

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

Telephone +61 8 9262 9999

Facsimile +61 8 9262 9998

www.paladio.com.au

Paladio Group Limited ABN 35 111 210 390

18 October 2006

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

By ASX Online

No. of pages: 27

NOTICE OF ANNUAL GENERAL MEETING & PROXY FORM

Please find attached the Notice of Annual General Meeting and accompanying Proxy Form which will be mailed to Paladio Group Limited (ASX: PDO) Shareholders today together with the 2006 Annual Report.

Yours faithfully,
PALADIO GROUP LIMITED



Len Tronccone
Company Secretary

Paladio

GROUP LIMITED

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

Telephone +61 8 9262 9999

Facsimile +61 8 9262 9998

www.paladio.com.au

Paladio Group Limited ABN 35 111 210 390

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, 23 November 2006 at 10.30am (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 proxy form 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.*

CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| Notice of Annual General Meeting (setting out the proposed resolutions) | 3 |
| Explanatory Statement (explaining the resolutions) | 7 |
| Proxy Form | Enclosed |

TIME AND PLACE OF MEETING AND HOW TO VOTE

Venue

The Annual General Meeting of the Shareholders of Paladio Group Limited will be held at:

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

**Commencing at
10.30am (WST)
on Thursday, 23 November 2006**

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 10.30am.

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 10.30am (WST) on Tuesday, 21 November 2006 (48 hours prior to commencement of the meeting).

Your proxy form is enclosed.

PALADIO GROUP LIMITED

ACN 111 210 390

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the second Annual General Meeting of Shareholders of Paladio Group Limited will be held at the Traders Lounge, Hyatt Regency Perth, 99 Adelaide Terrace, Perth, Western Australia, at 10.30am on Thursday, 23 November 2006.

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, 21 November 2006 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 Business.

ORDINARY BUSINESS

2006 Financial Statements and Reports

To receive the Financial Statements of the Company and its controlled entities for the financial year ended 30 June 2006, 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 a non-binding 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 2006 Annual Report for the Company for the year ended 30 June 2006.”

Resolution 2 – Re-election of Richard Wright 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 Richard Wright, who retires as a Director of the Company by rotation in accordance with clause 13.2 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 – Re-election of Dennis O’Neill 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 Dennis O’Neill, who was appointed a Director of the Company since the previous Annual General Meeting retires as a Director of the Company in accordance with clause 13.4 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 4 – 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 13.7 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 \$250,000 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.

Resolution 5 – 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 1,000,000 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 6 - 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 450,000 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 7 - Approval of Incentive Options - Peter Wallace

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 Peter Wallace 450,000 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 Wallace and any associate of Mr Wallace 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 Incentive Options - Dennis O'Neill

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 Dennis O'Neill 1,000,000 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 O'Neill and any associate of Mr O'Neill 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 - Ratification of Issue of Prior Issues of Securities

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

"That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the allotment and issue of 50,000 Shares at an issue price of 70 cents per Share and 600,000 shares at an issue price of 85 cents each on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this resolution by a person who participated in the issue and any associates of those persons.

By Order of the Board



L Troncone
Company Secretary
Date: 17 October 2006

EXPLANATORY STATEMENT

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, 23 November 2006 at 10.30am (WST).

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 Richard Wright as a Director of the Company

Mr Richard Wright, BSc (Mech. Tech.), University of NSW, Postgraduate course in business at the Hass Business School, Berkley Campus, University of California

Executive Chairman

Mr Wright was appointed Executive Chairman of the Company on 7 December 2004 shortly after the Company's incorporation on 1 October 2004. Mr Wright has over 35 years' experience in the resources engineering, construction and maintenance industries. Mr Wright held the positions of Executive Chairman of ADrail Pty Ltd which was responsible for the design and construction of the Alice Springs to Darwin rail project, and Managing Director of Fluor Daniel Australia, a wholly owned subsidiary of an international engineering, construction and maintenance group.

