contract of employment with the Company; and
- (b) 100,000 December 2008 Options to Vincent Ferritto pursuant to his contract of employment with the Company.

The effect of Resolutions 9 and 10 will be to allow the Directors to grant these securities, without using the Company’s annual 15% placement capacity within three months of the date of Shareholder approval (pursuant to ASX Listing Rule 7.1).

### **7.2 Technical Information Required by ASX Listing Rule 7.3**

The following information is provided in relation to the December 2007 Options and 2008 Options to be granted pursuant to Resolution 9 in accordance with ASX Listing Rule 7.3:

- (a) the number of December 2007 Options to be granted is 150,000 and the number of December 2008 Options to be granted is 50,000;
- (b) the December 2007 Options and December 2008 Options will be granted for no cash consideration and form part of Len Troncone’s contract of employment negotiated with him to attract him to work for the Company;
- (c) the December 2007 Options and December 2008 Options will be granted no later than three (3) months after the date of the Annual General Meeting (or

such later date to the extent permitted by ASX waiver or modification of the ASX Listing Rules);

- (d) the December 2007 Options will vest on 6 June 2006 and the December 2008 Options will vest on 6 June 2007;
- (e) the terms and conditions attaching to the December 2007 Options and the December 2008 Options are the same as those for the 2007 Options as set out in section 6.6 above other than the expiry date for the December 2007 Options is 31 December 2007 and the expiry date for the December 2008 Options is 31 December 2008; and
- (f) the Shares which will be issued upon exercise of the December 2007 Options and December 2008 Options will be fully paid ordinary Shares in the capital of the Company and will rank equally with the Company's current issued Shares.

The following information is provided in relation to the December 2008 Options to be granted pursuant to Resolution 10 in accordance with ASX Listing Rule 7.3:

- (a) the number of December 2008 Options to be granted is 100,000;
- (b) the December 2008 Options will be granted for no cash consideration on the basis that they form part of Vincent Ferritto's remuneration package;
- (c) the December 2008 Options will be granted no later than three (3) months after the date of the General Meeting (or such later date to the extent permitted by ASX waiver or modification of the ASX Listing Rules);
- (d) the December 2008 Options will vest on 30 May 2006;
- (e) the terms and conditions attaching to the December 2008 Options are the same as those for the 2007 Options set out in section 6.6 above other than the expiry date for the December 2008 Options is 31 December 2008; and
- (f) the Shares which will be issued upon exercise of the December 2008 Options will be fully paid ordinary shares in the capital of the Company and will rank equally with the Company's current issued Shares.

## **8 Resolution 11: Ratification of Issue of Options - Carmelo Bontempo**

### **8.1 General**

Resolution 11 seeks Shareholder ratification and approval for the issue to Mr Carmelo Bontempo of the following Options pursuant to ASX Listing Rule 7.3 in exchange for business development and advisory services rendered to the Company by Mr Bontempo and to provide an incentive to Mr Bontempo to continue to provide such services to the Company:

- (a) 750,000 Options at an exercise price of \$0.40 each with an expiry date of 31 December 2010; and
- (b) 250,000 Options at an exercise price of \$0.50 each with an expiry date of 31 December 2010.

The effect of Resolution 11 will be to refresh the Company's capacity to issue 1,000,000 securities under ASX Listing Rule 7.1 whereby Directors may issue up to 15% of the number of securities in the Company without Shareholder approval.

## **8.2 Technical Information Required by ASX Listing Rule 7.5**

The following information is provided in relation to the Options detailed in this Resolution 11 in accordance with ASX Listing Rule 7.5:

- (a) 1,000,000 Options were issued to Mr Carmelo Bontempo;
- (b) the Options were issued for a consideration of \$33,200 (excluding GST) in lieu of consulting and advisory services;
- (c) 750,000 of the Options are exercisable at \$0.40 each and 250,000 are exercisable at \$0.50 each;
- (d) the Options expire on 31 December 2010;
- (e) the Options vested immediately upon the issue date of 30 June 2005;
- (f) other than as stated above the Options have the same terms as the 2007 Options;
- (g) the Shares which will be issued upon exercise of the Options will be fully paid ordinary Shares in the capital of the Company and will rank equally with the Company's current issued Shares; and
- (h) Mr Carmelo Bontempo is not a related party to the Company..

## **9 Resolution 12: Ratification of Issue of Securities - Acquisition of McFee Business**

### **9.1 General**

Resolution 12 seeks Shareholder ratification and approval for the issue to McFee Holdings Pty Ltd of the following securities as part consideration of the Company's acquisition of the McFee business on 28 April 2005:

- (a) 666,666 Shares at \$0.30 each; and
- (b) 500,000 December 2008 Options at an exercise price of \$0.30 each with an expiry date of 31 December 2008.

