



Prospectus

Renounceable Rights Issue of 4 unsecured Convertible Notes for every 11 Shares held at an issue price of \$2.50 per Convertible Note to raise approximately \$32,991,778

THIS DOCUMENT CONTAINS IMPORTANT INFORMATION AND REQUIRES YOUR IMMEDIATE ATTENTION

IF YOU ARE IN ANY DOUBT AS TO HOW TO DEAL WITH THIS DOCUMENT, YOU SHOULD CONSULT YOUR STOCKBROKER, ACCOUNTANT OR INDEPENDENT FINANCIAL ADVISER

This Rights Issue is underwritten and managed by
ABN AMRO Morgans Corporate Limited



Contents

| | |
|--|----|
| LETTER FROM THE CHAIRMAN | 3 |
| 1. RIGHTS ISSUE AT A GLANCE..... | 4 |
| 2. OVERVIEW OF THE COMPANY AND THE ACQUISITION | 9 |
| 3. DETAILS OF THE RIGHTS ISSUE..... | 20 |
| 4. ACTION REQUIRED BY QUALIFYING SHAREHOLDERS | 26 |
| 5. FINANCIAL INFORMATION..... | 29 |
| 6. RISK FACTORS | 40 |
| 7. SIGNIFICANT DOCUMENTS | 45 |
| 8. CONVERTIBLE NOTE TERMS | 57 |
| 9. ADDITIONAL INFORMATION..... | 69 |

IMPORTANT NOTICE

This Prospectus is dated 27 May 2005. A copy of this Prospectus was lodged with ASIC on 27 May 2005. ASIC, ASX and their respective officers take no responsibility for the contents of this Prospectus or the merits of the investment to which it relates.

Convertible Notes will not be issued on the basis of this Prospectus later than the expiry date, being the date that is 13 months after the date of this Prospectus. Applications may only be submitted during the Rights Issue Period on an Entitlement and Acceptance Form attached to, or accompanying, this Prospectus. Entitlement and Acceptance Forms will only be available with printed copies of this Prospectus.

This Prospectus does not constitute an offer in any place where, or to any person to whom, it would not be lawful to make such an offer. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law. This Prospectus is available in electronic form via www.cardno.com.au and www.abnamromorgans.com.au. The offer constituted by this Prospectus in electronic form is available only to persons receiving this Prospectus in electronic form within Australia.

This Prospectus provides information for Qualifying Shareholders to decide if they wish to take up their Entitlement and any Additional Convertible Notes under the Top Up Facility. This Prospectus should be read in its entirety. In particular, the assumptions underlying the financial forecasts and the risk factors that could affect the financial performance of Cardno after the Acquisition should be examined. If, after reading this Prospectus, Qualifying Shareholders or investors have any questions about the desirability of, or procedure for, investing in the Rights Issue, they should contact their stockbroker, accountant or independent financial adviser.

Qualifying Shareholders should be aware that their Entitlement may have value. The Rights Issue is renounceable which allows Qualifying Shareholders who do not wish to take up all or any of their Entitlement to sell their Entitlement on ASX. More detailed information in relation to how Qualifying Shareholders may deal with their Entitlement is set out in Section 4.

The Convertible Notes are classified as “unsecured notes” for the purposes of section 283BH of the Corporations Act.

Defined terms and abbreviations used in this Prospectus are explained in the Glossary section at the back of this Prospectus. All terms defined in the singular include the plural and vice versa. All financial amounts shown in this Prospectus are expressed in Australian dollars unless otherwise stated. All times are expressed in Brisbane time (AEST) unless otherwise stated.

THIS DOCUMENT IS IMPORTANT AND SHOULD BE READ IN ITS ENTIRETY

Key dates*

| | |
|--|-----------------------|
| Announcement of Rights Issue and lodgement of Prospectus | Friday 27 May 2005 |
| Notice sent to Qualifying Shareholders | Monday 30 May 2005 |
| Shares quoted ex Rights and Rights trading commences | Tuesday 31 May 2005 |
| Record Date | Monday 6 June 2005 |
| Despatch of Prospectus | Wednesday 8 June 2005 |
| Last day of Rights trading on ASX | Thursday 16 June 2005 |
| Rights Issue closes | Thursday 23 June 2005 |
| Issue Date | Friday 1 July 2005 |
| Holding statements despatched | Friday 1 July 2005 |
| Convertible Notes expected to commence trading on ASX on a normal settlement basis | Monday 4 July 2005 |

*Dates are indicative only and the Directors reserve the right to extend the Rights Issue or close the Rights Issue early, which may impact on subsequent dates.

The Rights Issue is renounceable which means that if you decide not to take up all or part of your Entitlement, you may sell that part of your Entitlement that you do not wish to take up on ASX prior to the end of Rights trading at 4.00 pm AEST on Thursday 16 June 2005. The Board recommends that Qualifying Shareholders consider selling their Rights on ASX if they do not intend to take up their Entitlement. More detailed information on the options available to Qualifying Shareholders in relation to their Entitlement is set out in Section 4.

LETTER FROM THE CHAIRMAN

Dear Shareholder

On behalf of the Board I have pleasure in inviting you to participate in an issue of Convertible Notes which entitles Qualifying Shareholders to subscribe for 4 Convertible Notes for every 11 Shares held in the Company on the Record Date. The proceeds of the Rights Issue will be used to purchase ACIL Australia Pty Ltd and to provide working capital.

ACIL is one of Australia's largest independent providers of international development consultancy, advisory and project management services. Its key clients include AusAID, the World Bank and Asian Development Bank. ACIL focuses on international development aid in six sectors, being health and HIV/AIDS, education, governance, law and justice, rural development and natural resource management.

The Board considers that the goals and values of ACIL are compatible with those of Cardno and the Acquisition provides further diversity of professional services income for Cardno and establishes a strong base for our ongoing growth. As set out in the pro forma financial information provided in Section 5 of this Prospectus, the Acquisition will be earnings per Share positive.

The Board also wishes to highlight the performance of Cardno since listing on 20 May 2004. During this financial year Cardno has twice upgraded its profit forecast, firstly in December 2004 and most recently last month. Cardno is now forecasting that the June 2005FY profit will approach \$7 million NPAT, nearly 40% up on the IPO prospectus forecast of just over \$5 million.

The Convertible Notes under the Rights Issue will be issued at a price of \$2.50 per Convertible Note to raise approximately \$33 million. The Convertible Notes provide an attractive interest rate of 9% per annum.

Qualifying Shareholders are also invited to apply for Additional Convertible Notes over and above their Entitlement under the Top Up Facility.

ABN AMRO Morgans Corporate Limited has underwritten the Rights Issue.

This Prospectus outlines the details of the Rights Issue. The Rights granted to you are valuable and I urge you to read this Prospectus carefully for further details of this opportunity. If you have any questions regarding the Rights Issue, you should consult a stockbroker, accountant or independent financial adviser.

The Board commends the Rights Issue to you and welcomes your continuing support of Cardno.

Yours sincerely

John Massey

1. RIGHTS ISSUE AT A GLANCE

1.1 Overview

Cardno is offering approximately 13,196,711 Convertible Notes with an interest rate of 9% per annum at an Issue Price of \$2.50 each to raise approximately \$32,991,778. The proceeds of the Rights Issue will be principally used to purchase ACIL Australia Pty Ltd, an international professional services company specialising in the management of aid projects that improve the economic and social welfare of communities in developing countries. Since 1968 ACIL has undertaken in excess of 500 projects across 63 countries with clients including AusAID, Asian Development Bank, World Bank, the UK Department for International Development, the Danish International Development Agency and the German Development Bank. ACIL is one of Australia's largest independent providers of international development consultancy advisory and project management services. The Acquisition will provide:

- positive earnings per Share representing an acquisition EBITA multiple of approximately 5.0 based on ACIL's 2005FY forecast
- growth potential
- greater diversity of earnings less dependent upon Australian economic cycles
- increased international exposure with cross-selling opportunities
- access to an increasing level of international aid expenditure in the current global environment.

Cardno will acquire ACIL for a cost of \$35 million (subject to adjustments, refer Section 7.2). Certain of the Vendors will be issued 2,552,617 Shares at a cost of \$2.76 per Share raising \$7,045,222 in additional capital. Therefore, the net cash amount applied to the Acquisition is \$27,954,778.

The funds raised by the Rights Issue will be used to partially fund the Acquisition and provide additional working capital as set out below:

| | |
|--|---------------------|
| Funds applied to the Acquisition | \$27,954,778 |
| Estimated costs associated with the Acquisition and Rights Issue | \$1,519,671 |
| Working capital | \$3,517,329 |
| Total | \$32,991,778 |

Qualifying Shareholders may apply for Additional Convertible Notes over and above their Entitlement under the Top Up Facility as set out in Section 3.10.

1.2 Summary of Convertible Note Terms

The full Convertible Note Terms are set out in Section 8.1. A summary of the key terms is as follows:

| | |
|---|---|
| Issuer | Cardno Limited |
| Trustee | The Public Trustee of Queensland |
| Amount to be raised | Approximately \$32,991,778 |
| Issue Price | \$2.50 per Convertible Note |
| Entitlement | 4 Convertible Notes for every 11 Shares held as at the Record Date |
| Number of Convertible Notes to be issued | Approximately 13,196,711 |
| Term | The Convertible Notes will have a term of 3 years from the Issue Date unless previously redeemed or converted into Shares. |
| Interest rate | 9% per annum on the Issue Price. |
| Interest Payments | Interest is payable half-yearly in arrears on each Interest Payment Date. The first Interest Payment Date is 31 December 2005 with the first payment being accrued interest from the Issue Date to that date. The final interest payment will be adjusted pro rata on the Maturity Date. Accrued interest will be paid in the event of early Conversion or Redemption. |
| Conversion by Noteholder | <p>Each Convertible Note entitles the Noteholder to one Share (subject to any adjustment for bonus shares, rights issues and capital reconstructions), or the Cash Equivalent (at the election of the Company). Any accrued or unpaid interest up to the Conversion Date will be paid to the Noteholder.</p> <p>Noteholders may elect to convert their Convertible Notes on any Interest Payment Date or on the Maturity Date, or at other times in certain limited circumstances (such as following a Takeover Event). On receipt by the Company of a Conversion Notice, the Company has the right to issue one Share for each Convertible Note the subject of the Conversion Notice, or such number as adjusted for bonus issues, rights issues and capital reconstructions or pay the Cash Equivalent (at the election of the Company).</p> <p>Convertible Notes must be converted in multiples of 1,000 (or if the total number of Convertible Notes held is less than 1,000, that amount). Noteholders wishing to convert all of their Convertible Notes may do so regardless of the number of Convertible Notes held.</p> |

| | |
|-----------------------------|---|
| Redemption | Any Convertible Notes not converted by the Maturity Date must be redeemed by the Company at the Issue Price on the Maturity Date. The Company has the option to redeem some or all of the Convertible Notes prior to the Maturity Date in the event of a Takeover Event or Tax Event. |
| Ranking | <p>Until Conversion or Redemption, the Convertible Notes will be unsecured debt obligations of the Company and rank equally with other ordinary unsecured creditors of the Company in relation to repayment of principal and interest. The Convertible Notes will rank behind any secured creditors of the Company but will rank ahead of Shares.</p> <p>Each Share issued on Conversion will rank equally with all existing Shares then on issue, except that they will not be entitled to any dividend that has been declared or determined but not paid as at the Conversion Date.</p> |
| Participation rights | Prior to Conversion, the Convertible Notes will not carry any entitlement to participate in rights issues, any returns of capital, bonus issue or capital reconstruction. The Conversion rights of the Convertible Notes will be adjusted in the case of a rights issue, return of capital or a bonus issue or for any capital reconstruction prior to the Conversion Date in the manner specified in Section 8.2. |
| Voting | Except in the circumstances required by the Listing Rules or the Corporations Act, Noteholders will not be entitled to receive notice of or to vote at general meetings of the Company. |
| Quotation | The Company will apply within 7 days of the date of this Prospectus for quotation of the Convertible Notes on ASX. |

1.3 Impact of the Acquisition and Rights Issue on the capital structure

Cardno currently has 36,290,956 Shares and 338,000 Options on issue.

On completion of the Acquisition, the Company will issue 2,552,617 Shares to certain of the Vendors based on an issue price of \$2.76 per Share.

The Company will issue approximately 13,196,711 Convertible Notes, at an issue price of \$2.50 per Convertible Note to raise approximately \$32,991,778 under this Prospectus. The exact number of Convertible Notes to be issued cannot be determined as Entitlements are subject to rounding.

Each Convertible Note entitles the Noteholder to one Share subject to any adjustment for bonus or rights issues and capital reconstructions. Noteholders may elect to convert their Convertible Notes on any Interest Payment Date or on the Maturity Date, or at other times in certain limited circumstances. On receipt by the Company of a Conversion Notice, the Company has the right to pay the Cash Equivalent or to issue one Share (or such number as adjusted for bonus or rights issues and capital reconstructions) for each Convertible Note the subject of the Conversion Notice. Accordingly, the exact number of Shares to be issued by the Company following conversion of Convertible Notes and the timing thereof cannot be specified.

The number of Shares that will be issued on Conversion depends on whether the Company elects, at the time a Conversion Notice is received, to issue Shares on Conversion or to pay the Cash Equivalent.

1.4 Accepting an Entitlement

Section 4 sets out in detail the options which Qualifying Shareholders have in relation to their Entitlement and the opportunity to take up Additional Convertible Notes under the Top Up Facility.

1.5 Financial summary

Section 5 of this Prospectus contains summary financial information for Cardno, including:

- pro forma forecast financial performance of the combined group for the year ending 30 June 2005 as if the Acquisition and the Rights Issue had occurred on 1 July 2004
- pro forma cash flows of the combined group for the year ended 30 June 2004 as if the Acquisition and the Rights Issue had occurred on 1 July 2003
- pro forma statement of financial position of the combined group as at 31 December 2004 adjusted for the impact of the Acquisition and the Rights Issue had occurred on 31 December 2004.

In addition, included is the audited historical performance of Cardno and ACIL for the years ended 30 June 2003 and 30 June 2004.

1.6 Underwriting, advisory and handling fees

The Rights Issue is fully underwritten by ABN AMRO Morgans Corporate Limited. Under the Underwriting Agreement dated 27 May 2005 the Underwriter will receive an underwriting fee of 2% of the total amount sought to be raised by the Rights Issue. ABN AMRO Morgans Corporate Limited will also be paid a fee of \$660,000 for corporate advisory services with respect to the Acquisition.

A handling fee of 1%, up to a maximum of \$100 per Application, will be paid by the Underwriter to licensed security dealers in respect of successful applications made by private clients and lodged by dealers bearing their stamp (other than Convertible Notes which form part of firm allocations).

The Underwriting Agreement provides that the Underwriter may, in certain circumstances, terminate the agreement. These circumstances are summarised in Section 7.4 of this Prospectus.

1.7 ASX listing

Cardno is listed on ASX and its Shares are quoted on ASX.

Application will be made within 7 days after the date of this Prospectus for quotation of the Convertible Notes on ASX.

If ASX does not grant quotation of all Convertible Notes within 3 months of the date of this Prospectus, the Company will act in accordance with section 724 of the Corporations Act.

1.8 Withdrawal

The Directors may at any time decide to withdraw this Prospectus and the Rights Issue.

If this Prospectus and the Rights Issue are withdrawn for any reason, the Company will return all Application Monies in accordance with the Corporations Act. Any interest earned on Application Monies will remain with the Company.

1.9 Risk factors

Qualifying Shareholders should read this entire Prospectus and, in particular, consider the risk factors that could affect the financial performance of Cardno before deciding to invest. A summary of risks applying to an investment in Convertible Notes is set out in Section 6 of this Prospectus.

Qualifying Shareholders should carefully consider the risks in light of their personal circumstances (including financial and taxation issues) and seek professional advice from their stockbroker, accountant or independent financial adviser.

2. OVERVIEW OF THE COMPANY AND THE ACQUISITION

2.1 Cardno

Introduction

Cardno's primary focus is on providing consulting engineering services for the built and natural environment.