Mr Wright retires by rotation and offers himself for re-election in accordance with clause 13.2 of the Constitution.

3 Resolution 3: Re-election of Dennis O'Neill as a Director of the Company

Mr Dennis O'Neill, BSc (Hons), Polytechnic of Wales, UK, Dip. Mech. Eng., Caulfield Institute, Victoria

Non-Executive Director

Mr O'Neill was appointed a Non-Executive Director of the Company on 29 September 2006. He is the Company's Chairman-elect with his Chairmanship to take effect from the closing of this Annual General Meeting. Mr O'Neill has over 30 years' experience in senior executive roles with public and private companies which operated in the diversified engineering services sector including Managing Director of United Group Limited and Evans Deakin Industries Limited, and Senior General Manager of a large division of the ANI Group. Mr O'Neill has also held Chairman Advisory roles for a number of private companies as well as advisory roles for federal and state government bodies and trade delegations. Mr O'Neill was a recent member of the Australian Contractors' Council, a former Business Queensland Chief Executive of the Year and State President of the previous Metal Trades Industry Association (now part of the Australian Industry Group). He is a Fellow of the Institute of Engineers, Australia, Fellow of the Australian Institute of Company Directors and Fellow of the Australian Institute of Management.

Mr O'Neill was appointed a Director since the date of the previous Annual General Meeting and therefore retires and offers himself for re-election in accordance with clause 13.4 of the Constitution.

4 Resolution 4: Non-Executive Directors Remuneration

Clause 13.7 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 4 seeks Shareholder approval to set the maximum aggregate remuneration pool that may be paid to Non-Executive Directors at \$250,000 per annum which is \$100,000 higher than the current maximum limit of \$150,000. The Directors believe that this increased level of remuneration will enable the Company to fairly and properly remunerate Non-Executive Directors with a view to attract, retain and incentivise high quality individuals in this important role which carries significant responsibilities and fiduciary duties, particularly for an actively growing company such as Paladio.

The Company currently has two Non-Executive Directors, being Mr Peter Wallace and Mr Dennis O'Neill. Mr Wallace was appointed a Director on 25 October 2005 and since that date his total remuneration has been \$34,757. Mr O'Neill was appointed a Director on 29 September 2006 and since that date his total remuneration has been \$4,167. The remuneration for both Messrs Wallace and O'Neill consist of fixed annualised sums.

5 Resolutions 5 & 6: Approval of Grant of Options to Executive Directors

Resolutions 5 and 6 seek Shareholder approval to grant Options exercisable at \$0.90 each and expiring on 30 September 2013 (“**2013 Executive Options**”) to the Company’s Executive Directors, (together the **Related Parties**) in the following amounts:

| Director | Number of 2013 Executive Options |
|----------------|----------------------------------|
| Richard Wright | 1,000,000 |
| Robert Franco | 450,000 |

The full terms and conditions of the 2013 Executive Options are set out in Section 5.6 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.

5.1 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 5 and 6 are passed, the 2013 Executive 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 2013 Executive Options to the Related Parties.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to grant the 2013 Executive Options as approval is being obtained under ASX Listing Rule 10.11. The grant of the 2013 Executive 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.

5.2 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 2013 Executive Options to be granted to the Related Parties is set out in the introductory paragraphs in Section 5;
- (b) the terms of the 2013 Executive Options are set out in section 5.6 of this Explanatory Statement;
- (c) the 2013 Executive 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 2013 Executive Options will be granted on one date; and

- (d) no funds will be raised from the grant of the 2013 Executive Options.

5.3 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 2013 Executive 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 2013 Executive 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 2013 Executive Options.