The effect of Resolution 12 will be to refresh the Company's capacity to issue 1,166,666 Securities under ASX Listing Rule 7.1 whereby Directors may issue up to 15% of the number of securities in the Company without Shareholder approval.

## **9.2 Technical Information Required by ASX Listing Rule 7.3**

The following information is provided in relation to the securities detailed in this Resolution 12 in accordance with ASX Listing Rule 7.3:

- (a) the number of Shares issued is 666,666;
- (b) the Shares were issued at \$0.30 for a total consideration of \$200,000 used to partly fund the acquisition of the McFee business;
- (c) the Shares rank equally with the Company's current issued Shares;
- (d) the Shares are subject to a voluntary escrow period of 12 months from the date of issue which expires on 28 April 2006;
- (e) the number of December 2008 Options issued is 500,000 for no consideration;
- (f) the December 2008 Options are exercisable at \$0.30 each and expire on 31 December 2008, other than these terms, the December 2008 Options have the same terms as the 2007 Options set out in section 6.6;
- (g) the December 2008 Options vest on 28 April 2006 being one year after the completion date as defined in the Deed of Sale entered into by the Company and McFee Holdings Pty Ltd;
- (h) the Shares which will be issued upon exercise of the Options will be fully paid ordinary shares in the capital of the Company and will rank equally with the Company's current issued Shares; and
- (i) McFee Holdings Pty Ltd is not a related party to the Company.

## **10 Resolution 13: Ratification of Issue of Shares - Private Placement**

### **10.1 General**

Resolution 13 seeks Shareholder ratification and approval for the issue of 950,000 fully paid ordinary Shares at \$0.40 each on 2 September 2005 pursuant to ASX Listing Rule 7.3 placed to sophisticated investors introduced by Hartleys Limited.

The effect of Resolution 13 will be to refresh the Company's capacity to issue 950,000 securities under ASX Listing Rule 7.1 whereby Directors may issue up to 15% of the number of securities in the Company without Shareholder approval.

## 10.2 Technical Information Required by ASX Listing Rule 7.5

The following information is provided in relation to the Shares detailed in this Resolution 13 in accordance with ASX Listing Rule 7.5:

- (a) 950,000 fully paid ordinary shares were issued to:
- A M Doyle and L H Moretti <Super Fund A/C>
  - Eagle River Holdings Pty Ltd
  - Shah Nominees Pty Ltd <Louis Casten Super Fund A/C>
  - J Georgiades <Bugsy A/C>
  - K S P Graham
  - Fortview Capital Management Pty Ltd <Fortview Capital Mgmt A/C>
  - Clodene Pty Ltd
  - B I Hoad
  - R A Black and A C Black <R A Black Super Fund A/C>
  - R W Associates Pty Ltd <R W Assoc Super Fund A/C>
  - D J Smalley
  - Dyspo Pty Ltd
  - R Fish <Fish Family A/C>
  - Benolyn Holdings Pty Ltd <L Beale Family A/C>
  - Beirne Trading Pty Ltd;
- (b) the Shares were issued at \$0.40 each for a total consideration of \$380,000;
- (c) the funds raised were used to replace working capital of the Company previously used to fund the acquisition of the McFee business;
- (d) the Shares rank equally with the Company's current issued Shares; and
- (e) none of the allottees were a related party to the Company.

## 11 Resolution 14: Approval to Issue Shares

### 11.1 General

Resolution 14 seeks Shareholder approval for the Directors to issue up to 3,000,000 Shares within 3 months (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules) from the date of Shareholders granting approval of the issue to do so at a price of not less than 85% of the average market price of the 5 trading days immediately preceding the date on which the Shares are issued or if a disclosure document is used the 5 days immediately preceding the date of that disclosure document.

The Company is actively assessing complementary acquisition opportunities and is also planning a rapid organic expansion program given the relatively buoyant activities in the industry in which it operates. The Directors are of the view that it would be advantageous for the Company to have the flexibility of issuing a greater number of Shares than the 15% threshold restricted by ASX Listing Rule 7.1 to fund a potential

acquisition or obtain working capital to perform a relatively large project or a series of projects concurrently.

The effect of Resolution 14 will be to enable the Company to issue an additional 3,000,000 Shares over and above the securities permitted to be issued under ASX Listing Rule 7.1 whereby Directors may issue up to 15% of the number of securities in the Company without Shareholder approval.