Within Australia, the Company's consulting engineering operations currently extend over Queensland, New South Wales, Victoria, Australian Capital Territory, Northern Territory and Western Australia. Internationally, Cardno has provided services to clients and aid organisations in over 20 countries and has a permanent establishment in Papua New Guinea. The services delivered by Cardno involve a number of professional engineering disciplines including civil, structural, environmental and management aspects of engineering.

Cardno also successfully sells a range of engineering software, known as 'XP Software'. This business has a presence in North America with a well established sales office in Portland, Oregon, USA. The prime market for this software is consulting engineering firms and local government authorities.

Cardno has grown both in Australia and internationally as a result of its strong reputation in the industry combined with a successful strategy of acquiring practices and developing the 'Cardno' brand. Clients include major corporations and international aid organisations, as well as various levels of governments in Australia and overseas. This diversity of operations and geographic spread of work improves the stability of returns.

Cardno has developed an approach to service delivery that contributes to its competitive advantage. This approach focuses a business unit on a group of clients with the objective of developing repeat business and servicing those clients for many years.

Strategy

Cardno's strategy has been one of strong growth in its core business built on the operating model of business units. The Company's turnover has grown from less than \$15 million in 1997FY to more than \$80 million forecast in 2005FY. Selected mergers and acquisitions have been an important element in this growth strategy coupled with organic growth and cross-delivery of expertise between existing business units and new merger partners. The Company is well positioned to undertake further mergers and acquisitions.

Vision

Cardno's vision is to be a world class provider of engineering, environmental and management services, and related information technology products, with an expanding regional and global profile.

Mission

Cardno delivers quality professional engineering, environmental and management services and related information technology products. The Company focuses on:

- **Clients** – understanding and meeting their expectations

- **People** – attracting, developing and retaining high calibre personnel
- **Financial performance** – providing returns on owner investment
- **Management** – continually improving the Group’s processes and service delivery
- **Business development** – sustaining and expanding Cardno’s profile and markets.

Cardno intends to continue to grow by expanding existing operations and by merger and acquisition.

History and development of Cardno

The original engineering practice from which the Company has evolved commenced operations in Queensland in 1945 as Cardno & Davies.

The main mergers and acquisitions of practices that have contributed to forming the current Company are:

| | |
|----------------------|---|
| July 1999 | Cardno MBK – merging Cardno & Davies and McMillan, Britton & Kell |
| April 2001 | Cardno BLH – adding Boubli Lepage Hastings |
| July 2001 | Cardno Willing – adding Willing & Partners (and XP Software) |
| November 2001 | Cardno CCS – adding Colefax Clayton Smith |
| November 2003 | Cardno Taylors – adding Taylors Engineers |
| February 2004 | Cardno Young – adding Young Consulting Engineers |
| March 2004 | Cardno Alexander Browne – adding Alexander Browne Cambridge |
| October 2004 | Cardno BSD – adding BSD Consultants in Western Australia |
| October 2004 | Cardno Lawson Treloar – adding Lawson and Treloar. |

Cardno now has offices in 20 locations in Australia including Brisbane, Sydney, Canberra, Melbourne, Perth, Darwin and regional centres and employs over 650 staff.

Cardno has established specialist business systems which support the Company’s operations and which also facilitate the merger and acquisition process. This has enabled the above mergers to be implemented in a positive way that adds value to the ongoing operations of the Company and, in particular, targets the retention of key staff and clients of the merged operations. This has provided the Company with a successful track record in mergers and acquisitions and is a cornerstone of Cardno’s growth strategy.

Cardno services and products

The Group delivers a comprehensive and diverse range of engineering services and related software products for the built and natural environment. The services offered include:

- civil engineering
- structural engineering
- urban waterway design
- bridge engineering
- railway engineering
- transportation engineering
- asset management
- environmental engineering
- water and wastewater engineering
- hydraulics and hydrology
- marine engineering
- project management
- airport engineering
- coastal engineering
- urban planning
- sporting facilities

In addition to the services listed above, XP Software provides an engineering software product range. This software is specifically designed for hydrology modelling, runoff routing, and dynamic and steady state hydraulics.

Clients

Clients of the Company include:

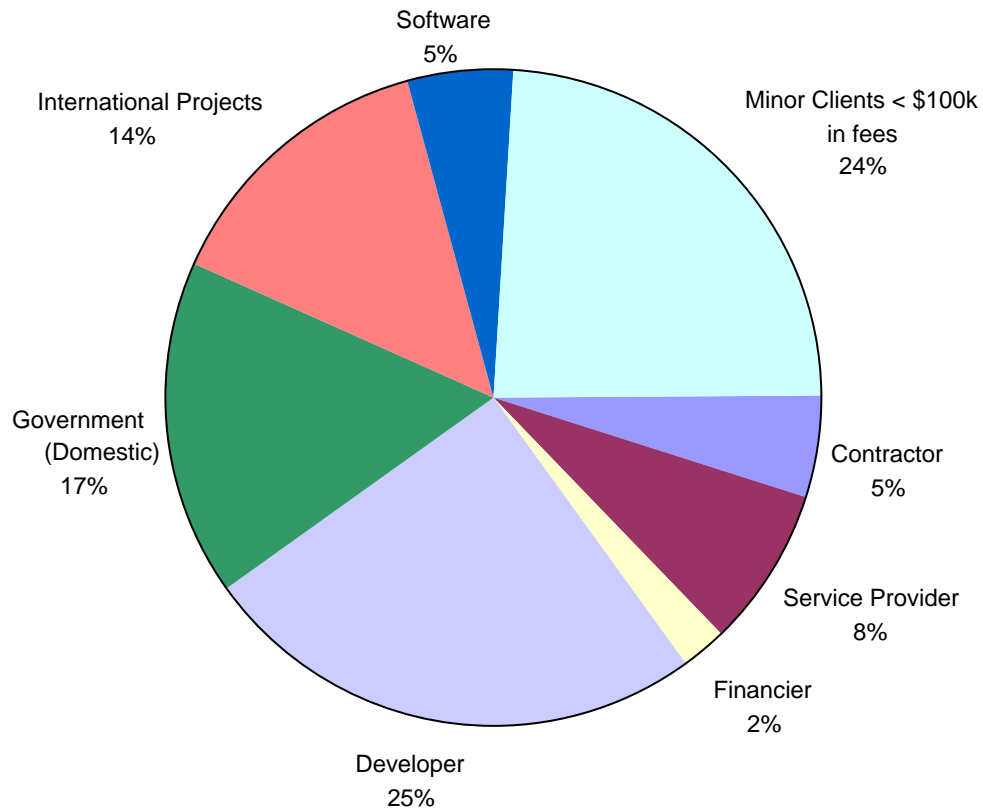
- major listed ASX companies
- Australian Federal, State and Local Governments
- professional services firms including accountants, lawyers, architects and other consulting engineers
- private schools, clubs, sporting bodies, charities and other private organisations
- property developers and construction companies
- governments and government agencies of countries in Asia, the Pacific and North America
- international aid organisations including AusAID, United Nations, World Bank, Asian Development Bank, European Union Fund and Kuwait Fund.

In addition the XP Software range of information technology products is licensed to more than 4,000 engineers, city and regional authorities, government agencies and universities across the world.

The chart below shows the source of Fee Revenue received by Cardno from various client types based on 2004FY.

Estimated source of Fee Revenue

As a proportion of total Fee Revenue 2004FY - Cardno



Note:

"Minor clients" represent revenue earned from all clients that generated less than \$100,000 in fees during 2004FY.

"Software" represents the revenue generated by XP Software related income during 2004FY.

Remaining segments represent fees earned from major clients, ie. a client that generated \$100,000 or more in fees during 2004FY.

2.2 ACIL

Introduction

ACIL is a privately owned professional services company specialising in the management of development assistance projects which support developing countries to achieve an improved and sustainable quality of life. ACIL undertakes Contracts funded by bilateral government agencies such as AusAID and multilateral agencies including the World Bank and Asian Development Bank. ACIL has built strong relationships with its clients and now manages a number of large projects and programmes in the Asia Pacific region. ACIL's purpose and strategic intent is to reduce poverty and improve life in developing countries, to become a leading provider of global development solutions and to provide a strong return to shareholders.

History and growth of ACIL

ACIL was founded in Australia in 1968 as an agricultural consultancy and entered the international development field in mid 1969 when it was awarded a contract to manage a Food and Agriculture Organisation sponsored project in Ethiopia.

ACIL's international growth continued when it secured a role in a major project developing rural infrastructure and agricultural systems in the Philippines. This AIDAB (now AusAID) funded project secured the Company's reputation in rural development projects.

In the 37 years since its inception, ACIL has worked successfully on over 500 projects, across 63 nations in Asia, the Pacific and Africa. The Company's services are delivered by a workforce of some 65 Australian based staff located in ACIL's Melbourne headquarters and at overseas representative offices and by more than 450 contractors and consultants working on projects in developing nations. ACIL has offices in Papua New Guinea, China and Indonesia, and representation in the UK.

ACIL is a company that has pursued business growth in the development aid sector through the expansion of new clients, products and services. Since the mid 1980s ACIL has progressively diversified its professional service from rural development and natural resource management to include health and HIV/ AIDS, education, law and justice and governance. ACIL's total revenue has increased from \$45 million in 2000FY to \$71 million in 2004FY.

International development industry

Overseas Development Assistance (ODA) is primarily managed through the aid agencies of national governments. Figures released by the OECD indicate that governments of developed countries are increasing their funding of ODA. In 2003 the total technical co-operation component of ODA distributed was US\$18.36 billion, with the USA the largest contributor. In 2004FY Australia contributed \$1.973 billion, in 2005FY \$2.133 billion and in 2006FY Australia is budgeted to contribute \$2.491 billion in ODA.

Issues of poverty, security and health in developing countries are increasingly on the global agenda. Events such as recent terrorist attacks and natural disasters such as the tsunami are causing increasing focus on the way in which governments respond and provide assistance to countries and communities in need. In January 2005 the Australian Government committed more than \$1 billion to assist countries affected by the tsunami and Cardno and ACIL in partnership are already working to provide support to those affected and to secure projects arising from the tsunami. Governments are looking to managing contractors, such as ACIL, with expertise, scale

and a track record to implement large and increasingly complex assignments. ACIL is one of AusAID's largest contractors by value of contracts under management.

A number of governments are opening their tendering processes to allow international companies to compete for their aid programmes. Recently, the Department for International Development in the UK opened its aid budget to international competition and ACIL is now competing for projects in this market. In countries where aid remains closed to external bidders such as the USA, ACIL is considering developing relationships with local companies and looking for potential acquisition targets.

Clients

AusAID is currently ACIL's major client, representing 75% of current projects and accounting for over 90% of ACIL's revenue in 2004FY.

ACIL also undertakes projects funded by other government donors and international agencies including:

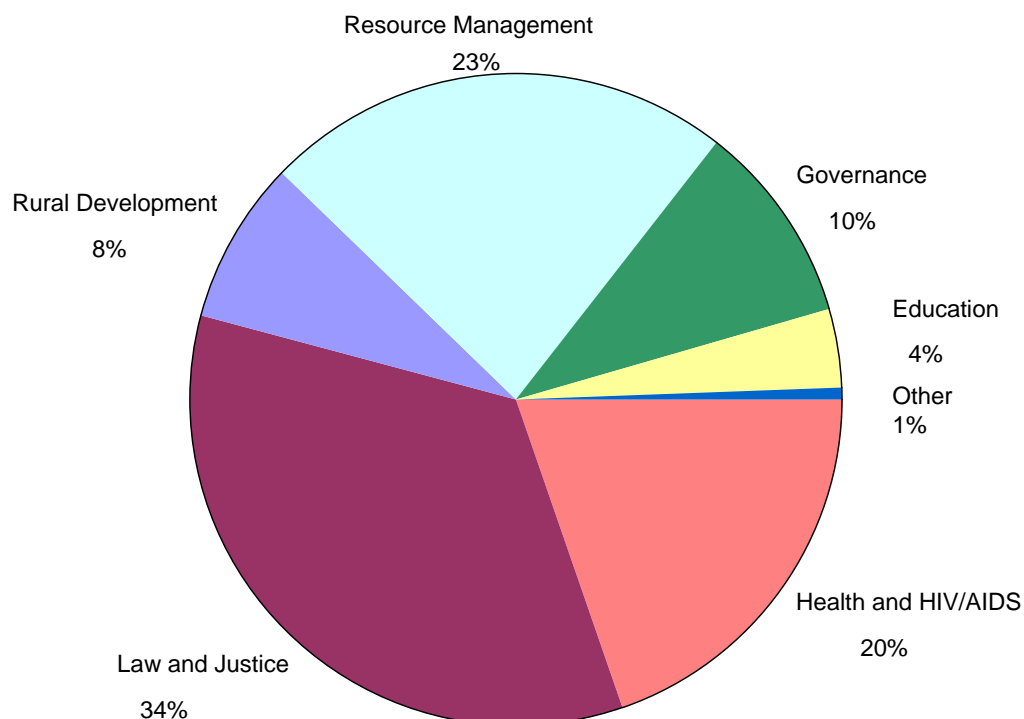
- Asian Development Bank
- World Bank
- UK Department for International Development
- United Nations Development Programme
- other European Government bilateral agencies.

Services

ACIL provides a diverse range of development solutions and services to its clients in six main sectors which are law and justice, health and HIV/AIDS, governance, education, rural development, and natural resource management. The following chart provides a breakdown of Fee Revenue generated for each of these sectors in 2004FY.

Estimated source of Fee Revenue

As a proportion of total Fee Revenue 2004FY - ACIL



Note:

Segments represent the primary purpose of Fee Revenue during 2004FY.

Structure of the business

ACIL is structured into four business groups that provide complementary areas of focus.

International operations

ACIL projects are managed through the international operations business group. This team is structured regionally to provide integrated project management and financial and human resource support to project teams operating outside Australia.

Development

The development business group is the client centre for AusAID and the multilateral clients of Asian Development Bank and World Bank. In addition, this business group coordinates business development and bid/proposal management across the company and is responsible for the business management system, bidding and tracking system, and for operational quality management and performance.

In addition to its current representation in the UK, ACIL is considering the development of a client centre in the UK to service the UK and European Union markets.

Corporate strategy and new markets

ACIL's corporate planning processes, market research, implementation of strategies to develop business in targeted new markets, mergers and acquisitions, and the human resource function are managed through this business group.

Finance and administration

The finance and administration business group includes accountants and business specialists, responsible for project reporting, budgets and risk assessment. They provide on site financial set-ups, audits and financial reporting for projects. This team is also responsible for corporate administration, information technology and insurance.

ACIL people

ACIL's personnel strategy is to attract high calibre people and to support its specialist consultants through continuing professional development. ACIL has a career development and performance management process, and in recent years has introduced leadership programmes for its emerging leaders.

Management systems

ACIL has established management systems which underpin its operations. ACIL is accredited to ISO 9001 and has developed a business management system which contains policies, procedures and risk management policies for ACIL operations.

2.3 Benefits of the Acquisition

Introduction

Cardno has identified the potential benefit of further growth and development of its international business. The main drivers which are critical to this strategy include:

- making acquisitions of complementary businesses and achieving added value through cross selling opportunities
- increasing the percentage of revenue from international business in order to further diversify revenue streams away from Australian domestic economic cycles
- focusing on increasing international revenue from the development aid sector
- increasing Cardno's proportion of its Fee Revenue from non-engineering sectors including governance, health and HIV/AIDS, education and natural resource management.

Non-overlapping business acquisition strategy

Cardno's strategy has been built on acquiring largely non-overlapping businesses operating in complementary markets. The objective of the strategy has been to look for opportunities to add revenue through cross selling. It is intended that together Cardno and ACIL will develop an integrated suite of services to provide to clients to pursue this aim. There is potential for Cardno to use ACIL's client relationships in the development aid sector, to help secure more engineering and management work. Similarly there are opportunities to market ACIL's skills to Cardno clients across Asia and the Pacific on a range of projects.