5.4 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 227 of the Corporations Act, the following information is provided to allow Shareholders to assess the proposed grant of the 2013 Executive Options:

- (a) the related parties to whom the financial benefit will be given are Richard Wright and Robert Franco;
- (b) the maximum number of 2013 Executive 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 5;
- (c) no funds will be raised from the issue of the 2013 Executive 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:

| Director | Shares | Options | Annual Fee (current year) | Annual Fee (previous year) |
|----------------|-----------|-----------|---------------------------|----------------------------|
| Richard Wright | 970,000 | 1,350,000 | \$200,000 | \$166,667 |
| Robert Franco | 7,350,000 | 250,000 | \$170,000 | \$149,166 |

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 | \$0.95 |
| Lowest | \$0.48 |
| Last | \$0.83 |

- (f) if Shareholders approve the issue of the 2013 Executive 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:

| Options exercised | Dilution effect |
|---|-----------------|
| 1,000,000 2013 Executive Options pursuant to Resolution 5 | 2.06% |
| 450,000 2013 Executive Options pursuant to Resolution 6 | 0.93% |

If all Options pursuant to Resolution 5 and 6 are exercised then the effect will be to dilute the shareholding of existing Shareholders by approximately 2.99%.

The market price for Shares during the term of the 2013 Executive Options would normally determine whether or not the 2013 Executive Options are exercised. If, at any time any of the 2013 Executive Options the Company's Shares are trading on ASX at a price that is higher than the exercise price of the 2013 Executive Options, there may be a perceived cost to the Company;

- (g) the value of the 2013 Executive Options and the pricing methodology is set out in section 5.5 of this Explanatory Statement;

- (h) the 2013 Executive Options will be issued free as consideration for performance of work to be done 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 2013 Options to the Related Parties constitutes valid consideration for work to be performed for the Company. The total value of the 2013 Executive Options is \$507,500 (**Consideration Amount**) based on the valuation outlined in section 5.5 of this Explanatory Statement. The value of the 2013 Executive Options being provided to each Director is as follows:

| Director | Value of 2013 Executive Options |
|----------------|---------------------------------|
| Richard Wright | \$350,000 |
| Robert Franco | \$157,500 |

- (i) Richard Wright declines to make a recommendation to Shareholders on Resolution 5 due to his material personal interest in the outcome of that Resolution. All the Directors other than Richard Wright recommend that Shareholders vote in favour of Resolution 5 as they are of the view that the grant of the 2013 Executive Options is an appropriate form of remuneration to provide Richard Wright with an incentive to maximise returns to Shareholders;
- (j) Robert Franco declines to make a recommendation to Shareholders on Resolution 6 due to his material personal interest in the outcome of that Resolution. All the Directors other than Robert Franco recommend that Shareholders vote in favour of Resolution 6 as they are of the view that the grant of the 2013 Executive Options is an appropriate form of remuneration to provide Robert Franco with an incentive to maximise returns to Shareholders;
- (k) 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 5 and 6; and
- (l) the primary purpose of the grant of the 2013 Executive Options is to allow the Company to provide cost effective consideration to the Related Parties for work proposed to be done by the Related Parties for the Company. Given this purpose and bearing in mind the exercise terms of the 2013 Executive 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 2013 Executive Options upon the terms proposed.

5.5 Valuation of the 2013 Executive Options

The 2013 Executive Options have been valued by Stanton Partners Corporate Pty Ltd using the Black & Scholes Option Pricing Model and based upon the following assumptions:

- (a) the 2013 Executive Options expire on 30 September 2013 and are exercisable at \$0.90 each;
- (b) a price per Share of \$0.83 (being the underlying Share price based on the mid-range valuation determined by Stanton Partners Corporate Pty Ltd);
- (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 5.875% (being the risk free interest rate on government bonds with a similar maturity as the 2013 Executive Options);
- (e) the valuations ascribed to the 2013 Executive Options may not necessarily represent the market price of the 2013 Executive Options at the date of the valuation; and
- (f) the valuation date for the 2013 Executive Options is 28 September 2006.

Based on the above, the 2013 Executive Options have been valued at \$0.35 each.