#### **11.2 Technical Information Required by ASX Listing Rule 7.3**

The following information is provided in relation to the Shares detailed in this Resolution 14 in accordance with ASX Listing Rule 7.3:

- (a) the maximum number of Shares that may be issued is 3,000,000;
- (b) the Shares will be issued no later than 3 months after the date of the Annual General Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules);
- (c) the Shares will be issued at a price of no less than 85% of the average market price of 5 trading days immediately preceding the date on which the Shares are issued or if a disclosure document is used the 5 days immediately preceding the date of that disclosure document;
- (d) upon being issued the Shares would rank equally with the Company's current issued Shares;
- (e) the Directors will determine to whom the Shares will be issued but will not issue such Shares to a related party;
- (f) it is intended that allotment will occur on the same date as the Shares are issued;
- (g) the Company will allocate any funds raised pursuant to securities issued using the authority granted by this Resolution as follows:
  - funding of sub-contracting, mobilisation, project start-up, business development and tendering costs - 80%; and
  - working capital - 20%.In excess of 50% of any funds raised will be applied towards the Company's existing operations; and
- (h) related parties will not be issued any Shares without prior Shareholder approval.

## 12 **Resolution 15 – Non-Executive Directors’ Remuneration**

Clause 11.15 of the Constitution requires that the maximum aggregate remuneration that may be paid to non-executive directors of the Company be set by the Company in a general meeting.

Resolution 15 seeks Shareholder approval to set the maximum aggregate remuneration pool that may be paid to non-executive Directors at \$150,000 per annum. This is the first time this remuneration pool is being set and this aggregate amount has been determined after reviewing similar companies listed on ASX and the Directors believe that this level of remuneration is in line with corporate remuneration of similar companies.

The Company currently has one non-executive Director, being Mr Geoff Gander. Since the Company’s incorporation on 1 October 2004, Mr Gander has received total remuneration of \$38,650 and his remuneration consists of a fixed sum.

### **SPECIAL RESOLUTIONS**

#### 1 **Resolution 16: Change of Company Name**

The Directors have determined to change the Company’s name to “Paladio Group Limited” and Resolution 16 seeks Shareholder approval for that change in accordance with section 157 of the Corporations Act and the Constitution. The change of Company name would have the effect of differentiating the holding company name to that of one of its trading operating subsidiaries, Novacoat (WA) Pty Ltd.

**Resolution 16 is a special resolution and requires the approval of 75% of the votes cast by Shareholders.**

#### 2 **Resolution 17: Adoption of New Constitution**

The Directors have determined to adopt a new constitution more appropriate for a publicly listed company limited by shares and Resolution 17 seeks Shareholder approval to repeal the existing constitution and adopt a new constitution. The new constitution complies with the Corporations Act and the Listing Rules.

The existing constitution was adequate for an unlisted public company and did not contain a number of provisions which are common in modern constitutions of publicly listed companies.

Copies of the current and proposed constitutions of the Company are available for perusal at the Company’s registered office. A copy of the proposed new constitution can also be downloaded by following the appropriate link on the Company’s web site at [www.novacoat.com.au](http://www.novacoat.com.au).

**Resolution 17 is a special resolution and requires the approval of 75% of the votes cast by Shareholders.**

# GLOSSARY

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**ASIC** means Australian Securities and Investment Commission.

**ASX** means Australian Stock Exchange Limited.

**ASX Listing Rules** or **Listing Rules** means the Listing Rules of ASX.

**Belmont Lease** means the lease to be entered into between Robert Franco, Laura Franco and Michael Franco on behalf of the LMR Partnership with the Company, the terms of which are more fully set out in Section 4 of the Explanatory Statement.

**Board** means the board of directors of the Company.

**Company** or **Novacoat** means Novacoat Holdings Limited (ACN 111 210 390).

**Constitution** or **Constitution of the Company** means the constitution of the Company as at the commencement of the Annual General Meeting.

**Corporations Act** means the Corporations Act 2001 (Cth).

**December 2008 Option** has the meaning given in Section 7.1 of the Explanatory Statement.

**December 2007 Option** has the meaning given in Section 7.1 of the Explanatory Statement.

**Directors** means the current Directors of the Company.

**Directors Remuneration Report** means the Remuneration Report forming part of the Directors' Report contained in the Company's 2005 Annual Report.