Increasing revenue from international work

Cardno has traditionally secured a significant percentage of its Fee Revenue from international work. The Company has grown its domestic business strongly in recent years and this has left the international business (excluding XP Software) delivering around 15% of Fee Revenue. Cardno's strategy is to lift the percentage of international Fee Revenue in order to help it to reduce its exposure to the Australian economic cycle. The Acquisition will significantly lift the Company's percentage of Fee Revenue from international work.

Focus on the development aid sector

Cardno undertakes a broad range of international projects for both government and private clients. It is part of Cardno's strategy to focus its international work on the development aid sector because of the relatively lower payment risk associated with AusAID, Asian Development Bank and World Bank funded projects compared to other international work. In alignment with this strategy of ACIL's revenue is principally generated from the development aid sector.

Cardno is also committed in its overseas aid projects to the support of developing countries in achieving their sustainable development goals, and ACIL's values will enhance this commitment.

Increasing revenue from non-engineering work

For a number of years expenditure in the development aid sector has been focused on areas such as governance, health, education, gender equity, law and justice and HIV/AIDS programmes. Consideration of these areas also now forms a significant part of infrastructure design and expenditure. Cardno has identified this trend in its business plan and has been seeking opportunities to develop penetration into these market sectors. As noted earlier, nearly all of ACIL's work has been carried out in these areas.

Growth opportunities for Cardno

Potential for acquisition growth

Cardno's ability to identify, negotiate and successfully deliver acquisitions has been demonstrated over the past few years. ACIL brings to Cardno new growth opportunities and the capability and resources to pursue these. Both ACIL and Cardno have already identified a number of opportunities for further acquisitions in the international development aid sector, and ACIL provides further resources to implement these acquisitions.

As part of a listed company, ACIL will also be in an improved position to fund potential international acquisitions.

Opportunities for Organic Growth

Further organic growth potential for Cardno comes through cross selling opportunities that are generated through the Cardno merger/acquisition strategy. In the case of the Acquisition there are immediate potential benefits through directing current work opportunities from Cardno to ACIL and vice versa.

Other organic growth opportunities will flow from the increasing contribution to overseas development assistance from developed countries, including Australia. Cardno and ACIL together will have a stronger track record, a broader resource base, a more demonstrable capability and improved competitive advantage in the delivery of development projects, particularly in the Asia Pacific region, including post-tsunami project opportunities.

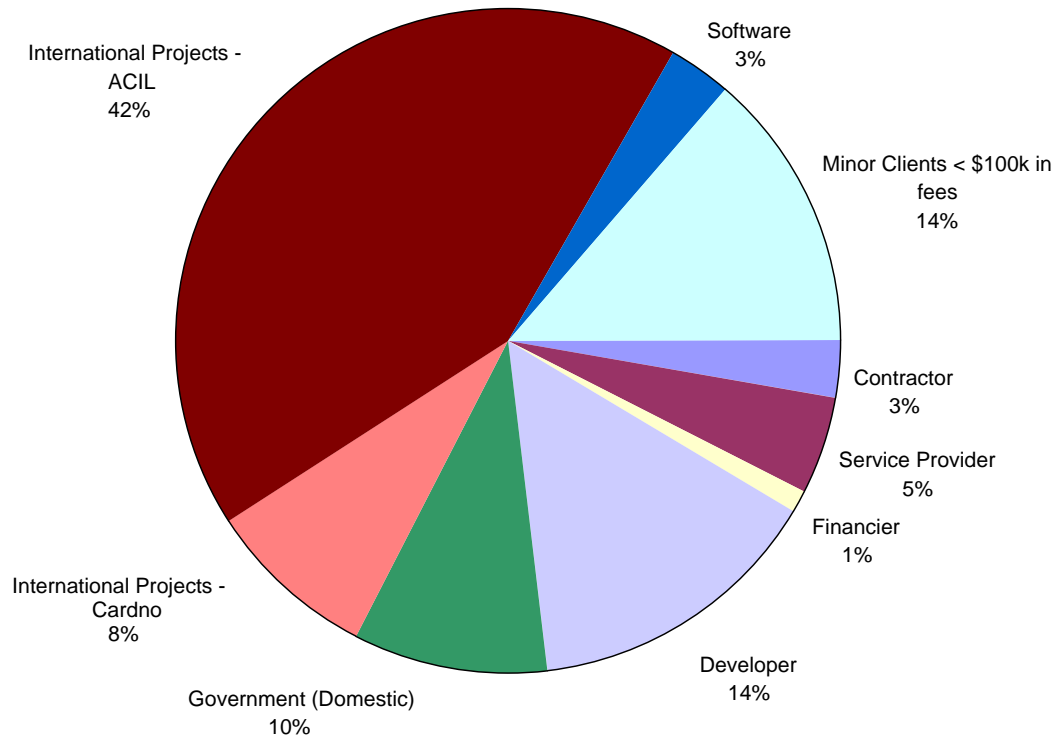
It is expected that ACIL will be able to make use of Cardno's client base and national coverage to access the Australian market in governance, environment, resource management, health and other community based sectors.

2.4 Revenue diversification

The following chart shows sources of Fee Revenue of Cardno and ACIL had they been combined in 2004FY.

Estimated source of Fee Revenue

As a proportion of total Fee Revenue 2004FY
Cardno & ACIL combined



2.5 Appointment of new Cardno Director

Dr Stephen Moss BD, STM, DM, MICD, CMC, FAICD

The Board has agreed to appoint Dr Stephen Moss as an executive Director after completion of the Acquisition.

Dr Moss was appointed chief executive officer and managing director of ACIL in 2003. He will continue to manage ACIL as well as additional international responsibilities for Cardno, reporting to the managing director of Cardno. During his time as managing director of ACIL, he has focused on building ACIL's reputation in the Asia Pacific Region and formed new alliances with European, UK and USA consultancies and donor agencies.

Dr Moss was a partner with Coopers & Lybrand and then Price Waterhouse (now PricewaterhouseCoopers) from 1984 to 1995. He was managing partner of the Government practice of Price Waterhouse from 1990 and was the Asia Pacific leader of the firm's change integration practice from 1990 to 1994. He left Price Waterhouse to take up the role of managing director of Aptech Australia Pty Ltd, a management consulting practice that was acquired by IBM in 1996. Dr Moss remained with IBM following the acquisition and was appointed managing principal of their national consulting practice as well as building their Asia Pacific telecommunications and media consulting practice.

3. DETAILS OF THE RIGHTS ISSUE

3.1 Purpose and use of proceeds

The Company will use the proceeds of the Rights Issue as set out below:

| | |
|--|---------------------|
| Funds applied to the Acquisition | \$27,954,778 |
| Estimated costs associated with the Acquisition and Rights Issue | \$1,519,671 |
| Working capital | \$3,517,329 |
| Total | \$32,991,778 |

The Company has entered into a Share Sale Agreement with the Vendors by which it will, subject to certain conditions, acquire all of the ACIL Securities for a cost of \$35 million (subject to a potential downward adjustment, refer Section 7.2). These conditions and a summary of the Share Sale Agreement are set out in Section 7.2.

ACIL's operations are described in detail in Section 2.2 of this Prospectus and details of its financial position are set out in Section 5.

3.2 Rights Issue details

Cardno is offering for subscription approximately 13,196,711 Convertible Notes at an Issue Price of \$2.50 per Convertible Note by way of a renounceable Rights Issue to raise approximately \$32,991,778.

Qualifying Shareholders are being offered Convertible Notes on the basis of 4 Convertible Notes for every 11 Shares held. The number of Convertible Notes to which each Qualifying Shareholder is entitled is shown on the accompanying Entitlement and Acceptance Form.

Fractional Entitlements to Convertible Notes under the Rights Issue will be rounded up to the nearest whole Convertible Note. Where Cardno considers that holdings have been split in order to take advantage of this rounding, Cardno reserves the right to aggregate holdings held by associated Qualifying Shareholders for the purpose of calculating Entitlements.

Entitlement and Acceptance Forms must be returned with payment for the Convertible Notes (calculated on the basis of the Issue Price) to the Share Registry before 5.00pm AEST (Brisbane time) on the Closing Date.

3.3 Rights trading

The Rights are renounceable. This means that Qualifying Shareholders can sell their Entitlement (or part thereof) on ASX if they do not wish to take up some or all of the Convertible Notes to which they are entitled. See Section 4 for instructions on how Qualifying Shareholders may deal with their Entitlement.

Trading of Rights on ASX will commence on Tuesday 31 May 2005 and will end on Thursday 16 June 2005. Qualifying Shareholders may sell some or all of their Rights on ASX during this period if they decide not to accept their full Entitlement.

3.4 Impact of Rights Issue on Cardno

The impact of the Rights Issue on the capital structure of Cardno is explained in Section 1.3.

3.5 Commitment from Directors

The Directors (or their associated entities) intend to take up their Entitlements as follows:

| Director | Entitlement to Convertible Notes offered under this Prospectus | Intention to take up Entitlement |
|-----------------|--|----------------------------------|
| John Massey* | 7,273 | 7,273 |
| Andrew Buckley | 671,204 | 400,000 |
| Ronald Fisher | 458,306 | 148,000 |
| Trevor Johnson | 555,632 | 400,000 |
| Ian Johnston* | 21,818 | 21,818 |
| Richard Kell AM | 225,257 | 100,000 |
| Graham Tamblyn | 549,820 | 60,000 |
| James Verco | 397,964 | 210,545 |

* These Directors (or their associated entities) currently intend to apply for Additional Convertible Notes through the Top Up Facility and/or acquire Rights on market.

3.6 Dividend policy

Cardno's dividend policy is to pay out between 70% and 85% of the Group's after tax profits as dividends. This policy resulted in a fully franked final dividend payment of 4.5 cents per Share for the period 1 January 2004 until 30 June 2004 which was paid on 15 November 2004.

On 8 April 2005 a fully franked interim dividend of 6 cents per Share was paid. This level of dividend is expected to be maintained for the final dividend payable for 2005FY.

Cardno's dividend policy is subject to future business conditions and opportunities and cash flow requirements. The extent, timing, level of franking or payment of any future dividends are dependent on a number of factors, including the level of earnings, the amount of tax paid and the financial position of Cardno, operating conditions and the occurrence of any of the events listed in Section 6.

3.7 Non-Participating Foreign Shareholders

This Prospectus and an Entitlement and Acceptance Form do not constitute an offer in any place or country in which, or to any person to whom, it would not be lawful to make such an offer.

The Prospectus and Entitlement and Acceptance Form will be sent only to Qualifying Shareholders with registered addresses in Australia and New Zealand. The offer constituted by this Prospectus is permitted under the laws of New Zealand. Accordingly, Qualifying Shareholders with a registered address in New Zealand may apply for Convertible Notes and Additional Convertible Notes.

The Company is of the view that it is unreasonable to extend the Rights Issue to Non-Participating Foreign Shareholders, having regard to:

- the number of Non-Participating Foreign Shareholders
- the number and value of the Convertible Notes which would be offered to Non-Participating Foreign Shareholders
- the cost of complying with the legal requirements and requirements of the regulatory authorities in the respective overseas jurisdictions.

The Company has appointed ABN AMRO Morgans Limited to sell the Rights of Non-Participating Foreign Shareholders if there is a viable market in the Rights and a premium over the expenses of sale can be obtained.

Any sale will be made at prices and otherwise in such manner as ABN AMRO Morgans Limited may in its absolute discretion determine. Any interest earned on the proceeds of the sale of Rights will be applied against expenses of such sale, including brokerage.

The proceeds of sale (if any) will be distributed to the Non-Participating Foreign Shareholders for whose benefit the Rights have been sold in proportion to their shareholdings (after deducting brokerage and other expenses).

Net proceeds from the sale of Rights will be provided to the Non-Participating Foreign Shareholders in Australian dollars.

Neither the Company nor ABN AMRO Morgans Limited will be liable for a failure to sell the Rights or to sell Rights at any particular price. If there is no viable market for the Rights of the Non-Participating Foreign Shareholders, the underlying Convertible Notes will be subscribed for by the Underwriter and the Non-Participating Foreign Shareholders will receive no benefit for the Rights.

Qualifying Shareholders holding Shares on behalf of persons who are resident overseas are responsible for ensuring that taking up their Entitlement does not breach regulations in the relevant overseas jurisdiction. Return of a duly completed Entitlement and Acceptance Form will be taken by the Company to constitute a representation that there has been no breach of such regulations. Qualifying Shareholders who are nominees are therefore advised to seek independent advice as to how they should proceed.

3.8 Market price of Shares

An overview of the prices at which Shares were traded on ASX during the three months prior to the last day of trading on ASX immediately prior to lodgement of this Prospectus with ASIC is set out below:

| | High | Low | Volume Weighted Average |
|-------------------|--------|--------|-------------------------|
| Last three months | \$2.90 | \$2.40 | \$2.68 |

The closing price on Wednesday 25 May 2005 was \$2.76.

3.9 Option holders

There are no Options on issue that can be exercised prior to the Record Date and consequently Option holders are not entitled to participate in the Rights Issue.

3.10 Top Up Facility

Qualifying Shareholders may apply for Additional Convertible Notes in addition to their Entitlement under the Top Up Facility. The price paid by Qualifying Shareholders for each Additional Convertible Note will be \$2.50.

The Top Up Facility will operate if all Qualifying Shareholders do not apply to take up their Entitlement resulting in a shortfall between Applications received from Qualifying Shareholders (or persons to whom a Qualifying Shareholder's Entitlement (or portion of Entitlement) has been transferred or sold) for their Entitlement and the number of Convertible Notes proposed to be issued under the Rights Issue.

If the number of Additional Convertible Notes applied for is less than that available from the shortfall, all Qualifying Shareholders will be allocated the number of Additional Convertible Notes applied for in full. If more Additional Convertible Notes are applied for than are available from the shortfall under the Rights Issue, the Underwriter, in consultation with the Company, will scale back those Applications in its absolute discretion and excess Application Monies will be refunded without interest.

It is possible that there will be few or no Additional Convertible Notes available under the Top Up Facility. Applicants may be allotted a lesser number of Additional Convertible Notes than applied for and will be refunded excess Application Monies without interest.

If there remains a shortfall after the allocation of Additional Convertible Notes under the Top Up Facility, the Underwriter will take up the shortfall in accordance with the Underwriting Agreement.

3.11 Taxation Implications for Noteholders

The following comments are by way of general comment only and are not to be taken to be specific advice to a Qualifying Shareholder or investor. Investors should obtain their own independent professional advice taking into account their own specific circumstances.

Rights to take up Convertible Notes

Acceptance of the Rights

The receipt and acceptance by investors of the Rights to acquire the Convertible Notes issued under this Prospectus should not, of itself, give rise to income tax or capital gains tax ('CGT') implications for the shareholder.

The issue to shareholders of such Rights by the Company also would not give rise to a dividend for income tax purposes.

Selling the Rights

If a shareholder disposes of the Rights without exercising them to acquire the Convertible Notes in the Company, that shareholder may be subject to CGT implications in respect of the gain made on disposal of the Rights.

Exercising the Rights

Where a shareholder exercises the Rights to acquire Convertible Notes, no capital gain or loss will be recognised on exercise and the cost base of the share acquired should be taken to be the cost base of the right (if any) at the time of Conversion.

Lapse of Rights

Where the shareholder chooses not to exercise the Rights and allows them to lapse, no capital gain or capital loss will arise in respect of the lapse of the Rights.

Convertible Notes

Characterisation as debt or equity

Special taxation rules are included in Division 974 of the *Income Tax Assessment Act 1997* to distinguish between 'debt interests' and 'equity interests' for taxation purposes.

The terms of the Convertible Notes, pursuant to the Trust Deed, mean that they will be treated as 'debt interests' for income tax purposes pursuant to the special rules for reasons that include:

- the term of the Convertible Notes (3 years) is less than 10 years
- the obligations of the Company to repay the Issue Price together with interest on the Convertible Notes represent 'effectively non-contingent obligations' to provide financial benefits under these special taxation rules, and
- the total value of these financial benefits can be expected to be at least equal to the Issue Price.

Interest on the Convertible Notes

Interest paid on the Convertible Notes will be required to be included by the Noteholder as assessable income on either a receipts basis or on an accruals basis, depending on the Noteholder.