5.6 Terms of the 2013 Executive Options

Each 2013 Executive Option will entitle the holder to subscribe for one Share on the following terms:

- (a) the 2013 Executive Options shall expire at 5:00 pm (WST) on 30 September 2013 (**Expiry Date**);
- (b) the amount payable on the exercise of the 2013 Executive Options will be \$0.90 for each 2013 Executive Option exercised;
- (c) the vesting terms of the 2013 Executive Options are as follows:
 - 40% of the 2013 Executive Options shall vest 12 months after the date of granting;
 - a further 30% of the 2103 Executive Options shall vest 24 months after the date of granting;
 - the remaining 30% of the 2013 Executive Options shall vest 36 months after the date of granting; and
 - in the event that Shareholders vote not to re-elect a Director who comes up for re-election via rotation and that Director holds 2013 Executive Options, then 50% of the unvested number of 2013 Executive Options shall automatically vest and the remaining unvested 2013 Executive Options shall automatically expire;

- (d) upon vesting, the 2013 Executive Options may be exercised wholly, or in part, by notice in writing to the Directors given prior to or on the Expiry Date;
- (e) a 2013 Executive Option may be transferred at any time prior to the Expiry Date;
- (f) there are no participating rights or entitlements inherent in the 2013 Executive Options and option holders will not be entitled to participate in new Shares offered to Shareholders during the currency of the 2013 Executive 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 2013 Executive 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) subject to the Listing Rules, the option holder has no right to change the exercise price of the 2013 Executive Options nor to change the number of underlying securities over which the 2013 Executive Options may be exercised;
- (i) Shares issued upon exercise of the 2013 Executive Options will rank pari passu in all respects with the Company's then issued Shares;
- (j) the Company will apply for quotation on ASX of all Shares issued upon exercise of the 2013 Executive Options;
- (k) the 2013 Executive Options will not be quoted on the ASX; and
- (l) the 2013 Executive Options not exercised by the Expiry Date will automatically expire.

6 Resolutions 7 & 8: Approval of Grant of Options to Non-Executive Directors

Resolutions 7 and 8 seek Shareholder approval to grant Options exercisable at \$0.81 each and expiring on 30 September 2013 ("**2013 Incentive Options**") to the Company's Non-Executive Directors, (together the **Related Parties**) in the following amounts:

| Director | Number of 2013 Incentive Options |
|-----------------|---|
| Dennis O'Neill | 1,000,000 |
| Peter Wallace | 450,000 |

The full terms and conditions of the 2013 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 7 and 8 are passed, the 2013 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 2013 Incentive Options to the Related Parties.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to grant the 2013 Incentive Options as approval is being obtained under ASX Listing Rule 10.11. The grant of the 2013 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 2013 Incentive Options to be granted to the Related Parties is set out in the introductory paragraphs in Section 6;
- (b) the terms of the 2013 Incentive Options are set out in section 6.6 of this Explanatory Statement;
- (c) the 2013 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 2013 Incentive Options will be granted on one date; and
- (d) no funds will be raised from the grant of the 2013 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 2013 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 2013 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 2013 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 227 of the Corporations Act, the following information is provided to allow Shareholders to assess the proposed grant of the 2013 Incentive Options:

- (a) the related parties to whom the financial benefit will be given are Dennis O'Neill and Peter Wallace;
- (b) the maximum number of 2013 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 2013 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:

| Director | Shares | Options | Annual Fee (current year) (Note) | Annual Fee (previous year) |
|----------------|--------|---------|----------------------------------|----------------------------|
| Dennis O'Neill | Nil | Nil | \$50,000 | Not Applicable |
| Peter Wallace | 40,000 | Nil | \$50,000 | \$22,415 |

Note: The Annual Fee is applicable from 1 October 2006. Prior to that date, Peter Wallace Received an Annual Fee equivalent to \$30,000 + 9% superannuation. Dennis O'Neill became a Director of the Company on 29 September 2006 and did not earn any fees prior to that date. In addition, Dennis O'Neill's Annual Fee will rise to \$90,000 per annum effective from the date he assumes the Chairmanship of the Company on 23 November 2006.