**Explanatory Statement** means the explanatory statement to the Notice.

**Incentive Option** has the meaning given in Section 6 of the Explanatory Statement.

**Kwinana Lease** means the lease entered into between Emmerick Pty Ltd and the Company on 28 January 2005 the terms of which are more fully set out in Section 3 of the Explanatory Statement.

**LMR Partnership** means the partnership constituted by the partnership deed dated 1 December 2000 of which Robert Franco, Laura Franco and Michael Franco are partners.

**Notice of Meeting** or **Notice** means the notice of annual general meeting accompanying this Statement.

**Option** means an option to acquire a Share in the Company.

**Plan** has the meaning given in Resolution 5

**Resolution** means a resolution contained in the Notice.

**Secretary** means the current Company Secretary of the Company.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means the shareholder in the Company.

**2007 Option** has the meaning given in Section 6 of the Explanatory Statement.

**2008 Option** has the meaning given in Section 7.1 of the Explanatory Statement.

# CORPORATE DIRECTORY

## Directors and Officers

Richard (Dick) Wright - **Executive Chairman**

Robert Franco - **Executive Director and Chief Executive Officer**

Geoff Gander - **Non-Executive Director**

Len Tronccone - **Chief Financial Officer and Company Secretary**

## Registered Office and Principal Place of Business

59 Belmont Avenue

Belmont

Western Australia 6104

PO Box 414, Belmont WA 6984

Telephone +61 8 9262 9999

Facsimile +61 8 9262 9998

Email [novacoat@novacoat.com.au](mailto:novacoat@novacoat.com.au)

Website [www.novacoat.com.au](http://www.novacoat.com.au)

## Auditors

RSM Bird Cameron

Level 7, 28 The Esplanade

Perth

Western Australia 6000

## Bankers

Bank of Western Australia Limited

108 St George's Terrace

Perth

Western Australia 6000

## Share Registry

Computershare Investor Services Pty Ltd

Level 2, 45 St George's Terrace

Perth

Western Australia 6000

## Solicitors

Steinepreis Paganin

Level 4, Next Building

16 Milligan Street

Perth

Western Australia 6000

Telephone +61 8 1300 557 010

Facsimile +61 8 9323 2033

Website [www.computershare.com](http://www.computershare.com)

## VALUATION ADVISORY SERVICES

6 October 2005

The Independent Directors  
Novacoat Holdings Limited  
59 Belmont Avenue  
WA 6104

Dear Sirs

### Independent Expert's Report

#### 1. INTRODUCTION

This report has been prepared by Ernst & Young Transaction Advisory Services ("Ernst & Young") at your request and is to accompany the Notice of Meeting for the annual general meeting of Novacoat Holdings Limited ("Novacoat" or the "Company") to be held on 24 November 2005 ("the Meeting").

At the Meeting, shareholders not associated with Mr Robert Franco (the "non-associated shareholders") will be asked to consider, amongst other matters, a resolution seeking approval for the property lease agreements for 60 (Lot 1728) Office Road, Kwinana WA (the "Kwinana Property") and 59 Belmont Avenue, Belmont WA 6104 (the "Belmont Property") between Novacoat and entities associated with Mr Robert Franco (the "Property Leases").

As a listed entity, the Company is subject to the Listing Rules of Australian Stock Exchange Limited ("ASX"). In particular, Listing Rule 10.1 requires a listed entity to obtain shareholder approval for transactions between an entity and persons in a position to influence the entity. Mr Robert Franco is a Director of Novacoat and a major shareholder in the Company and is therefore considered to be in a position to influence the Company.

Under ASX Listing Rule 10.10, a notice of meeting prepared for the purpose of ASX Listing Rule 10.1 must be accompanied by an independent expert's report. The report is required to state whether or not, in that person's opinion, the proposed transaction is fair and reasonable to the shareholders not associated with the transaction. Accordingly, the purpose of our

report is to provide an opinion as to whether or not the Property Leases are fair and reasonable to the non-associated shareholders of the Company.

The lease for the Kwinana Property was previously approved at a shareholders meeting in December 2004 and subsequently signed in January 2005. However following the listing of Novacoat on the Australian Stock Exchange in April 2005, the ASX has requested that the lease be approved by the current shareholders. The Belmont Property is currently being rented by McFee Pty Ltd (a wholly owned subsidiary of the Company) on a month-by-month basis. The ASX has requested that the Belmont Property Lease also be approved by shareholders before it is executed.

In addition to this introduction, our report has been set out under the following sections and appendices:

2. Opinion
3. Background of the Company
4. Basis of Assessment
5. Consideration of the Property Leases
6. Summary and Conclusion

Appendix 1 Sources of Information and Declarations

## 2. OPINION

Based upon the discussion and analysis throughout this report, the Property Leases are, in our opinion, fair and reasonable to the non-associated shareholders of the Company.