Disposal of Convertible Notes

The Convertible Notes should be 'traditional securities' pursuant to sections 26BB and 70B of the *Income Tax Assessment Act 1997*.

Any gain made on a disposal of the Convertible Notes will therefore be assessable income and will not represent a capital gain in respect of which the capital gains tax discount could apply.

Any loss made on a disposal of the Convertible Notes may give rise to a deduction, rather than a capital loss.

Conversion of Convertible Notes

An assessable gain should not arise on Conversion of the Convertible Notes to shares, and the cost base of the Convertible Notes at the time of the Conversion should be included in the cost base of the Shares acquired.

Similarly, no loss should arise in respect of the Conversion.

Any accrued interest paid by the Company at the time of Conversion will represent assessable income.

Subsequent disposal of the Shares acquired may give rise to capital gains or losses.

Redemption of the Convertible Notes

Where the Convertible Notes are redeemed and repaid rather than converted to Shares, the redemption will constitute a disposal of a traditional security for taxation purposes, so that an assessable gain or loss pursuant to sections 26BB or 70B may arise.

Again, any accrued interest paid at the time of redemption will represent assessable income.

Borrowing Costs

Where investors who acquire the Convertible Notes use funds that have been borrowed, then those interest costs and associated borrowing costs should be either deductible in the year incurred or claimable over a number of years, subject to specific limitations under the thin capitalisation rules, prepayment rules, etc in respect of which investors should obtain their own advice.

3.12 Enquiries

If you have any questions regarding the Rights Issue, please contact either the Share Registry, the Underwriter or your stockbroker, accountant or independent financial adviser.

4. ACTION REQUIRED BY QUALIFYING SHAREHOLDERS

4.1 Options for Qualifying Shareholders

The Entitlement and Acceptance Form details the number of Convertible Notes to which Qualifying Shareholders are entitled. Qualifying Shareholders may take any of the following actions (including a combination of the options):

- take up all or part of their Entitlement (see Section 4.2)
- apply for Additional Convertible Notes under the Top Up Facility (see Section 4.3)
- sell all or part of their Entitlement on ASX (see Section 4.4)
- transfer all or part of their Entitlement to another person other than on ASX (see Section 4.5)
- allow all or part of their Entitlement to lapse (see Section 4.6)

4.2 Take up all or part of your Entitlement

Qualifying Shareholders who wish to take up all or part of their Entitlement should complete the accompanying personalised Entitlement and Acceptance Form in respect of that part of their Entitlement that they wish to take up in accordance with the instructions set out on that form and forward it, together with payment for the Convertible Notes (see Section 4.7) to:

By delivery:

ABN AMRO Morgans Limited
Level 29, Riverside Centre
123 Eagle Street
BRISBANE QLD 4000

OR

Cardno Limited
c/- ASX Perpetual Registrars Limited
Level 22, 300 Queen Street
BRISBANE QLD 4000

Telephone: 07 3334 4888

Telephone: 07 3228 4089

By post:

Cardno Limited
c/- ABN AMRO Morgans Limited
GPO Box 202
BRISBANE QLD 4001

OR

Cardno Limited
c/- ASX Perpetual Registrars Limited
GPO Box 1500
SYDNEY SOUTH NSW 1235

Entitlement and Acceptance Forms must be received by no later than 5.00 pm AEST on Thursday 23 June 2005.

4.3 Apply for Additional Convertible Notes

If you are a Qualifying Shareholder you may, in addition to taking up all your Entitlement, apply for Additional Convertible Notes on the Entitlement and Acceptance Form. Additional Convertible Notes will only be available where there is a shortfall between Applications received from Qualifying Shareholders, or persons to whom a Qualifying Shareholder's Entitlement (or portion of Entitlement) has been transferred or sold, for their Entitlement and the number of Convertible Notes proposed to be issued under the Rights Issue.

If you are applying for Additional Convertible Notes, you only need to submit one completed Entitlement and Acceptance Form to one of the addresses set out in Section 4.2. Your accompanying cheque or bank draft should be for the full amount of your Application being:

- the amount payable in relation to your Entitlement
- the amount payable in relation to any Additional Convertible Notes for which you have applied.

The completed Entitlement and Acceptance Form, together with your cheque or bank draft for the Application Monies, must be received by no later than 5.00 pm AEST on Thursday 23 June 2005.

While you are assured of receiving your Entitlement in full, allocations of Additional Convertible Notes may be scaled back by the Underwriter, in consultation with the Company, in their absolute discretion. There is no assurance that Qualifying Shareholders will be allocated any Additional Convertible Notes.

If you are allocated a number of Additional Convertible Notes which is less than you applied for, you will be refunded excess Application Monies without interest. Any interest earned on Application Monies will be, and will remain, the property of the Company.

4.4 Sell all or part of your Entitlement on ASX

If you are a Qualifying Shareholder and you wish to sell all or part of your Entitlement on ASX you should complete the section of the accompanying personalised Entitlement and Acceptance Form marked "Instructions to Your Stockbroker" and lodge the form with your stockbroker as soon as possible.

Trading of Rights on ASX will commence on Tuesday 31 May 2005 and sale of your Rights must be completed on or before 4.00 pm AEST on Thursday 16 June 2005 when Rights trading ceases. Brokerage may be payable to your stockbroker in connection with the sale of Rights on ASX.

4.5 Transfer all or part of Entitlement to another person other than on ASX

If you are a Qualifying Shareholder and you wish to transfer all or part of your Entitlement to another person other than on ASX you should forward a completed standard renunciation form (which can be obtained from the Share Registry) together with the accompanying personalised Entitlement and Acceptance Form and the transferee's payment for the amount due in respect of the Convertible Notes to be taken up by the transferee. This must be received by the Share Registry at the address set out in Section 4.2 by no later than 5.00 pm AEST on Thursday 23 June 2005.

If the Share Registry receives both a completed renunciation form and a completed Entitlement and Acceptance Form in respect of the same Rights, the renunciation will be given priority over the acceptance.

4.6 Allow all or part of your Entitlement to lapse

If you decide not to sell or transfer all or part of your Entitlement and do not take up your Rights before 5.00 pm AEST on Thursday 23 June 2005 then that part of your Entitlement not taken up ('Unallocated Rights') will become part of the Top Up Facility for Qualifying Shareholders.

If your Unallocated Rights are not subscribed for in the Top Up Facility, then the underlying Convertible Notes may be subscribed for by the Underwriter or any sub-underwriter in accordance

with the Underwriting Agreement. In this event, you will receive no value for your Unallocated Rights.

Your Entitlement may be valuable. If you decide not to take up all or part of your Entitlement, you should consider selling your Rights rather than allowing them to lapse. You will receive no benefit for Rights which lapse. Accordingly, it is important that you consider taking action either to take up or sell your Rights.

If you do nothing, although you will continue to own the same number of Shares, your shareholding may be diluted on Conversion of any of the Convertible Notes.

Rights of Non Participating Foreign Shareholders that are not able to be sold on ASX during the Rights trading period will also be offered as part of the Top Up Facility.

4.7 Payment for Convertible Notes

Entitlement and Acceptance Forms must be accompanied by payment in full of \$2.50 per Convertible Note. Cheques must be in Australian currency, drawn on an Australian branch of an Australian bank, made payable to “**Cardno Limited – Rights Issue**” and crossed “Not Negotiable”. Do not forward cash or money orders. Receipts for payment will not be issued.

Application Monies will be held on trust for Applicants until issue of the Convertible Notes. Interest earned on Application Monies will be for the benefit of Cardno and will be retained by it whether or not Convertible Notes are issued.

The Rights Issue is renounceable which means that if you decide not to take up all or part of your Entitlement, you may sell that part of your Entitlement that you do not wish to take up on ASX prior to the end of Rights trading at 4.00 pm AEST on Thursday 16 June 2005. The Board recommends that Qualifying Shareholders consider selling their Rights on ASX if they do not intend to take up their Entitlement.

5. FINANCIAL INFORMATION

5.1 Introduction

This Section contains a summary of the pro forma financial information of the combined group comprising Cardno and ACIL assuming the Acquisition proceeds (the 'Financial Information'). The Financial Information comprises:

- pro forma forecast financial performance of the combined group for the year ending 30 June 2005 as if the Acquisition and the Rights Issue had occurred on 1 July 2004
- pro forma cash flows of the combined group for the year ended 30 June 2004 as if the Acquisition and the Rights Issue had occurred on 1 July 2003
- pro forma statement of financial position of the combined group as at 31 December 2004 adjusted for the impact of the Acquisition and the Rights Issue as if they had occurred on 31 December 2004.

In addition, included is the audited historical financial performance of Cardno and ACIL for the years ended 30 June 2003 and 30 June 2004.

Cardno's annual report for the year ending 30 June 2005, incorporating the results of ACIL from the date of Acquisition to 30 June 2005, will be presented in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Urgent Issues Consensus Views (A-GAAP). The Financial Information has been compiled on this basis. For the first full year following the business combination Cardno will present its half year financial report to 31 December 2005 and annual financial report to 30 June 2006 in accordance with Australian Equivalents to International Financial Reporting Standards (A-IFRS). Notes in regard to the impact of A-IFRS on the combined group are provided where appropriate.

The Financial Information has been prepared by Cardno in accordance with the best estimate assumptions set out in Section 5.5 and represents the Directors' best estimate, based on present circumstances, as to the predicted economic conditions to which the combined group will be exposed. However, the Financial Information is predictive only and no guarantee can be given that it will accurately represent the financial performance of the combined group.

The Financial Information presented on an A-IFRS and an A-GAAP basis has been presented in an abbreviated form insofar as it does not include all of the disclosures required by accounting standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The assumptions on which the Financial Information is based are set out in this Section. All figures are subject to rounding.

5.2 Pro Forma forecast financial performance of the combined group

The table below sets out the pro forma forecast financial performance of the combined group for the year ending 30 June 2005 as if the Acquisition and Rights Issue had occurred on 1 July 2004.

| | Forecast financial performance for year ending 30 June 2005 (1) | | | |
|-----------------------------------|---|---------------|-----------------------|------------------------------|
| \$'000s | Cardno | ACIL | Pro Forma adjustments | Pro Forma for combined group |
| Fee Revenue | 75,257 | 37,490 | | 112,747 |
| Other revenue | 1,003 | 69 | | 1,072 |
| Revenue from recoverable expenses | 5,589 | 44,143 | | 49,732 |
| Total Revenue | 81,849 | 81,702 | | 163,551 |
| Operating expenses | 70,918 | 74,597 | | 145,515 |
| EBITA | 10,931 | 7,105 | | 18,036 |
| Amortisation (2) | 561 | 706 | 720 | 1,987 |
| EBIT | 10,370 | 6,399 | (720) | 16,049 |
| Net interest expense (3) | 366 | 956 | 2,353 | 3,675 |
| Net Profit before Tax | 10,004 | 5,443 | (3,073) | 12,374 |
| Tax credit/(expense) | (3,001) | (1,844) | 706 | (4,139) |
| Net Profit after Tax | 7,003 | 3,599 | (2,367) | 8,235 |
| Basic EPS (cents) (4) | 19.3 | N/A | | 21.2 |
| Diluted EPS (cents) (5) | 19.1 | N/A | | 19.7 |

Notes:

- Pro forma financial performance for the year ending 30 June 2005 includes the financial performance of Cardno (audited) and ACIL (reviewed) for the half year ended 31 December 2004 included in the half year reports of the respective companies, the actual (unaudited) financial performance for the three months ended 31 March 2005 and forecast financial performance for the three months ending 30 June 2005 as if the Acquisition and Rights Issue had occurred on 1 July 2004.
- The pro forma adjustment for amortisation takes into account the amortisation that would arise if the Acquisition had occurred on 1 July 2004.
- The pro forma adjustments for net interest expense takes into account the annual borrowing costs (\$3.189 million) related to the issue of 13,196,711 Convertible Notes as set out in this Prospectus and also the reduction in interest cost (\$0.836 million) that will arise on retirement of the ACIL Notes issued by ACIL as if these transactions had occurred on 1 July 2004. The annual borrowing costs of \$3.189 million consist of \$2.969 million interest on the Convertible Notes and \$220,000 annual expensing of the underwriting fee of \$660,000.
- Basic EPS has been calculated using the weighted average number of Shares on issue and assuming the issue of 2,552,617 Shares to effect the Acquisition pursuant to the Share Sale Agreement had occurred on 1 July 2004.
- Diluted EPS is calculated on the basis of the weighted average number of Shares adjusted for the effect of the issue of 2,552,617 Shares to effect the Acquisition pursuant to the Share Sale Agreement and the issue of 13,196,711 Convertible Notes as set out in this Prospectus as if they had all been issued on 1 July 2004.

Reconciliation of net profit from A-GAAP to A-IFRS

| \$'000s | Forecast financial performance for year ending 30 June 2005 | | | |
|---|---|--------------|-----------------------|------------------------------|
| | Cardno | ACIL | Pro Forma Adjustments | Pro Forma for combined group |
| Net profit under A-GAAP | 7,003 | 3,599 | (2,367) | 8,235 |
| Add amortisation of intangible assets (1) | 561 | 706 | 388 | 1,655 |
| Less cost of employee share benefits (2) | 495 | | 316 | 811 |
| Net profit under A-IFRS | 7,069 | 4,305 | (2,295) | 9,079 |
| Basic EPS (cents) | | | | 23.4 |
| Diluted EPS (cents) | | | | 21.3 |

Notes:

- The pro forma adjustment for amortisation of intangible assets assumes the amortisation of \$0.332 million of definite lived intangible assets and the balance of the goodwill would not be amortised under A-IFRS. The amortisation relating to the definite lived intangibles has been based on a preliminary estimate prepared by the Directors.
- The adjustment for employee share benefits relates to the requirement under A-IFRS for expense of share based payments to employees and the pro forma adjustment is the estimated employee share benefit cost assuming ACIL was acquired from 1 July 2004.