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 | \$0.95 |
| Lowest | \$0.48 |
| Last | \$0.83 |

- (f) if Shareholders approve the issue of the 2013 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:

| Options exercised | Dilution effect |
|---|-----------------|
| 450,000 2013 Incentive Options pursuant to Resolution 7 | 0.93% |
| 1,000,000 2013 Incentive Options pursuant to Resolution 8 | 2.06% |

If all Options pursuant to Resolution 7 and 8 are exercised then the effect will be to dilute the shareholding of existing Shareholders by approximately 2.99%.

The market price for Shares during the term of the 2013 Incentive Options would normally determine whether or not the 2013 Incentive Options are exercised. If, at any time any of the 2013 Incentive Options the Company's Shares are trading on ASX at a price that is higher than the exercise price of the 2013 Incentive Options, there may be a perceived cost to the Company;

- (g) the value of the 2013 Incentive Options and the pricing methodology is set out in section 6.5 of this Explanatory Statement;
- (h) the 2013 Incentive Options will be issued free to provide an long term incentive for Non-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 2013 Options to the Related Parties constitutes valid consideration for work to be performed for the Company. The total value of the 2013 Incentive Options is \$565,500 (**Consideration Amount**) based on the valuation outlined in section 6.5 of this Explanatory Statement. The value of the 2013 Incentive Options being provided to each Director is as follows:

| Director | Value of 2013 Incentive Options |
|-----------------|--|
| Dennis O'Neill | \$390,000 |
| Peter Wallace | \$175,500 |

- (i) Peter Wallace declines to make a recommendation to Shareholders on Resolution 7 due to his material personal interest in the outcome of that Resolution. All the Directors other than Peter Wallace recommend that Shareholders vote in favour of Resolution 7 as they are of the view that the grant of the 2013 Executive Options is an appropriate form of remuneration to provide Peter Wallace with an incentive to maximize returns to Shareholders;
- (j) Dennis O'Neill declines to make a recommendation to Shareholders in relation to Resolution 8 pursuant to which he is being issued 2013 Incentive Options due to his material personal interest in the outcome of that Resolution. All the Directors other than Dennis O'Neill recommend that Shareholders vote in favour of the Resolution 8 as they are of the view that the grant of the 2013 Incentive Options is an appropriate form of remuneration to provide Dennis O'Neill with an incentive to maximize returns to Shareholders;
- (k) 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 7 and 8;
- (l) the primary purpose of the grant of the 2013 Incentive Options is to allow the Company to provide cost effective consideration to the Related Parties for work proposed to be done by the Related Parties for the Company. Given this purpose and bearing in mind the exercise terms of the 2013 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 2013 Incentive Options upon the terms proposed; and
- (m) the Board acknowledges the grant of the 2013 Incentive Options to the Related Parties is contrary to Recommendation 9.3 of the ASX Good Corporate Governance and Best Practice Recommendations. However, the Board considers the grant of 2013 Incentive Options reasonable in the circumstances, given the necessity to attract the highest calibre of professionals to the Company, whilst maintaining the Company's cash reserves.

6.5 Valuation of the 2013 Incentive Options

The 2013 Incentive Options have been valued by Stanton Partners Corporate Pty Ltd using the Black & Scholes Option Pricing Model and based upon the following assumptions:

- (a) the 2013 Incentive Options expire on 30 September 2013 and are exercisable at \$0.81 each;
- (b) a price per Share of \$0.83 (being the underlying Share price based on the mid-range valuation determined by Stanton Partners Corporate Pty Ltd);
- (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 5.875% (being the risk free interest rate on government bonds with a similar maturity as the 2013 Incentive Options);
- (e) the valuations ascribed to the 2013 Incentive Options may not necessarily represent the market price of the 2013 Incentive Options at the date of the valuation; and
- (f) the valuation date for the 2013 Incentive Options is 28 September 2006.

Based on the above, the 2013 Incentive Options have been valued at \$0.39 each.