Our summary and conclusion is contained in Section 6 of this report. This opinion should be read in conjunction with the whole of this report, including the sources of information and declarations contained in Appendix 1.

## 3. BACKGROUND OF THE COMPANY

In its current form, Novacoat Holdings Limited was created in 2004 through the acquisition by mBox.com Ltd of the business and nominated assets of Fero Industries.

Novacoat provides shop based surface treatment to structural and mechanical components as well as rubber lining applications to the construction sector servicing resources and infrastructure projects in Australia. The Company's strategy is to grow and diversify the services offered to the resources and infrastructure sectors through a combination of acquisitions, organic growth and alliances with specialist groups.

Novacoat listed on the ASX in April 2005 with the issue of approximately 5.3 million new shares at 30 cents per share. In April 2005 the Company also acquired McFee, a Sydney based engineering, construction and maintenance group that provides structural, mechanical and piping services to the resources, energy, processing and infrastructure sectors.

Novacoat currently has approximately 22.5 million shares on issue of which approximately 12.7 million shares are listed. Mr Robert Franco controls, or is deemed to control, approximately 7.0 million shares equating to 31% of the equity. Since listing in April 2005, the Company's share price has traded in a range from 25 cents to 60 cents per share.

#### 4. BASIS OF ASSESSMENT

As referred to previously, the purpose of this report is to assess whether or not the Property Leases are fair and reasonable to the non-associated shareholders of the Company. ASX Listing Rule 10.1 does not define the term 'fair and reasonable'. In forming our opinion, however, we have considered Australian Securities & Investment Commission ("ASIC") Policy Statement 74 covering Acquisitions Agreed to by Shareholders.

In the determination of what is 'fair and reasonable', ASIC Policy Statement 74 states that:

*"what is fair and reasonable for non-associated shareholders should be judged in all the circumstances of the proposal. The report must compare the likely advantages and disadvantages for the non-associated shareholders if the proposal is agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the value of the shares to be acquired (the property leases entered into) under the proposal and the value of the consideration is only one element of this assessment."*

The Company has already executed a lease for the Kwinana Property and proposes to enter an agreement to rent the Belmont Property. The Property Leases would be 'fair and reasonable' if the non-associated shareholder are considered to be better off as a result of these transactions. The non-associated shareholders will be better off if the expected benefits of the Property Leases outweigh the possible disadvantages.

Accordingly, in forming our opinion we have considered the implications of the Property Leases on the Company, and on the non-associated shareholders in particular.

The following matters have been considered:

- an understanding of the property requirements of the Company;
- the relationship between the rental price to be paid by the Company and the independent market rental value attributed to the properties;
- the term, and options for further terms, of the Property Leases; and
- other terms of the Property Leases.

In preparing this report we have relied upon the following:

- the independent rental valuation of the Kwinana Property conducted by Burgess Rawson dated 13 October 2004, plus confirmation by Burgess Rawson, dated 28 September 2005, that the quantum of the rental valuation would not have decreased between 13 October 2004 and 28 September 2005; and

- the independent rental valuation of the Belmont Property conducted by CB Richard Ellis dated 25 May 2005.

Both Burgess Rawson and CB Richard Ellis are licensed real estate valuers. Full copies of the valuation reports are available for inspection at the Company's offices.

The valuation of the Kwinana Property was commissioned by Mr Andrew Meloncelli, Secretary of mBox.com Ltd at the time, and the valuation of the Belmont Property was commissioned by Mr Geoff Gander, Non-executive Director of Novacoat. In placing reliance on these valuation reports we have satisfied ourselves as to the valuers' independence, competence and expertise. We are also satisfied that the assumptions, methodologies and source data used by the valuers are reasonable and appropriate and that the reports contain sufficient information to support the conclusions drawn.

## 5. CONSIDERATION OF THE PROPERTY LEASES

This section summarises the Property Leases and considers them in relation to the valuation reports.

### *Kwinana Property*

In January 2005, Novacoat entered into a lease agreement with Emmerick Pty Ltd (an entity related to Mr Robert Franco) for the Kwinana Property for a term of ten years with two further options of five years each. The initial rent was set at \$177,220 per annum (net of outgoings and GST), set to be equal to 80% of the market rental value as assessed by Burgess Rawson on the 13 October 2004 of \$221,526 per annum (net of outgoings and GST). In their letter dated 28 September 2005, Burgess Rawson confirmed that the rental value of the property would not have decreased since the October 2004 valuation.