The tables below set out the audited financial performance of Cardno and ACIL for the years ended 30 June 2003 and 30 June 2004 and the forecast financial performance for Cardno and ACIL for the year ending 30 June 2005.

| | Statement of financial performance | | |
|-----------------------------------|------------------------------------|------------------|------------------|
| | Actual consolidated for | | Forecast |
| | 2003FY \$'000 | 2004FY \$'000 | 2005FY \$'000 |
| Cardno | | | |
| Fee Revenue | 38,459 | 58,055 | 75,257 |
| Other Revenue | 519 | 575 | 1,003 |
| Revenue from recoverable expenses | 6,135 | 6,239 | 5,589 |
| Total revenue | 45,113 | 64,869 | 81,849 |
| Operating expenses | 40,079 | 57,745 | 70,918 |
| EBITA | 5,034 | 7,124 | 10,931 |
| Amortisation of goodwill | 183 | 231 | 561 |
| EBIT | 4,851 | 6,893 | 10,370 |
| Interest expense | 268 | 418 | 366 |
| Net profit before tax | 4,583 | 6,475 | 10,004 |
| Income tax expense | 1,080 | 1,987 | 3,001 |
| Net profit after tax | 3,503 | 4,488 | 7,003 |

| | Statement of financial performance | | |
|-----------------------------------|------------------------------------|------------------|------------------|
| | Actual consolidated for | | Forecast |
| ACIL | 2003FY \$'000 | 2004FY \$'000 | 2005FY \$'000 |
| Fee Revenue | 25,431 | 37,004 | 37,490 |
| Other Revenue | 1,124 | 67 | 69 |
| Revenue from recoverable expenses | 27,925 | 33,976 | 44,143 |
| Total revenue | 54,480 | 71,047 | 81,702 |
| Operating expenses | 47,775 | 64,025 | 74,597 |
| EBIT | 6,705 | 7,022 | 7,105 |
| Amortisation of goodwill | 706 | 706 | 706 |
| EBIT | 5,999 | 6,316 | 6,399 |
| Interest expense | 1,129 | 901 | 956 |
| Net profit before tax | 4,870 | 5,415 | 5,443 |
| Income tax expense | 1,551 | 1,836 | 1,844 |
| Net profit after tax | 3,319 | 3,579 | 3,599 |

5.3 Pro forma historical cash flows of the combined group

The table below sets out the pro forma historical cash flows of the combined group for the year ended 30 June 2004 as if the Acquisition and Rights Issue had occurred on 1 July 2003.

| | Cash Flows for the year ended 30 June 2004 | | | |
|---|--|----------------|-----------------------|------------------------------|
| | Cardno | ACIL | Pro Forma adjustments | Pro Forma for combined group |
| \$'000s | | | | |
| CASH FLOW FROM OPERATING ACTIVITIES | | | | |
| Sales/Fee Revenue | 64,550 | 71,321 | | 135,871 |
| Cash paid to suppliers and employees | (52,080) | (63,138) | | (115,218) |
| Interest paid | (108) | (968) | (2,353) | (3,429) |
| Interest received | 254 | 67 | | 321 |
| Sundry income | 239 | - | | 239 |
| Income tax paid | (3,078) | (652) | 706 | (3,024) |
| Net Cash Provided from Operating Activities | 9,777 | 6,630 | (1,647) | 14,760 |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | |
| Payment for intangibles | (1,307) | - | | (1,307) |
| Proceeds from sale of property, plant and equipment | 307 | - | | 307 |
| Payments for property, plant and equipment | (634) | (406) | | (1,040) |
| Net Cash Used in Investing Activities | (1,634) | (406) | | (2,040) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Share issue transaction costs | (374) | - | | (374) |
| Proceeds from issue of Shares | 5,111 | 316 | | 5,427 |
| Payment for Share buy-backs | | (404) | | (404) |
| Proceeds from borrowings | | 315 | | 315 |
| Finance lease payments | (1,359) | 4 | | (1,355) |
| Dividends paid | (3,905) | (873) | | (4,778) |
| Repayment of loans | | (2,250) | | (2,250) |
| Net Cash Flows from Financing Activities | (527) | (2,892) | | (3,419) |
| Net Increase/ (Decrease) in Cash Held | 7,616 | 3,332 | (1,647) | 9,301 |
| Cash at the beginning of the year | 4,549 | 6,189 | | 10,738 |
| Cash at the End of the Year | 12,165 | 9,521 | (1,647) | 20,039 |

5.4 Pro forma statement of financial position

The pro forma statement of financial position has been based on:

- the half year annual report of Cardno as at 31 December 2004 that has been audited by William Buck
- the half year annual report of ACIL as at 31 December 2004 that has been reviewed by Ernst & Young.

The pro forma statement of financial position following the Acquisition and Rights Issue shows the position as at 31 December 2004 as if the Acquisition and Rights Issue had occurred on that date. The final acquisition adjustments and identification of the fair value of the assets and liabilities acquired will be determined by the Directors following the Acquisition of ACIL.

| | Pro Forma Statement of Financial Position – 31 December 2004 | | | |
|--|--|------------------|--------------------------|------------------------------------|
| | Cardno Audited | ACIL Reviewed | Pro Forma Adjustments | Pro Forma for combined group |
| \$'000s | | | | |
| Current Assets | | | | |
| Cash | 8,524 | 6,730 | 3,517 | 18,771 |
| Receivables | 12,871 | 7,915 | – | 20,786 |
| Inventory and work in progress | 6,785 | 6,390 | – | 13,175 |
| Other | 555 | 5,741 | 660 | 6,956 |
| Total Current Assets | 28,735 | 26,776 | 4,177 | 59,688 |
| Non-Current Assets | | | | |
| Property, plant & equipment | 5,948 | 485 | – | 6,433 |
| Deferred tax assets | 2,557 | 307 | – | 2,864 |
| Intangible assets | 12,457 | 12,353 | 15,264 | 40,074 |
| Total Non-Current Assets | 20,962 | 13,145 | 15,264 | 49,371 |
| Total Assets | 49,697 | 39,921 | 19,441 | 109,059 |
| Current Liabilities | | | | |
| Payables | 8,239 | 12,400 | – | 20,639 |
| Interest bearing liabilities | 1,854 | – | – | 1,854 |
| Current tax liabilities | 1,407 | 1,720 | – | 3,127 |
| Provisions | 2,851 | 301 | – | 3,152 |
| Other | 4,475 | – | – | 4,475 |
| Total Current Liabilities | 18,826 | 14,421 | – | 33,247 |
| Non-Current Liabilities | | | | |
| Interest bearing liabilities | 2,612 | 8,574 | 27,119 | 38,305 |
| Deferred tax liability | 1,943 | 1,917 | – | 3,860 |
| Provisions | 2,468 | 286 | – | 2,754 |
| Total Non-Current Liabilities | 7,023 | 10,777 | 27,119 | 44,919 |
| Total Liabilities | 25,849 | 25,198 | 27,119 | 78,166 |
| Net Assets | 23,848 | 14,723 | (7,678) | 30,893 |
| Equity | | | | |
| Contributed equity | 19,070 | 8,519 | (1,474) | 26,115 |
| Retained profits | 4,778 | 6,204 | (6,204) | 4,778 |
| Equity Attributable to Shareholders of Cardno | 23,848 | 14,723 | (7,349) | 30,893 |

Pro forma transactions

The pro forma statements of financial position as at 31 December 2004 have been presented as if the following transactions (the pro forma transactions) had all occurred as at that date:

- receipt of \$32.99 million under the terms of the Rights Issue
- payment of \$1.52 million in relation to incidental costs of raising the Convertible Notes and conducting the Acquisition due diligence, \$860,000 of which has been capitalised as part of the Acquisition cost and \$660,000 of which has been treated as a prepayment of borrowing costs
- acquisition of ACIL for \$35 million, completed by payment of \$26.58 million for purchase of securities, making loans to fund \$2.55 million as a fully franked dividend to the Vendors prior to acquisition and making loans to fund payment of \$5.87 million to refund certain of the ACIL Securities
- raising \$7.05 million in additional capital through the issue of 2,552,617 Shares to certain Vendors at a cost of \$2.76 per Share.

5.5 Best estimate assumptions

The forecast Financial Information in this section has been prepared on the basis of the best estimate assumptions set out below and must be read in conjunction with those assumptions and the risk factors in Section 6.

The Directors' forecasts have been prepared utilising assumptions relating to future events that management expects to occur and actions management expects to take place. Information provided in this Section regarding the assumptions made is intended to assist investors in assessing the reasonableness and likelihood of the forecast results occurring and is not intended to be a representation that the forecast result will occur.

The forecasts are likely to vary from actual results and any variation may be materially positive or negative because the assumptions, and therefore the forecasts, are by their nature, subject to significant uncertainties and contingencies, many of which are outside the control of the Directors and management and are not reliably predictable. In addition, events and outcomes may differ in quantum and timing from the assumptions, with material consequential impact on the forecasts. Accordingly, neither the Company, nor its Directors, can give any assurance that the forecasts will be achieved.

General assumptions

- no significant change in the legislative regimes and regulatory environments in the jurisdictions in which Cardno, ACIL or their key customers operate will materially affect the forecast financial information
- the tax calculations are based upon the legislation, regulations and Commissioner's rulings in force at the date of this Prospectus. If the law or Commissioner of Taxation practice changes subsequently, the tax calculations may change accordingly
- there will be no material acquisitions or disposals of entities except for the Acquisition
- there will be no changes in accounting standards or other mandatory professional reporting requirements or the Corporations Act that would have a material effect on Cardno's or ACIL's reported financial performance, cash flows or financial position

- Cardno's accounting policies will remain consistent with those disclosed in the 2004 Annual Report except for those that relate to A-IFRS as outlined in Section 6.7
- there will be no material change in competitive activity in the markets in which Cardno and ACIL operate
- there will be no significant amendment to any material agreement or arrangement relating to Cardno's or ACIL's operations or projects. The parties to those agreements and arrangements are assumed to continue to comply with the terms of all material agreements and arrangements
- key personnel will be retained
- none of the risks listed Section 6 will have a material adverse impact on the operations of Cardno or ACIL.

Specific assumptions

- the 2005 forecast is based on nine months of actual trading to 31 March 2005 and trading at anticipated levels of staff productivity for the 3 months to 30 June 2005
- the Australian dollar to the US dollar will average \$0.78 for the period 1 April 2005 to 30 June 2005
- no successful professional indemnity claim is made against any group operating company that exceeds the level of insurance maintained by the Company
- the Company will have access to adequate overdraft facilities to handle fluctuations in its cash flow
- surplus cash is invested in the short term money market at an average interest rate of 5.3%.

5.6 Accounting policies

Accounting policies used as a basis for preparation of the Financial Information are consistent with the accounting policies of Cardno as disclosed in its annual financial report for the year ended 30 June 2004. Refer to Section 9.3 for details of how to obtain a copy of this annual financial report.

5.7 Australian equivalents to International Financial Reporting Standards (A-IFRS)

The AASB is adopting International Financial Reporting Standards for application to reporting periods beginning on or after 1 January 2005. The adoption of A-IFRS will be first reflected in Cardno's financial statements for the half year ending 31 December 2005 and the year ending 30 June 2006.

All financial information disclosed in this Prospectus has been prepared in accordance with Australian GAAP and where appropriate differences between A-GAAP and A-IFRS have been quantified and identified by note. The differences between A-GAAP and A-IFRS identified by management to date as potentially having a material effect on the statement of the financial position and financial performance of Cardno are summarised below. The summary should not be taken as an exhaustive list of all of the differences between Australian GAAP and A-IFRS. No

attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The key potential implications of the conversion to A-IFRS for Cardno are set out below:

AASB 3 – Business combinations

Allocation of purchase price

AASB 3 specifies the accounting treatment to be adopted by an acquirer with respect to the purchase of a business. The standard specifies that all business combinations should be accounted for by applying the purchase method. This method involves the acquirer recognising the acquiree's identifiable assets, liabilities, and contingent liabilities at their fair value at the acquisition date. In addition, any amount by which the value of the consideration given exceeds the fair value of the identifiable assets, liabilities, and contingent liabilities acquired will be initially recognised as goodwill. The standard requires an acquirer to recognise separately, at the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities regardless of whether they had been previously recognised by the acquiree. For recognition purposes the identifiable assets, liabilities and contingent liabilities must satisfy the following recognition criteria at acquisition date:

- in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably
- in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably
- in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

Therefore, in accordance with the standard, identifiable assets not only include tangible assets but also identifiable intangible assets. An identifiable intangible asset is defined as a non-monetary asset without physical substance which includes legally binding contracts with clients.

Consequently, in accordance with AASB 3, Cardno, as the acquirer of ACIL must recognise the fair value of the legally binding client contracts as intangible assets of the acquiree at the acquisition date but only if their fair value can be measured reliably. As a result, Cardno will recognise the fair value of the contracts as identifiable intangible assets separately from goodwill.

It is anticipated that application of this standard to the Acquisition will in 2006 FY result in the amortisation of approximately \$332,000 of identifiable intangibles and in 2007 FY result in the amortisation of approximately \$110,000 in identifiable intangibles.

AASB 3 – Goodwill and indefinite-lived intangible assets

Under AASB 3 goodwill will no longer be amortised but instead will be subject to annual impairment testing. This will result in a change in Cardno's current accounting policy which amortises goodwill over its expected useful life. Under the new policy, amortisation will no longer be charged but goodwill will be written down to the extent it is impaired. This will result in an increase in earnings on an annual basis, but a decrease during periods when impairment losses are recognised.

Identifiable intangible assets with indefinite lives will not be amortised but instead will be subject to annual impairment testing, consistent with the treatment for goodwill.

Determination of the amount of goodwill and identifiable intangible assets will be made after the Acquisition has been completed, based on independent valuations of tangible and intangible assets where necessary. Based on preliminary investigations the Board's expectation is that substantially all of the excess of the fair value of purchase consideration over the book value of net assets currently recognised by ACIL will represent goodwill or indefinite-lived intangibles acquired which will not be subject to an annual impairment charge.

Cardno has quantified the effect of this standard in Section 5.2 if it had been applied to the 30 June 2005 pro forma figures.

AASB 135 – Impairment of assets

Under AASB 136 the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use (which is determined using discounted cash flows). This will result in a change in Cardno's accounting policy which currently determines the recoverable amount of an asset on the basis of undiscounted future cash flows. Under the new policy it is possible that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. It is possible that when discounting is initially applied to a transaction at 1 July 2004, impairment losses may need to be recognised on some assets, resulting in a negative impact on opening balances of retained earnings at that date. At the date of this Prospectus, the initial analysis has been carried out in preparation for adopting this standard and no significant impairment has been identified.

AASB 2 – Share based payments

Under AASB 2 Cardno will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the statement of financial performance spread over the relevant vesting periods. This will result in additional expenses being recognised during vesting periods and therefore lower earnings. There will also be an initial negative impact on opening balances of retained earnings, and positive impact on equity (option reserves) at 1 July 2004 where retrospective adjustments are made for options that have not vested before 1 January 2005. This standard is not limited to options and also extends to other forms of equity-based remuneration. It applies to all share-based payments made after 7 November 2002 which have not been vested as at 1 January 2005.

Cardno has quantified the effect of this standard in Section 5.2 as if it had been applied to the 30 June 2005 pro forma figures.

AASB 112 – Income taxes

Under AASB 112 Cardno will be required to use the balance sheet method for determining balances on deferred tax assets and liabilities. This method focuses on the tax effects of transactions and other events that affect amounts recognised in either the statement of financial position or a tax-based balance sheet.

Any initial adjustments to calculate deferred tax assets and liabilities using the balance sheet method will be made through opening balances of retained earnings at 1 July 2004. Deferred tax asset and liability balances on transition at 1 July 2004 can be calculated only when all other opening balance sheet amounts have been finalised.

At the date of this Prospectus the full impact of this standard has not been quantified however, initial analysis indicates it should not have a material impact.

5.8 Sensitivity analysis

The forecasts have been based on certain economic and business assumptions about future events. A summary of the assumptions underlying the forecasts is set out in Section 5.5.

The combined group's pro forma forecast financial performance for the year ending 30 June 2005 is sensitive to a number of key assumptions. A summary of the likely impact of movements on certain key assumptions on forecast NPAT for the year ending 30 June 2005 is set out below. The changes in the key assumptions set out below are not intended to be indicative of the complete range of variations that may occur. In addition, the scenarios analysed do not, and do not purport to, represent possible best or worst case scenarios that the combined group may face.

Care should be taken in interpreting this information. This analysis treats each movement in an assumption in isolation from possible movements in other assumptions, which may not be the case. Movements in one assumption may have offsetting or compounding effects on other variables, the effects of which are not reflected in the following analysis. In addition, it is possible that more than one assumption may move at any point in time, giving rise to the cumulative effects, which also are not reflected in this analysis. Typically, Cardno would respond to any material adverse change in conditions by taking appropriate action to minimise, to the extent possible, any adverse effect on profits and dividends. The effect of such mitigating action has been excluded from the following analysis.

| Item | Note | Impact on forecast NPAT 2005FY |
|---|------|--------------------------------|
| +/- 5% change in forecast Revenue | 1 | +/- \$3.8 million |
| +/- 5% change in employee expenses | 2 | +/- \$2.4 million |
| +/- 5% change in non-employee expenses | | +/- \$934,000 |
| +/- 5% change in \$A/\$US exchange rate | | +/- \$50,000 |

Notes

1. Negative changes in revenue may result from, for example, a delay in the Company hiring suitably qualified staff or not being able to find a suitable replacement for a senior staff member, not being able to find suitable targets to acquire or merge with or a down turn in economic activity.
2. Changes to employee expenses relate to the costs associated with all current and future employees.

6. RISK FACTORS

6.1 Factors influencing success and risk

This Prospectus contains forward looking statements based on certain assumptions that are inherently uncertain. Actual events and results, including the results of Cardno's operations, could differ materially from those anticipated. Some of the risks may be mitigated by the use of safeguards and appropriate systems and actions, but some are outside the control of the Board and cannot be mitigated.

The success of Cardno is subject to a number of general risks, including those outlined in Section 6.2. In addition to this, there will be risks that are specific to the future success of Cardno and any investment in it (see Section 6.3), risks associated with the Acquisition (see Section 6.4) and risks associated with investing in Convertible Notes (see Section 6.5).