6.6 Terms of the 2013 Incentive Options

Each 2013 Incentive Option will entitle the holder to subscribe for one Share on the following terms:

- (a) the 2013 Incentive Options shall expire at 5:00 pm (WST) on 30 September 2013 (**Expiry Date**);
- (b) the amount payable on the exercise of the 2013 Incentive Options will be \$0.81 for each 2013 Incentive Option exercised;
- (c) the vesting terms of the 2013 Incentive Options are as follows:
 - 60% of the 2013 Incentive Options shall vest 12 months after the date of granting;
 - a further 20% of the 2103 Incentive Options shall vest 24 months after the date of granting;
 - the remaining 20% of the 2013 Incentive Options shall vest 36 months after the date of granting; and
 - in the event that Shareholders vote not to re-elect a Director who comes up for re-election via rotation and that Director holds 2013 Incentive Options, then 50% of the unvested number of 2013 Incentive Options shall automatically vest and the remaining unvested 2013 Incentive Options shall automatically expire;

- (d) upon vesting, the 2013 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) a 2013 Incentive Option may be transferred at any time prior to the Expiry Date;
- (f) there are no participating rights or entitlements inherent in the 2013 Incentive Options and option holders will not be entitled to participate in new Shares offered to Shareholders during the currency of the 2013 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 2013 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) subject to the Listing Rules, the option holder has no right to change the exercise price of the 2013 Incentive Options nor to change the number of underlying securities over which the 2013 Incentive Options may be exercised;
- (i) Shares issued upon exercise of the 2013 Incentive Options will rank pari passu in all respects with the Company's then issued Shares;
- (j) the Company will apply for quotation on ASX of all Shares issued upon exercise of the 2013 Incentive Options;
- (k) the 2013 Incentive Options will not be quoted on the ASX; and
- (l) the 2013 Incentive Options not exercised by the Expiry Date will automatically expire.

7 Resolution 9: Ratification of Prior Issues of Securities

7.1 General

On 27 June 2006 the Company announced the issue of 50,000 Shares at 70 cents per Share to an advisor in consideration for services he had rendered to the Company.

On 20 September 2006 the Company announced the issue of 600,000 Shares at 85 cents per Share as part consideration of the acquisition of the Fabcon Constructions business.

The subscribers pursuant to this issue were not related parties of the Company. Resolution 9 seeks Shareholder ratification pursuant to Listing Rule 7.4 for the issue of those Shares (**Ratification**).

By ratifying the issue of those Shares, the Company will retain the flexibility to issue equity securities in the future up to the 15% threshold set out in Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

7.2 Technical information required by Listing Rule 7.5

Pursuant to and in accordance with Listing Rule 7.5, the following information is provided in relation to the Ratification:

- (a) 650,000 Shares were allotted and issued to the following parties:

| Party to Whom Shares Were Allotted | Number of Shares Allotted |
|---|----------------------------------|
| Frank Beaumont McFee | 50,000 |
| Black Rock Services Pty Ltd | 368,421 |
| Deltus Pty Ltd <Arevalo Family Trust A/C> | 231,579 |

- (b) 50,000 Shares were allotted and issued on 27 June 2006 and 600,000 Shares were allotted and issued on 20 September 2006;
- (c) the issue price of for the 50,000 Shares was 70 cents each and the issue price for the 600,000 Shares was 85 cents each;
- (d) the Shares issued were all full paid ordinary shares in the capital of the Company and rank equally with the Company's current issued Shares;
- (e) none of the allottees were related parties to the Company; and
- (f) the Shares were issued in consideration of advisory services provided to the Company and for part consideration for the acquisition of the Fabcon Constructions business.

GLOSSARY

Annual General Meeting or **Meeting** means the meeting convened by this Notice.

ASX means Australian Stock Exchange Limited.

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

Board means the board of directors of the Company.

Company or **Paladio** means Paladio Group 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).

Directors means the current Directors of the Company.

Explanatory Statement means the explanatory statement to the Notice.