The lease agreement allows for a market rent review on 8 December 2007, 8 December 2010 and at the commencement of each option period. It is therefore anticipated that the current 'preferential' rental charge will not extend beyond 8 December 2007. The lease allows for CPI rent reviews to be undertaken annually in all other years. The lease terms and conditions generally appear to be consistent with industry norms.

The Kwinana Property comprises a fabrication workshop and office facility of 9,307 square metres on a total site of 4.0494 hectares. The business has been operating at this location since 1991 and during this time a number of improvements have been made to the buildings, structures and equipment to meet the requirements of the operations. We understand from Novacoat Directors that the size of the premises and the type of structures currently in place are appropriate for the Company's current and future operations. Novacoat Directors also believe that relocating the operations to a new location would incur significant construction, development and equipment costs.

The Kwinana Property is located in the heavy industrial locality of Kwinana Beach, approximately 33 kilometres south of the Perth central business district. Novacoat Directors

have informed us this location suits the Company's current operations as the location is close to a number of the Company's major customers.

Based on the above, the lease agreement for the Kwinana Property appears to be commercially competitive and that relocating the operations to alternative premises would be commercially unattractive.

### ***Belmont Property***

Novacoat, through its subsidiary McFee Pty Ltd, is current renting the Belmont Property on a month to month basis. Novacoat proposes to enter into a lease agreement with Michael Robert Franco, Laura Michelle Franco and Robert Mario Franco for the Belmont Property at an annual rent of \$54,000 (net of outgoings and GST), paid monthly in advance. The property comprises 450 square meters of office space which we understand has recently been fitted out to provide superior office accommodation.

The term of the lease is proposed to be two years from the commencement date with two further seven year options to extend the lease up until 2021. We understand that this two year initial lease period suits McFee as it is looking to grow its operations strongly and therefore requires flexibility around future accommodation. The lease allows for a market rent review in 2007 and 2014 and CPI rent reviews to be undertaken annually in all other years. The lease terms and conditions generally appear to be consistent with industry norms.

While the Belmont Property has not been specifically customised for the Company, we understand from Novacoat Directors that the quality of the office accommodation suits the Company's requirement. We also understand that the size of the Belmont Property is suited to the current operations.

The location of the property meets the Company's requirements of being well positioned for Perth central business district, the airport and McFee's other operations. The valuer also notes that Belmont is considered a premier industrial location, which has experienced industrial and commercial expansion in recent years.

CB Richard Ellis has valued the property in relation to comparable office accommodation in the area. The valuer has adopted to elect a rental rate of \$145 per square meter per annum net of outgoings and GST, equating to an annual rental of \$65,250 per annum (net of outgoings and GST).

Based on the above, the lease agreement for the Belmont Property appears to be commercially competitive, being at approximately 83% of the estimated market value. We note, however, that the market rent reviews would result in the 'preferential' rate not continuing post 2007.

## 6. SUMMARY AND CONCLUSION

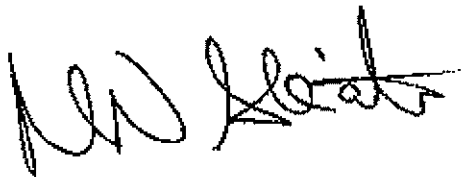
### 6.1 Summary

- the initial rental charges appear to be below market valuations. Future market rent reviews will move these rates in line with market rates;
- the Property Leases appear to suit the Company in terms of type of accommodation, size of accommodation and location;
- the term of the Property Leases appears suitable. The Kwinana lease has a maximum term of twenty years providing the Company with surety over its customised premises. The Belmont Lease also provides long-term accommodation if required, plus shorter-term flexibility; and
- the Property Leases have been prepared on industry standard terms and conditions.

### 6.2 Conclusion

Considering the matters referred to in Listing Rule 10.1 and the detailed discussion throughout this report, in our opinion, the Property Leases are fair and reasonable to the non-associated shareholders of the Company.