Qualifying Shareholders should read this Section carefully to be fully aware of the risks that may be involved with taking up all or part of their Entitlement.

The Convertible Notes offered under this Prospectus carry no guarantee with respect to repayment of principal, payment of interest or the price at which the Convertible Notes will trade on ASX. If you are in doubt as to whether you should take up all or part of your Entitlement, you should consult your stockbroker, accountant or independent financial adviser.

6.2 General Risks

Cardno is exposed to a number of general risks that could affect its assets and liabilities, financial position, profits and losses and prospects.

Macro economic risks

The general state of the Australian and international economies and the construction market as well as changes in taxation, monetary policy, interest rates, statutory requirements and currency exchange rates may affect Cardno.

Taxation risks

A change to the current taxation regime in Australia or overseas may affect Cardno and its shareholders and Noteholders. A summary of the potential taxation implications for Noteholders is set out in Section 3.11. Tax liabilities are the responsibility of each individual investor. Cardno is not responsible either for taxation or penalties incurred by investors. Qualifying Shareholders should consult their own taxation advisers to ascertain the tax implications of taking up all or part of their Entitlement.

Impact of International Financial Reporting Standards

Australian accounting standards are set by the Australian Accounting Standards Board (AASB) and are outside the Directors' and Cardno's control. Changes to accounting standards issued by AASB could materially adversely affect the financial performance and position reported in Cardno's financial statements.

For reporting periods beginning on or after 1 January 2005, Cardno must comply with A-IFRS as issued by AASB. The application of A-IFRS will result in changes to the accounting principles for Cardno as described in Section 5.

6.3 Risks associated with Cardno

Regulation

Unfavourable changes to the regulatory environment for consulting engineers either in Australia or in overseas markets for the Company's work may have an impact on the profitability of Cardno.

Publicity

Adverse publicity regarding professional negligence of engineers in Cardno or other engineering consulting practices may impact on the overall reputation of the industry, and accordingly Cardno.

Professional negligence and insurance

A significant risk for Cardno, as for all professional service providers, is that claims of professional negligence may be made against Cardno or one of its Subsidiaries.

Cardno maintains professional indemnity insurance to cover liabilities in the event of a claim of negligence.

In the event of a successful claim for professional negligence being made against a Subsidiary or Cardno, this may impact upon the Company by:

- adversely affecting the reputation of Cardno
- costs incurred in defending claims
- the payment of any amount of liability that exceeds available insurance coverage
- increasing future insurance premiums.

The Company may be unable to obtain appropriate professional indemnity cover for all work. Cardno's work in overseas countries may be considered by insurers to present additional risk, depending upon political and litigious circumstances in the country in question.

Dependence upon key personnel

The Company depends on the talent and experience of its staff as its primary asset. It is essential that appropriately skilled staff be available in sufficient numbers to support the quality of the Company's consulting engineering services and to maintain the diversity of Cardno's business. Given this diversity, the Company requires staff that are professionally skilled in many areas, some of which may be considered niche specialities of engineering in which few practitioners are available for recruitment. Should any of its key staff leave the Company, this may have a negative impact on Cardno. Additionally, any key employees of the Company who leave to work for a competitor may adversely impact the Company.

Competition

There are engineering consulting practices working both in Australia and overseas that compete vigorously with Cardno. This competition may adversely impact on the Company's financial performance.

Cyclical nature of the business

A number of clients of the Company are involved in the construction industry and this industry can be cyclical in the volume of business undertaken. Although the Company has a diverse client base, the construction industry cycles in Australia and overseas may adversely impact on the Company's financial performance.

The loss of major clients through such industry downturns or for any other reason could also impact earnings of the Company.

Technology and information systems

As with other professional practices, important information regarding clients, projects, work in progress and other important data is stored electronically by the Company. These information systems may fail, or not operate effectively. The Company may fail to sufficiently update its technology and this may result in a loss of business.

XP Software

The XP Software product range may fail to continue to perform adequately, resulting in claims for damages.

Mergers and acquisitions

The Company may not be able to achieve its growth targets if it is unable to find suitable mergers and acquisitions. The Company's due diligence processes may not be successful and a merger or acquisition may not perform to the level expected.

Foreign operations

There are certain risks inherent in doing business on an international level, such as unexpected changes in regulatory requirements, tariffs, customs, duties and other trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, political instability, expropriation, nationalisation and war. There may also be fluctuations in currency exchange rates, foreign exchange controls which restrict or prohibit repatriation of funds, technology export and import restrictions or prohibitions and delays from customers, brokers or government agencies. Cardno could also be adversely affected by seasonal reductions in business activity and potentially adverse tax consequences.

In some countries, Cardno may need to enter a joint venture or other strategic relationship with one or more third parties in order to successfully conduct its operations, and may be required by law to hold only a minority interest in any operating entity. To the extent it is a party to joint ventures, Cardno may be subject to loss of proprietary information and other assets, risky business practices and other strategic decisions contrary to Cardno's interests. In addition, any international expansion could require a significant diversion of financial and technical resources and management attention from operations in Australia. There can be no assurance that laws or administrative practice relating to taxation, foreign exchange or other matters of countries in which Cardno intends to operate will not change.

International hostilities and disasters

Cardno's performance and/or the ability of its clients to commission work may be impacted by global tensions or the commencement of military action in the overseas markets in which it works. In addition, the risk of terrorist activity may reduce work opportunities or make it unsafe for the Company to continue operations in a particular country. The occurrence of natural disasters can also prevent planned work from taking place.

Reputation

Cardno has developed a reputation in the trade name 'Cardno', which is used in all consulting engineering services provided. There is a risk that any event by which Cardno suffers a loss of reputation in one part of its businesses may adversely affect the other parts of the Company's businesses by virtue of the common use of the name 'Cardno'.

Growth

Cardno has achieved substantial growth in operating and financial performance in recent years and anticipates further growth. There is a risk that the Company may be unable to manage its future growth successfully.

6.4 Risks associated with the Acquisition

In light of the synergies between the operations of Cardno and ACIL, a number of the risks identified in Section 6.3 may also apply to ACIL. In addition to those risks, there are further risks that might arise from the Acquisition, thus affecting the performance of Cardno.

Concentration of revenues

For 2004FY, more than 90% of ACIL's revenue was derived from Contracts with AusAID. In light of this concentration of revenue, any adverse change in ACIL's relationship with AusAID is likely to have a significant impact on the profitability of ACIL.

Termination of AusAID Contracts

In most instances, AusAID has the power to terminate each Contract it has entered into with ACIL at any time by giving written notice. The Directors understand that these termination provisions are standard for the industry. Nevertheless, if the relationship with AusAID was to end, there is likely to be a significant impact on the profitability of ACIL.

Changes in AusAID's contracting policy may also adversely affect ACIL's profitability.

ACIL's Contracts are summarised in further detail in Section 7.3.

Nature of the business

ACIL's business is of a contractual nature which means the future prospects of ACIL can only be reasonably ascertained by reference to the number and quality of contracts to which ACIL is currently committed. In the event that ACIL's tender success rate drops, this may have a significant impact on ACIL's profitability.

Foreign operations

ACIL's projects are largely based in foreign jurisdictions across the Asia Pacific region. The conduct of business outside Australia is subject to a number of risks including fluctuations in foreign currency exchange rates, expropriation or nationalisation of assets and changes in economic, taxation or political policies. There is also a risk that Australian Government policies in relation to the Asia Pacific region may change, affecting trade and investment opportunities in that region. The Directors will continue to monitor the political and economic situation in the Asia Pacific region on an ongoing basis.

Dependence upon key personnel

ACIL depends on the talent and experience of its staff as its primary asset. It is essential that appropriately skilled staff be available in sufficient numbers to support the quality of ACIL's services and to maintain the diversity of its business. ACIL requires staff that are professionally skilled in many areas, some of which may be considered niche specialities in which few practitioners are available for recruitment. Should any of its key staff leave ACIL, this may have a negative impact on ACIL. Additionally, any key employees of ACIL who leave to work for a competitor may adversely impact Cardno.

6.5 Risks associated with a Convertible Note

Unsecured debt

The Convertible Notes are a form of unsecured debt. Accordingly, Noteholders will rank equally with all other ordinary unsecured creditors and will rank below secured creditors. In the event of a winding up, Noteholders will only have a right to repayment of the Issue Price and any interest payable in accordance with the Convertible Note Terms after all secured creditors, and any secured creditors preferred by law, have been paid in full. If there is a shortfall in funds on winding up the Company, Noteholders may not receive repayment of the Issue Price or any interest payable in accordance with the Convertible Note Terms.

Fixed interest rate

The interest payable in accordance with the Convertible Note Terms is at the fixed rate of 9% per annum. The market for interest rates is volatile and there is a risk that the level of interest rates may increase, making the interest rate payable on the Convertible Notes less attractive when compared to other rates of return available.

Market volatility

Cardno will apply for quotation of the Convertible Notes on ASX. The Convertible Notes may trade at a price below the Issue Price. In particular, the price at which the Convertible Notes trade may be affected by market sentiment arising from factors including changes in interest rates and economic conditions and movements in the Australian and international financial markets. The price at which the Convertible Notes trade may also be affected by the price of Shares.

Liquidity

The market for Convertible Notes on ASX may be less liquid than the market for Shares. As a result, Noteholders may not be able to sell their Convertible Notes at a price that is in accordance with their expectations, or at all if there is insufficient liquidity.

Redemption on takeover

Under the Convertible Note Terms, the Company may redeem the Convertible Notes on the occurrence of a Takeover Event, even if it is before the Maturity Date. This may be disadvantageous to Noteholders in light of interest rates, market conditions or individual circumstances at the time.

7. SIGNIFICANT DOCUMENTS

The Board considers that certain documents relating to Cardno and the Acquisition are significant to the Rights Issue or maybe relevant to the Qualifying Shareholders or investors. A description of significant documents or arrangements, together with a summary of the more important details of each of these agreements is set out below.

7.1 Trust Deed

The Trust Deed governs the terms and conditions on which the Convertible Notes are to be issued and is subject to the Corporations Act and the Listing Rules. Details of the Convertible Note Terms are set out in Section 8.2.

The following is a summary only of the Trust Deed. To obtain a complete understanding of the Trust Deed it is necessary to read it in full. A complete copy of the Trust Deed is available for inspection without charge during normal office hours at the registered office of Cardno.

A summary of the key terms of the Trust Deed is set out below.

The Trust Deed provides that the Trustee holds the following on trust for the benefit of Convertible Noteholders:

- the right to enforce the Company's duty to repay the Convertible Notes
- the right to enforce any charge or security for repayment
- the right to enforce any other duty that the Company has under the terms of the Convertible Notes, the provisions of the Trust Deed or the Corporations Act.

Event of default

Upon the occurrence of an event of default, the Noteholders have the powers to direct the Trustee to:

- enforce the obligations of the Company under the Trust Deed
- direct the Company to redeem the Convertible Notes in full
- commence legal proceedings against the Company to recover monies owing, or
- take any other such action as the Noteholders deem appropriate to recover the money owing.

Status of the Convertible Notes

All Convertible Notes are issued on the condition that (subject to the Company entering liquidation) the liabilities of the Company to Noteholders and to the Trustee under the Trust Deed and the Convertible Notes will at all times be unsecured and will rank in priority and right of payment behind and subordinated to all finance debt, and shall rank *pari passu* with all other unsecured creditors of the Company.

The Deed does not prevent the Company from incurring, varying or otherwise dealing with any indebtedness or other obligations of any nature, whether contingent, secured or otherwise, and whether ranking in priority to, *pari passu* with or subordinated to the Convertible Notes.

Meetings convened by Noteholders

On the application of Noteholders holding not less than 10% in nominal value of the Convertible Notes, the Company will convene a meeting of Noteholders to consider the balance sheet and accounts which were laid before the last preceding annual general meeting of the Company and to give the Trustee directions in relation to the exercise of the Trustee's powers.

General covenants

The Company covenants to:

- give the Trustee any information which it may reasonably require for the purposes of the Trust Deed
- immediately advise the Trustee in writing of any default
- duly and punctually fulfil and perform all of its obligations under the Trust Deed and the Corporations Act
- not without the prior consent in writing of the Trustee make an application under section 411 of the Corporations Act
- not pay any dividend while any interest on the Convertible Notes is overdue and unpaid
- not without the prior consent of the Trustee reduce its capital, and
- do all things necessary for giving effect to the terms of the Trust Deed.

Financial and reporting covenants

The Company must:

- within 90 days of the end of a financial year of the Company, cause a set of consolidated accounts for the Company for that financial year to be provided to the Trustee
- within 75 days of the end of the first 6 months of a financial year of the Company, cause a set of half year unaudited consolidated financial statements of the Company and its controlled entities for that half year to be provided to the Trustee.

Remuneration of Trustee

The Company shall pay to the Trustee legal, accounting and due diligence fees of approximately \$19,000 plus GST, and an ongoing administration fee of \$15,000 per annum plus GST where the total value of the Notes does not exceed \$34 million, in equal instalments payable quarterly in arrears provided that all fees will be indexed annually by any increase in consumer price index.

The Company will also pay all costs and expenses which are reasonably incurred by the Trustee in relation to the performance of its duties under the Trust Deed.

Trustee's powers and duties

Subject to the terms of the Trust Deed, the Trustee has all the powers legally possible for a natural person or corporation to have in connection with the exercise of its powers under the Trust Deed.

The Trustee may, whenever it thinks fit and so long as it is not detrimental to the interests of Noteholders:

- waive on any terms or conditions any breach by the Company of the covenants or obligations binding upon the Company under the Trust Deed or the Convertible Note Terms; and

- apply to any court for directions in relation to any question of law or fact for directions under the Corporations Act.

Retirement and removal of Trustee

The Trustee may retire at any time by giving not less than 60 days' notice in writing, provided that a new trustee company is appointed in its stead.

The Company may remove the Trustee from office by notice in writing if:

- except in the case of The Public Trustee of Queensland, the Trustee ceases to be a trustee company
- an extraordinary resolution of Noteholders is passed which determines the Trustee should be removed
- the Trustee ceases to carry out business or goes into liquidation or an administrator or receiver is appointed, or
- the Trustee defaults in performing or observing any of its obligations under the Trust Deed and the default is not remedied.

Amending the Trust Deed

The Company and the Trustee are entitled without any authority or assent on the part of the Noteholders to amend or add to the Trust Deed if in the opinion of the Trustee such amendment or addition:

- is of a formal, minor or technical nature
- is made to correct a manifest error
- is expedient to enable the Notes to be listed or remain listed for quotation on the stock market, or
- in the opinion of the Trustee is not likely to be materially prejudicial to the interests of the Noteholders.

Meetings of Noteholders

The Trustee or the Company may call a meeting of Noteholders at any time, or if requested in writing to do so by persons holding Convertible Notes representing not less than 10% in value of the total amount of Convertible Notes.

Each Noteholder is entitled to 14 days notice of a meeting, and in the case of an extraordinary resolution, 21 days notice.

At any meeting a quorum for the transaction of business shall be formed by at least two Noteholders representing in person or by proxy at least 10% in value of the total value of the Convertible Notes.

At any meeting, a resolution may be decided by a show of hands unless a poll is demanded. On a show of hands, every Noteholder who is present has one vote, and on a poll, every Noteholder who is present has one vote for every Note in respect of which they are the registered holder.

The meeting of Noteholders has the following powers exercisable by extraordinary resolution only:

- power to sanction the release of the Company from all or any part of its liability to repay the Notes

- power to sanction any modification or arrangement in respect of the rights of the Noteholders against the Company
- power to assent to any modification of the provisions of the Trust Deed or any supplemental deed
- power to give any sanction, direction or request which is required to be given with the consent of the Noteholders
- power to give any release in respect of anything done or omitted to be done by the Trustee
- power to remove the Trustee.

7.2 Share Sale Agreement

Cardno and ACIL have entered a Share Sale Agreement dated 27 May 2005 by which Cardno will purchase the ACIL Securities.