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

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

Remuneration Report means the Remuneration Report forming part of the Directors' Report contained in the Company's 2006 Annual Report.

Resolution means a resolution contained in the Notice.

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

Shareholder means the shareholder in the Company.

2013 Executive Option has the meaning given in Section 5.1 of the Explanatory Statement.

2013 Incentive Options has the meaning given in Section 6.1 of the Explanatory Statement.

CORPORATE DIRECTORY

Directors and Officers

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

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

Peter Wallace - **Non-Executive Director**

Dennis O'Neill - **Non-Executive Director**

Len Troncone - **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 paladio@paladio.com.au
Website www.paladio.com.au

Auditors

RSM Bird Cameron
Level 7, 28 The Esplanade
Perth
Western Australia 6000

Share Registry

Computershare Investor Services Pty Ltd
Level 2, 45 St George's Terrace
Perth
Western Australia 6000

Telephone +61 8 1300 557 010

Facsimile +61 8 9323 2033

Website www.computershare.com

Bankers

National Australia Bank Limited
50 St George's Terrace
Perth
Western Australia 6000

Solicitors

Steinepreis Paganin
Level 4, Next Building
16 Milligan Street
Perth
Western Australia 6000

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

Paladio Group Limited

ABN 35 111 210 390

Proxy Form

All correspondence to:

Computershare Investor Services Pty Limited
GPO Box D182 Perth
WA 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)



000001
000
PDO
MR JOHN SMITH 1
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Securityholder Reference Number (SRN)



I 1234567890

I ND

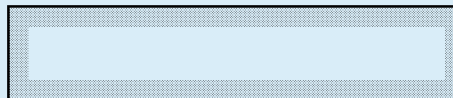
Appointment of Proxy

I/We being a member/s of Paladio Group 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 Paladio Group Limited to be held at Traders Lounge, Hyatt Regency Perth, 99 Adelaide Terrace, Perth, Western Australia on Thursday, 23 November 2006 at 10.30am WST and at any adjournment of that meeting.



IMPORTANT: FOR ITEMS 4 TO 9 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 4 to 9 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 4 to 9 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

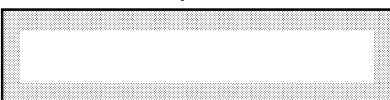
| | For | Against | Abstain* | | For | Against | Abstain* |
|--|--------------------------|--------------------------|--------------------------|---|--------------------------|--------------------------|--------------------------|
| 1 Adoption of Remuneration Report | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 6 Approval of Executive Options - Robert Franco | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 Re-election of Richard Wright as a Director of the Company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 7 Approval of Incentive Options - Peter Wallace | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 Re-election of Dennis O'Neill as a Director of the Company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 8 Approval of Incentive Options - Dennis O'Neill | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 Non-Executive Directors' Remuneration | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | 9 Ratification of Issue of Prior Issues of Securities | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 Approval of Executive Options - Richard Wright | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | | | | |

In addition to the intention advised above, the Chairman of the Meeting intends to vote undirected proxies in favour of each of the other items 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.

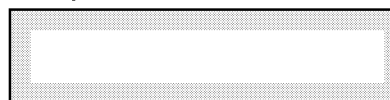
PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1



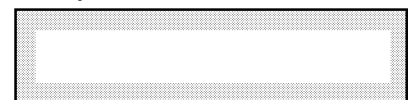
Sole Director and
Sole Company Secretary

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

/ /

PDO

19PR



How to complete the 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) 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.
- (b) 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.

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 no later than 48 hours before the commencement of the meeting at 10.30am WST on Thursday, 23 November 2006. 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 6104
Share Registry - Computershare Investor Services Pty Limited, Level 2, 45 St Georges Terrace, Perth WA 6000 Australia
- BY MAIL Registered Office - PO Box 414, BELMONT WA 6984
Share Registry - Computershare Investor Services Pty Limited, GPO Box D182, Perth WA 6840 Australia
- BY FAX 61 8 9262 9998 or 61 8 9323 2033