Yours faithfully



Martin Alciaturi  
Director & Representative



Ken Pendergast  
Director & Representative

## APPENDIX 1

### SOURCES OF INFORMATION AND DECLARATIONS

#### 1. Sources of Information

In preparing this report we have relied upon the following principal sources of information:

- Rental Valuation Report, 60 (Lot 1728) Office Road, Kwinana, Western Australia. Prepared by Burgess Rawson (WA) Pty Ltd 13 October 2004
- Letter from Keith Collins of Burgess Rawson to Robert Franco of Novacoat Holdings Limited, Re: Lot 1728 (60) Office Road, East Rockingham, dated 28 September 2005
- Valuation report prepared for Novacoat Holdings Pty Ltd of 59 Belmont Avenue, Belmont WA 6104, prepared by CB Richard Ellis dated 25 May 2005
- Lease agreement for Lot 1728 Office Road, East Rockingham between Emmerick Pty Ltd and Novacoat Holdings Limited
- Lease agreement for Unit 2, 59 Belmont Avenue, Belmont between Michael Robert Franco, Laura Michelle France and Robert Mario Franco and McFee Pty Ltd
- Novacoat Holdings Limited share price data (Source: Bloomberg)
- Discussions with Mr Robert Franco
- Other publicly available information

#### 2. Declarations

This report has been prepared at the request of the Directors of Novacoat specifically for the non-associated Novacoat shareholders. It is not intended that this report be used for any purpose other than to accompany the Notice of Meeting for the annual general meeting of Novacoat. In particular it is not intended that this report should be used for any purpose other than as an expression of our opinion on whether or not the Property Leases are in the best interests of the non-associated Novacoat shareholders.

Neither Ernst & Young Transaction Advisory Services, nor Ernst & Young, nor any member or employee thereof, accepts responsibility to any person, other than the non-associated Novacoat shareholders, in respect of this report, including any errors or omissions howsoever caused. Ernst & Young Transaction Advisory Services holds a Dealers Licence issued pursuant to the Corporations Act and is authorised to provide the opinion presented within this report.

Mr Martin Alciaturi and Mr Ken Pendergast have assumed overall responsibility for this report. Mr Alciaturi and Mr Pendergast are directors and authorised representatives of Ernst

& Young Transaction Advisory Services and are partners of Ernst & Young. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other Ernst & Young Transaction Advisory Services staff have been consulted in the preparation of this report where appropriate.

We have held discussions with the Directors of Novacoat regarding the factual accuracy of the information contained in this report. We did not change the methodology used in our assessment as a result of these discussions and our independence has not been impinged in any way.

In the preparation of this report we have considered the information and explanations given to us. We emphasise that we have not carried out an independent confirmation of the information nor have we conducted anything in the nature of an audit. We do not imply, nor should it be construed that our assessment has revealed all the matters which an audit or more detailed examination might disclose. We have however evaluated information provided to us by Novacoat, as well as other parties through enquiry, analysis and review and nothing has come to our attention to indicate that the information provided was materially misstated or did not afford reasonable grounds upon which to base our opinion. We have no reason to believe that any information relied on by us is incorrect.

The statements contained in this report are given in good faith and have been derived from information believed to be reliable and accurate. We have no reason to believe that any information has been withheld from us.

Ernst & Young Transaction Advisory Services consents to this report accompanying the Notice of Meeting in the form and context in which it appears.

Ernst & Young Transaction Advisory Services will receive a professional fee based on the time spent in the preparation of this report, estimated at approximately \$5,000. Ernst & Young Transaction Advisory Services or Ernst & Young will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the making of this report.

<p style="text-align: center;"><b>THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT</b></p>
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## **PART 2 – FINANCIAL SERVICES GUIDE**

6 October 2005

### **1. Ernst & Young Transaction Advisory Services**

Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services” or “we,” or “us” or “our”) has been engaged to provide general financial product advice in the form of an Independent Expert’s Report (“Report”) in connection with a financial product of another person. The Report is set out in Part 1.

### **2. Financial Services Guide**

This Financial Services Guide (“FSG”) provides important information to help retail clients make a decision as to their use of the general financial product advice in the Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

### **3. Financial services we offer**

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging and dealing in securities.

### **4. General financial product advice**

In our Report we provide general financial product advice. The advice in the Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the Report having regard to your own objectives, financial situation and needs before you act on the advice in the Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue the Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

**5. Remuneration for our services**

We charge fees for providing the Report. These fees have been agreed with, and will be paid by, the person who engaged us to provide the Report. Our fees for the Report are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, neither Ernst & Young Transaction Advisory Services, nor any of its directors, employees or associated entities receives any fees or other benefits, directly or indirectly, for or in connection with the provision of the Report.

**6. Associations with product issuers**

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

**7. Responsibility**

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

**8. Complaints process**

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the Compliance and Legal Manager and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service or the Insurance Brokers Disputes Limited for general insurance product advice.