The total cost under the Share Sale Agreement is \$35 million for the purchase of the ACIL Securities although there may be adjustments to the purchase price in respect of:

- the outcome of financial due diligence investigations, including either settlement of a dispute with former shareholders or the making of an appropriate provision. Due diligence investigations may result in a reduction of up to \$250,000 or, only if agreed by Cardno and ACIL, a higher amount in the event that ACIL's net assets at 31 May 2005 are less than estimated at 30 April 2005 to Cardno by ACIL.
- the redemption of any ACIL Notes before the Completion Date.
- payment of a dividend before the Completion Date.

The purchase price will consist of the issue of Shares up to a maximum value of \$11.04 million, with the remainder payable in cash.

The Share Sale Agreement is subject to the following conditions precedent:

- the passing of any resolutions necessary by shareholders of Cardno and the Vendors pursuant to the Corporations Act or any other statutes or regulations necessary for the Acquisition to proceed
- resignation of certain executives from employment with ACIL and their agreement regarding recognition of their accrued leave entitlements by Cardno's nominee as their new employer and the acceptance by executives of these offers of employment made to them by Cardno's nominee
- a successful capital raising by Cardno to fund the Acquisition
- the removal of certain fixed and floating charges over the assets of ACIL.

Subject to these conditions precedent being satisfied, the acquisition of the ACIL Securities will be completed on 1 July 2005 or such other date as agreed by the parties.

All of the ACIL Notes will be redeemed by ACIL on or before the Completion Date. In these circumstances, the amount payable by ACIL for redemption of the ACIL Notes will be funded by a loan from Cardno to ACIL and the purchase price payable for the ACIL Securities will be reduced by the amount of this loan.

ACIL may pay a franked dividend to its shareholders, subject to available franking credits, of up to \$2,549,394.66. This dividend will also be funded by a loan from Cardno to ACIL for the amount of the dividend and the purchase price payable for the Acquisition will be reduced by the amount of this loan.

Cardno has agreed to use its best endeavours to facilitate the acquisition of a quantity of Rights by the Vendors only to the extent it is permitted by law and the Listing Rules. The quantity of Rights will be subject to availability and determined at the discretion of the Underwriter.

The Vendors have provided a number of warranties and indemnities in favour of Cardno in relation to:

- the constitution of ACIL
- ownership of the shares in ACIL
- the business and financial position of ACIL

These warranties and indemnities are standard for a transaction of this nature negotiated by the parties on an arm's length basis. The warranties and indemnities are subject to limitations as to time and amount and to certain other limitations typical for a transaction of this nature.

The Share Sale Agreement will terminate if the conditions precedent are not satisfied on or before the Completion Date or such other date as the parties may agree in writing.

Cardno may also terminate the Share Sale Agreement in the event that:

- the net assets of ACIL at 31 May 2005 (as estimated by ACIL) are less than that estimated by more than \$250,000, and
- Cardno and ACIL cannot agree on a reduction in the acquisition price in excess of \$250,000.

7.3 Contracts

ACIL has entered into Contracts with various government and inter-government agencies including AusAID, the World Bank and Asian Development Bank in relation to its projects. More than 90% of ACIL's revenue in 2004FY was generated from Contracts with AusAID. The terms and conditions of ACIL's Contracts are tailored to each particular project and a general summary of these terms and conditions is as follows:

Term and Termination

The term of each Contract varies depending on the circumstances of the project to which the Contract relates. Typically, the Contracts are for a period of 3 to 5 years. The longest running of its current projects is anticipated to continue until 2009.

Where ACIL is in breach of a Contract, the Contract may generally be terminated subject to the other party's obligation to give notice of the breach and/or an opportunity to remedy it.

ACIL's Contracts with AusAID provide AusAID with the power to terminate the Contract at any time. Generally, where an AusAID Contract is terminated without breach by ACIL, AusAID must pay for services performed prior to the termination and costs that are reasonably and properly incurred in connection with the Contract.

ACIL's obligations

Many of ACIL's major Contracts contain a 'schedule of services' which sets out ACIL's obligations under the Contract in an extremely prescriptive manner. Where the project is an AusAID project,

ACIL's performance of its contractual obligations is audited by AusAID. Cardno is not aware of any material breaches of ACIL's contractual obligations which may jeopardise its position as an AusAID contractor.

Intellectual property provisions

Typically, the Contracts contain a provision requiring ACIL to assign all intellectual property developed as part of a project to the party funding the project. It is also common for ACIL to grant a licence to use ACIL's intellectual property in conjunction with the project. ACIL also indemnifies the party funding the project against any loss or liability arising from ACIL's infringement of any third party's intellectual property.

Confidentiality

ACIL is generally prevented from disclosing any information related to the project which it knows or should know is confidential. ACIL also has an obligation to publicise AusAID projects in an appropriate manner subject to its duty of confidentiality.

Consideration

The amount of consideration varies markedly from project to project. ACIL's largest current project in terms of consideration has a potential maximum value of approximately \$150 million if all 5 annual contract extensions are awarded to ACIL. The consideration payable under each Contract is broken into various categories including fixed fees and reimbursement of ACIL's expenses. Typically, up to 60% of the total contract value relates to reimbursement of expenses.

Payments made under many of the Contracts are tied to the performance of criteria set out in the 'schedule of services'. ACIL's major Contracts also contain a separate 'basis of payment' schedule setting out how and when the consideration will be paid. The 'basis of payment' schedule for many of the Contracts has been amended on a number of occasions. Typically, amendments do not amount to more than 10% of the total contract value.

GST

Many of the Contracts contain a provision providing that any taxes, duties or charges imposed or levied in Australia in connection with the Contract shall be borne by ACIL or its subcontractors.

Dispute resolution

ACIL's major Contracts generally contain a dispute resolution clause. The basic process for dispute resolution is generally that each party is to appoint a senior officer who is to meet with the officer appointed by the other party and attempt to resolve the dispute. Where the parties are unable to resolve the dispute in this fashion, they may agree on a process for resolving the dispute which may involve mediation or arbitration.

Insurance

ACIL is obliged to obtain proper insurance for the projects. ACIL has confirmed that it complies with these obligations.

Force majeure

Some of the Contracts contain a force majeure clause providing that where ACIL is unable to perform its obligations under the contract because of a force majeure event, it will not be liable for subsequent loss.

Change of control

AusAID could use its right to terminate, without breach by ACIL, all or any of the Contracts if it was not satisfied with the change in control. Given the importance of the AusAID contracts to ACIL's business, Cardno has had discussions with AusAID to minimise this risk.

7.4 Underwriting Agreement

The Underwriter has agreed to underwrite and manage the Rights Issue in accordance with the terms and conditions of the Underwriting Agreement.

The Underwriter's commitment to underwrite the Rights Issue is subject to the lodgement of the Prospectus with ASIC in a form and substance acceptable to the Underwriter and the approval of ASX to quotation of all of the Convertible Notes.

The Underwriter will receive an underwriting fee of 2.0% of the total funds to be raised by the Rights Issue. The Company is also required to reimburse the Underwriter for reasonable costs and expenses incurred by the Underwriter in connection with the Rights Issue. In addition, the Underwriter will receive a corporate advisory fee in relation to the Acquisition of \$660,000.

The Underwriting Agreement contains a number of representations and warranties given by the Company in favour of the Underwriter and imposes various obligations on the Company, including to ensure this Prospectus complies with the Corporations Act and all other applicable laws, the ASX Listing Rules and other legally binding requirements of the ASIC or the ASX.

The Underwriter may terminate its obligations under the Underwriting Agreement at any time after it becomes aware of the occurrence of any of the following events:

- (a) (S&P/ASX 200 Index fall): the S&P/ASX 200 Index published by the ASX closes on two consecutive Business Days at a level that is more than 10% below its level as at the close of normal trading on the Business Day immediately preceding the date of the Underwriting Agreement;
- (b) (Bond indices fall): the UBS Composite (All Maturities) Bond Index closes on two consecutive Business Days at a level that is 2.0% or more below its closing level on the last market close prior to the date of the Underwriting Agreement;
- (c) (restriction on issue of Convertible Notes): the Company is prevented from issuing the Convertible Notes within the time required by the Listing Rules, by ASX, any statute, regulation or order of a court of competent jurisdiction or by any governmental or semi-governmental agency or authority;
- (d) (deficiencies in Prospectus):
 - (i) the Prospectus does not comply with the applicable provisions of sections 710 to 716 of the Corporations Act (subject to any modifications), the Listing Rules (subject to any waivers) or any other applicable laws or regulations; or
 - (ii) there is a statement in the Prospectus that is misleading or deceptive or likely to mislead or deceive, or there is an omission from the Prospectus (having regard to the applicable provisions of sections 710 to 716 of the Corporations Act) or if any statement in the Prospectus becomes misleading or deceptive or likely to mislead or deceive or if the issue of the Prospectus becomes misleading or deceptive or likely to mislead or deceive;

- (e) (supplementary or replacement prospectus): a new circumstance as referred to in section 719(1) of the Corporations Act arises or the Underwriter forms the view on reasonable grounds that a supplementary or replacement prospectus should be lodged with ASIC for any of the reasons referred to in section 719 of the Corporations Act and the Company fails to lodge a supplementary or replacement prospectus in such form and content and within such time as the Underwriter may reasonably require;
- (f) (waiting period): ASIC notifies the Company of a material deficiency in the Prospectus during the waiting period referred to in section 727(3) of the Corporations Act or extends that waiting period;
- (g) (ASIC investigation): ASIC commences, or announces its intention to commence an investigation or hearing under Part 3 of the Australian Securities and Investments Commission Act 2001 (Cth) in relation to the Rights Issue, the Prospectus or any supplementary or replacement prospectus;
- (h) (return of Applications): any person gives a notice under sections 719 or 730 of the Corporations Act in relation to the Prospectus with the effect that any valid Application must be returned to the relevant applicant;
- (i) (repayment or withdrawal rights): the Company repays any application monies or gives applicants rights to withdraw their Applications under section 724(2) of the Corporations Act;
- (j) (stop order or repayment rights): ASIC makes an interim or final stop order in relation to the Prospectus under section 739 of the Corporations Act or gives notice of its intention to hold a hearing under section 739 of the Corporations Act in relation to the Prospectus to determine if it should make a stop order in relation to the Prospectus or makes an application under section 1324B of the Corporations Act, or the Company becomes obliged to take any of the steps required under section 724(2) of the Corporations Act in respect of the Rights Issue;
- (k) (withdrawal of consent to Prospectus): any person (other than the Underwriter) who has previously consented to the inclusion of its, his or her name in the Prospectus or to be named in the Prospectus, withdraws that consent;
- (l) (Prescribed Occurrence): one of the following occurrences occurs in relation to any Group Company (ie. any of Cardno and its Subsidiaries), other than as disclosed in the Prospectus:
 - (i) the Group Company converting all or any of its shares into a larger or smaller number of shares;
 - (ii) the Group Company resolving to reduce its share capital in any way;
 - (iii) the Group Company:
 - (A) entering into a buy-back agreement or;
 - (B) resolving to approve the terms of a buy-back agreement under section 257C or 257D of the Corporations Act;
 - (C) resolving to approve the terms of a buy-back agreement under section 257C or 257D of the Corporations Act;

- (iv) the Group Company passing or taking any steps to pass a resolution under s260B of the Corporations Act;
- (v) the Group Company making an issue of, or granting an option to subscribe for, any of its shares, or agreeing to make such an issue or grant such an option;
- (vi) the Group Company issuing, or agreeing to issue, convertible notes;
- (vii) the Group Company disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;
- (viii) the Group Company charging, agreeing to charge, the whole, or a substantial part, of its business or property after the date of this agreement;
- (ix) the Group Company resolving that it be wound up or ceasing or threatening to cease to carry on business;
- (x) the appointment of a liquidator or provisional liquidator to the Group Company;
- (xi) the making of an order by a court for the winding up of the Group Company;
- (xii) an administrator of the Group Company, being appointed under section 436A, 436B or 436C of the Corporations Act;
- (xiii) the Group Company executing a deed of company arrangement;
- (xiv) a judgment in an amount exceeding \$50,000 is obtained against the Group Company and is not set aside or satisfied within 10 Business Days; or
- (xv) any distress, attachment, execution or other competent process for an amount exceeding \$50,000 is issued against, levied or enforced upon any of the assets of the Group Company and is not challenged, set aside or satisfied within 10 Business Days;
- (m) (Event of Insolvency): an Event of Insolvency occurs in respect of any Group Company;
- (n) (litigation): litigation, arbitration, administrative or industrial proceedings are after the date of this agreement commenced or threatened against any Group Company;
- (o) (indictable offence) a director or key employee of any Group Company is charged with an indictable offence;
- (p) (Board and senior management composition): there is a change in the composition of the Board of Directors or a change in the senior management of the Company before completion of the Rights Issue without the prior written consent of the Underwriter;
- (q) (contravention of constitution or law): a contravention by the Company of any provision of its Constitution, the Corporations Act or any other applicable legislation or any rules or any requirement of ASIC or ASX;
- (r) (adverse change): any adverse change or any development including a prospective adverse change after the date of this agreement in the assets, liabilities, financial position, trading results, profits, forecasts, losses, prospects, business or operations of any Group Company;
- (s) (Authorisation): any Authorisation required to be obtained by the Company which is material to anything referred to in the Prospectus is repealed, revoked, terminated or

expires, or is modified or amended in a manner unacceptable to the Underwriter or is breached in a material respect;

- (t) (contracts): after the date of this agreement, any material contract to which the Company is a party (including those referred to in the Prospectus) is, without the prior written consent of the Underwriter, breached by the Company; terminated (whether by breach or otherwise); altered or amended in any way; or found to be void or voidable;
- (u) (disposal): the Company disposes or agrees to dispose of a significant part of its business or property or acquires major assets or enters into major expenditure commitments other than in accordance with the Prospectus;
- (v) (Force Majeure Event): a Force Majeure Event that delays an event set out in the timetable set out in the Underwriting Agreement lasting in excess of 1 week occurs;
- (w) (default): default by the Company under this agreement or any representation or warranty given by the Company in this agreement is or becomes untrue or incorrect;
- (x) (misleading information): any information supplied at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Rights Issue or the affairs of any Group Company is or becomes misleading or deceptive or likely to mislead or deceive;
- (y) (general suspension): there is a suspension or material limitation in trading in securities generally on ASX, the New York Stock Exchange or the London Stock Exchange; or a general moratorium on commercial banking activities in Australia, the USA or the UK is declared by the relevant authorities, or there is a material disruption in commercial banking or securities settlement or clearance services in any of those places;
- (z) (change in law or policy): any of the following occurs which does or is likely to prohibit, restrict or regulate the Rights Issue, capital issues or stock markets: the introduction of legislation into the parliament of the Commonwealth of Australia or of any State or Territory of Australia; the public announcement of prospective legislation or policy by the Federal Government or the Government of any State or Territory; or the adoption by ASIC or its delegates or the Reserve Bank of Australia of any regulations or policy, other than any law, regulation or policy which has been announced before the date of this agreement;
- (aa) (outbreak of hostilities): there is an outbreak or major escalation of hostilities involving any one or more of Australia, New Zealand, the USA, the UK, any member of the European Union, Indonesia, China or Japan or the declaration by any of these countries of a national emergency or war, or a major terrorist attack is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries elsewhere in the world or there is a substantial adverse change in the scale, nature or expected duration of the hostilities involving the Iraqi conflict ongoing at the date of this agreement;
- (bb) (Certificate): any statement in the Certificate becomes incorrect prior to 5.00 pm on the Shortfall Settlement date; or
- (cc) (change in conditions): there occurs any material change in financial, economic or political conditions in Australia, the USA or the UK or in securities trading or capital market conditions generally in Australia.

If an event set out in paragraphs (n), (q), (r), (t), (w), (y), (z) and (cc) above occurs, the Underwriter can only terminate its obligations under the Underwriting Agreement if, in the opinion of the Underwriter acting reasonably:

- (i) it has, or is likely to have, a material adverse effect:
 - (A) on the outcome of the Rights Issue or on the subsequent market for the Convertible Notes (including, matters likely to have a material adverse effect on a decision of an investor to invest in Convertible Notes); or
 - (B) on the income tax position of the Group Companies taken as a whole, or the tax position of an Australian resident Shareholder; or
- (ii) could give rise to a liability of the Underwriter under the Corporations Act.