<p><b>Contacting Ernst &amp; Young Transaction Advisory Services</b></p> <p>Compliance and Legal Manager Ernst &amp; Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555</p>	<p><b>Contacting the Independent Dispute Resolution Schemes:</b></p> <p>Financial Industry Complaints Service Limited PO Box 579 – Collins Street West Melbourne VIC 8007 Telephone: 1800 335 405</p> <p>Insurance Brokers Disputes Limited Level 10 99 William Street Melbourne VIC 3000 Telephone: 1800 064 169</p>
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572



**All correspondence to:**  
Computershare Investor Services Pty Limited  
GPO Box D182 Perth  
Western Australia 6840 Australia  
Enquiries (within Australia) 1300 557 010  
(outside Australia) 61 3 9415 4000  
Facsimile 61 8 9323 2033  
www.computershare.com

Mark this box with an 'X' if you have made any changes to your address details (see reverse)



Securityholder Reference Number (SRN)



I 1234567890

I N D

### Appointment of Proxy

I/We being a member/s of Novacoat Holdings Limited and entitled to attend and vote hereby appoint



the Chairman  
of the Meeting  
(mark with an 'X')

OR

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate 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 Novacoat Holdings Limited to be held at the Traders Lounge, Hyatt Regency Perth, 99 Adelaide Terrace, Perth, Western Australia on Thursday 24 November 2005 at 2.00 PM (WST) and at any adjournment of that meeting.

#### IMPORTANT: FOR ITEMS 3 to 15 BELOW



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 Items 3 to 15 below, please place a mark in this box. By marking this box you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of those items and that votes cast by him, other than as proxy holder, would 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 Items 3 to 15 and your votes will not be counted in computing the required majority if a poll is called on these items. The Chairman of the Meeting intends to vote undirected proxies in favour of each of these items.

### Voting directions to your proxy - please mark to indicate your directions

	For	Against	Abstain*		For	Against	Abstain*
1. Adoption of Remuneration Report				10. Approval of Executive Options - Vincent Ferritto			
2. Re-election of Geoff Gander as a Director				11. Approval of Issue of Options - Charlie Bontempo			
3. Approval of Kwinana Lease				12. Approval of Issue of Securities - McFee Acquisition			
4. Approval of Belmont Lease				13. Approval of Issue of Shares - Private Placement			
5. Adoption of Employee Share Option Plan				14. Approval to Issue Shares			
6. Approval of Executive Options - Richard Wright				15. Approval of Non-Executive Directors Remuneration			
7. Approval of Executive Options - Robert Franco				16. Change of Company Name			
8. Approval of Executive Options - Geoff Gander				17. Adoption of New Constitution			
9. Approval of Executive Options - Len Troncone							

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

\* If you mark the Abstain box for a particular item, 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.

### Appointing a second Proxy

I/We wish to appoint a second proxy



Mark with an 'X' if you wish to appoint a second proxy.

AND

 %

OR

State the percentage of your voting rights or the number of securities for this Proxy Form.

**PLEASE SIGN HERE**  
Individual or Securityholder 1

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual/Sole Director and  
Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

In addition to signing the Proxy form in the above box(es) please provide the information below in case we need to contact you.

Contact Name

Contact Daytime Telephone

Date



# How to complete this Proxy Form

## 1 Your Address

This is your 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. Securityholders sponsored by a broker (in which case your reference number overleaf will commence with an 'x') should advise your broker 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 individual or body corporate you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the full name of that individual or body corporate in the space provided. 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 securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

## 3 Votes on Items of Business

You may direct your proxy how to vote by placing a mark in one of the three boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities 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 he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

## 4 Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form.

To appoint a second proxy you must:

- (a) indicate that you wish to appoint a second proxy by marking the box.
- (b) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (c) return both forms together in the same envelope.

## 5 Signing Instructions

You must sign this 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 securityholders should sign.

Power of Attorney: to sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole 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 also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

If a representative of a corporate Securityholder or proxy 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 or at [www.computershare.com](http://www.computershare.com).

## Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting on Thursday 24 November 2005 at 2.00 PM (WST). Any Proxy Form received after that time will not be valid for the scheduled meeting.

### Documents may be lodged using the reply paid envelope or:

IN PERSON Registered Office - 59 Belmont Avenue, BELMONT WA WA 6104  
Share Registry - Computershare Investor Services Pty Limited, Level 2, Reserve Bank Building, 45 St Georges Terrace, Perth WA 6000  
Australia

BY MAIL Registered Office - 59 Belmont Avenue, BELMONT WA WA 6104  
Share Registry - Computershare Investor Services Pty Limited, GPO Box D182, Perth WA 6840 Australia

BY FAX 61 8 9323 2033