The Company has agreed to indemnify the Underwriter and parties affiliated with them, against claims, demands, damages, losses, costs, expenses, outgoings, payments and liabilities incurred as a result of the Rights Issue, other than where they result from fraud, recklessness, wilful misconduct, negligence of that indemnified party.

The above description of the Underwriting Agreement is a summary only and is not intended to set out in detail all of its provisions. Certain terms used in this summary of the Underwriting Agreement are not defined in this Prospectus.

7.5 Constitution

In the event that Noteholders convert their Convertible Notes into Shares, the rights attaching to their Shares will be regulated by the Constitution and, in certain circumstances, the Corporations Act, the Listing Rules, the ASTC Settlement Rules and the general law. The following is a summary of the principal rights and liabilities of shareholders.

Shares

Shares can be issued with preferred, deferred or other special rights, obligations or restrictions in relation to dividends, voting, return of share capital, payment of calls or other matters, as determined by the Board from time to time. All unissued shares are under the control of the Board, which may grant options on the shares, issue option certificates, allot or dispose of the shares on the terms and conditions and for such consideration as it thinks fit. This power is subject to contract or any contrary rules in the constitution.

The Constitution permits the issue of preference shares on terms determined by the Board.

Share transfers

Shares may be transferred in any manner required or permitted by the Listing Rules or the SCH Business Rules and by any instrument in writing in any usual or common form or in any other form that the Board approves. The Board may only refuse to register a transfer of securities of the Company as permitted by the Listing Rules or the SCH Business Rules.

Directors need not issue share certificates

Subject to the requirements of the Listing Rules and the Corporations Act, the Company need not issue share certificates.

Voting rights

Each Shareholder has the right to receive notices of, and to attend, general meetings of the Company.

Subject to restrictions on voting from time to time affecting any class of shares in the Company, and any restrictions imposed by the Corporations Act, the shares in the Company carry the right to cast one vote on a show of hands and, on a poll, one vote for each share held, and for each partly paid share held, a vote having the same proportionate value as the proportion to which the shares have been paid up. Voting may be in person or by proxy, attorney or representative.

Dividend

If the Board determines that a dividend is payable, it will be paid on all shares proportionate to the total amount for the time being paid on each share. Such dividend payment is subject to the rights and restrictions on the holders of shares created or raised under any special dividend arrangements.

The Board may establish and maintain one or more dividend plans, to which shareholders may elect to take up with some or all their shares subject to the rules of the plan.

Subject to the Listing Rules, the Board has the power to capitalise and distribute the whole or part of the undivided profits of the Company or standing to the credit of any reserve or other account and which is available for distribution. Such capitalisation and distribution must be in the same proportions which the shareholders would be entitled to receive if distributed by way of dividend or in accordance with the terms of issue of any shares or terms of any plan for the issue of securities for the benefit of officers or employees.

The Board has the power to decide whether to pay shareholders an interim dividend on account of the next forthcoming dividend. Any distribution may be paid otherwise than in cash as specified in the constitution.

No dividend is payable except out of Company profits and no dividend or other monies paid in relation to a share will carry interest as against the Company.

Partial takeover bids

The Company may prohibit registration of transfers purporting to accept partial takeover bids unless and until a resolution of the Company has been passed approving the offers in accordance with the provisions of the Constitution.

Indemnities and insurance

The Company must indemnify current and past Directors, secretaries and executive officers of the Company against any liability incurred by them by virtue of their holding office as, and acting in the capacity of, director, secretary or executive officer, other than a liability owed to the Company or a related body corporate of the Company or a pecuniary penalty order or compensation order or where the liability does not arise out of conduct in good faith. Indemnities also apply to employees in circumstances designated under the constitution.

Insurance

The Company may also pay insurance premiums for officers and employees in certain designated circumstances but not where the liability arises out of wilful breach of duty to the Company or an improper use of position or inside information, as prohibited by the *Corporations Act*.

8. CONVERTIBLE NOTE TERMS

8.1 What is a convertible note?

A convertible note is an unsecured debt instrument which provides the holder with a fixed return for the period on which it is on issue.

A trustee is required to be appointed by section 283AA of the Corporations Act before an offer of unsecured notes is made by an entity.

Cardno has appointed the Public Trustee of Queensland for this purpose. The Public Trustee of Queensland and Cardno have signed a Trust Deed, the terms of which are summarised in Section 7.1. Details of the Convertible Note Terms are set out in the Trust Deed and in Section 8.2.

8.2 Convertible Note Terms

Set out below are the Convertible Note Terms.

1.1 Issue Price

The Convertible Notes will:

- (a) be paid for in full on application;
- (b) have an Issue Price per Convertible Note equal to the Principal Amount;
- (c) have an entitlement, subject to these Convertible Note Terms for each Convertible Note to convert in accordance with condition 1.5;
- (d) be transferable; and
- (e) carry an entitlement to interest at the Interest Rate and to Redemption on the Maturity Date.

1.2 Interest and Redemption on maturity

- (a) Cardno shall pay accrued interest in arrears on each relevant Interest Payment Date to those persons who are Noteholders on the last relevant record date (as defined by condition 1.16) before that Interest Payment Date.
- (b) For each Noteholder, interest accrues daily and, in the case of each Interest Period, the interest payable is calculated by:
 - (i) multiplying the Principal Amount of the Convertible Notes held by that Noteholder on the relevant record date (as defined by condition 1.16) by the Interest Rate;
 - (ii) dividing the resultant amount by 365;
 - (iii) multiplying the resultant amount by the actual number of days in the applicable Interest Period; and
 - (iv) rounding the resultant amount down to the nearest cent.

- (c) Cardno's certificate as to the amount of interest that accrues and is payable on Convertible Notes is (in the absence of manifest error) sufficient evidence of the amount of interest due unless proven wrong.
- (d) Unpaid interest on the Convertible Notes shall:
 - (i) remain owing and not form part of the principal owing to the Noteholder; and
 - (ii) bear interest at the same rate as interest is payable on the Principal Amount calculated daily and payable on each Interest Payment Date on Maturity Date.
- (e) Cardno shall redeem all issued and uncanceled Convertible Notes on the Maturity Date. The Principal Amount on each Convertible Note to be redeemed on the Maturity Date shall be repaid in full by the Company on the Maturity Date, (along with interest payable in accordance with condition 1.2(a)) in accordance with and subject to the Convertible Note Terms to the person who is the Noteholder on the relevant record date (as defined by condition 1.16).

1.3 Early Redemption for Takeover Event or Tax Event

If a Takeover Event or Tax Event occurs, Cardno may in its absolute discretion and subject to the Noteholders' right to convert in condition 1.5, elect to redeem all or some (pari passu) of the Convertible Notes on issue prior to the Maturity Date:

- (a) with effect on the Early Redemption Date;
- (b) by payment of an amount equal to the Early Redemption Amount in respect of each Convertible Note redeemed; and
- (c) along with payment of any accrued and unpaid interest up to the Early Redemption Date,

provided that Cardno has made an Early Redemption Announcement within 15 calendar days after the Takeover Event or after determining that a Tax Event has occurred, and not less than 30 calendar days prior to the proposed Early Redemption Date.

1.4 Early Redemption Announcement

An Early Redemption Announcement must:

- (a) be made to ASX;
- (b) state that Cardno will redeem the Convertible Notes, the Early Redemption Amount to be repaid, the basis upon which the Early Redemption Amount is calculated and the number of Convertible Notes to be redeemed;
- (c) state the Early Redemption Date; and
- (d) otherwise comply with any requirements of the Listing Rules and the Corporations Act as to contents and timing.

1.5 Conversion

- (a) Cardno must send an Entitlement Notice to each Noteholder not more than 30 Business Days before and not less than 20 Business Days before each Conversion Date, within 15 calendar days after a Takeover Event (and not otherwise where a

Conversion Date occurs in a Takeover Period), or at such other times as are permitted by the Listing Rules.

- (b) Provided that there has not been a Winding Up Event, and subject to conditions 1.5(d) and 1.5(e) and 1.6, a Noteholder may deliver a Conversion Notice (which shall be irrevocable) to Cardno at the address of the Registrar requiring the conversion of all of the Principal Amount of and rights attaching to a Convertible Note (other than payment of interest) towards payment in full of the subscription price for the number of Shares determined in accordance with these Convertible Note Terms including conditions 1.8, 1.9 and 1.10 at any time during the period of 15 calendar days after the date of an Entitlement Notice (the 'Conversion Option').
- (c) Other than during a Takeover Period, Cardno must send an Election Notice to each Noteholder that delivers a Conversion Notice in accordance with condition 1.5(b) within 5 Business Days after expiry of the Conversion Option.
- (d) A Noteholder may deliver a Conversion Notice in relation to all or some of its holding of Convertible Notes. Where a Noteholder delivers a Conversion Notice relating to only part of its holding of Convertible Notes, the Conversion Notice must relate to at least 1,000 Convertible Notes and in multiples of 1,000 Convertible Notes (if the total number of Convertible Notes held is less than 1,000, that amount).
- (e) Where the Conversion Date is a Business Day during a Takeover Period, then the Conversion Notice must be received on a Business Day before the last day of the Takeover Period.
- (f) Subject to these Convertible Note Terms, in the event a Noteholder delivers a Conversion Notice, the conversion of the Convertible Notes to Shares will be calculated in accordance with the following formula:

$$\begin{array}{l} \text{Number of Notes} \\ \text{subject to Conversion} \\ \text{Notice} \end{array} \times \begin{array}{l} \text{Conversion} \\ \text{Ratio} \end{array} = \text{Number of Shares}$$

- (g) On the occurrence of a Takeover Event, Cardno shall give notice of the occurrence of that event to the Trustee and to all Noteholders as soon as reasonably practicable and, in any event, within 5 Business Days of the date of occurrence of the Takeover Event.

1.6 Issue of Shares or payment of Cash Equivalent

- (a) Cardno may exercise its election to pay the Cash Equivalent instead of issuing Shares in respect of Convertible Notes being Converted on each Conversion Date unless the Conversion Date occurs in a Takeover Period. Cardno may change its election at each Conversion Date.
- (b) Within 5 Business Days of the Conversion Date, Cardno must either:
 - (i) issue to the Noteholder that number of Shares in the capital of Cardno in accordance with condition 1.8 (subject to any adjustments in accordance with conditions 1.9 and 1.10); or
 - (ii) pay to the Noteholder the Cash Equivalent,

in accordance with the Election Notice and in full satisfaction of the Principal Amount otherwise owing on the Convertible Notes which are the subject of the Conversion Notice.

1.7 Ranking of Shares

The Shares in the capital of Cardno issued upon the Conversion shall rank equally in all respects with all issued Shares in the capital of Cardno at the Conversion Date, except that they will not be entitled to any dividend that has been declared or determined but not paid as at the Conversion Date.

1.8 Number of Shares issued on Conversion

Subject to conditions 1.9 and 1.10 and to Cardno's rights under condition 1.5(c), where Cardno receives a Conversion Notice, a Noteholder on Conversion shall be entitled to one Ordinary Share in the capital of Cardno for every Convertible Note converted.

1.9 Reorganisation adjustments

Subject to the Listing Rules, the following apply:

- (a) If there is a reorganisation (including consolidation, subdivision, reduction or return) of the issued capital of Cardno prior to the Conversion Date, the number of Shares in the capital of Cardno issued on Conversion shall be adjusted in the same proportion as the issued capital of Cardno is reorganised and in a manner which will not result in any additional benefits being conferred on the Noteholder which are not conferred on the shareholders of Cardno, (subject to the same provisions with respect to rounding of entitlements as sanctioned by the meeting of shareholders approving the reconstruction of capital) but in all other respects the terms for Conversion of the Convertible Notes shall remain unchanged.
- (b) The adjustments in this condition 1.9 shall be determined by the auditor acting as an expert and not as an arbitrator and the provisions of any applicable arbitration legislation are excluded to the fullest extent possible.
- (c) The determination of the auditor will be final and binding subject only to any adjustment necessary to correct the manifest error of objective fact or calculation apparent on the face of their determination.
- (d) All costs and expenses of the auditor must be paid by Cardno.

1.10 Adjustment on rights issues and bonus issues

- (a) Subject to condition 1.10(b), if the Company makes a bonus issue or rights issue, the Conversion Ratio shall be adjusted immediately in accordance with the following formula:

$$CN = CNO \times P \times \frac{(RD + RN)}{(RD \times P) + (RN \times A)}$$

Where:

CN means the conversion ratio applying immediately after the application of this formula;

CNO means the conversion ratio applying immediately prior to the application of this formula;

P means the VWAP calculated in respect of the period from (and including) the first Business Day after the ASX announcement of the bonus issue or rights issue to (and including) the last Business Day of trading cum bonus issue or rights issue;

A means, in the case of a rights issue, the subscription price per new Ordinary Share and, in the case of a bonus issue zero;

RN means the number of Shares issued pursuant to the bonus issue or rights issue; and

RD means the number of Shares on issue immediately prior to the allotment of new Shares pursuant to the bonus issue or rights issue.

- (b) Condition 1.10(a) does not apply to Shares issued as part of an executive or employee bonus share plan, employee or executive share plan, executive or director share plan, executive or director option plan, share top up plan or a dividend reinvestment plan.
- (c) The adjustments in this condition 1.10 shall be determined by the auditor acting as an expert and not as an arbitrator and the provisions of any applicable arbitration legislation are excluded to the fullest extent possible.
- (d) The determination of the auditor will be final and binding subject only to any adjustment necessary to correct the manifest error of objective fact or calculation apparent on the face of their determination.
- (e) All costs and expenses of the auditors must be paid by Cardno.
- (f) Notwithstanding any provision of clauses 1.10(a) and 1.10(b):
 - (i) no adjustment under those conditions may contravene any Listing Rule; and
 - (ii) if an adjustment under those conditions would contravene paragraph 1.10(a), the Convertible Notes are to be adjusted in accordance with the relevant adjustment required or permitted under the Listing Rules (and, if more than one, that one chosen by the Company).

1.11 Calculation of VWAP

- (a) VWAP is the arithmetic average of the daily volume weighted average sale price of the Company's Shares sold on ASX during the relevant period but does not include:
 - (i) special crossings;
 - (ii) crossings prior to the commencement of normal trading,
 - (iii) crossings during the after hours adjust phase; or
 - (iv) the exercise of options over Shares,as described in the ASX Business Rules.
- (b) If Shares are suspended by ASX at any time when VWAP is being calculated, the relevant period for calculation of VWAP will be the 10 consecutive Business Days up to but not including the first day of suspension.
- (c) For the purposes of calculating VWAP, if, on some or all of the Business Days in the relevant period, Shares have been quoted on ASX as cum dividend or cum any other

distribution or entitlement, then the VWAP on the Business Days on which those Shares have been quoted cum dividend or cum entitlement shall be reduced by an amount equal to:

- (i) (in the case of a dividend or other distribution), the amount of that dividend or distribution including, if the dividend is franked the amount that would be included in the assessable income of a recipient of the dividend or distribution who is a natural person under the Tax Act;
- (ii) (in the case of an entitlement which is traded on ASX on any of those Business Days), the volume weighted average price of all such entitlements sold on ASX during the relevant period on the Business Days on which those entitlements were traded; or
- (iii) in the case of an entitlement not traded on ASX during the relevant period), the value of the entitlement as reasonably determined by the Directors.

1.12 Register conclusive

- (a) Cardno must maintain or cause to be maintained a register of Noteholders, which includes the information required under the Trust Deed and the Corporations Act in relation to the Noteholders and the Convertible Notes.
- (b) Subject to condition 1.12(c), for the purposes of Conversion:
 - (i) the register shall be conclusive of the identity of the Noteholder entitled to deliver a Conversion Notice in accordance with condition 1.5;
 - (ii) Cardno shall not be affected by notice of any transfer of Convertible Notes where the transfer has not been registered on or before the Conversion Date;
 - (iii) the register shall be conclusive as to the identity of the Noteholder on the Conversion Date for the purpose of determining who shall be issued Shares pursuant to condition 1.6; and
 - (iv) Cardno shall have no responsibility, duty or liability to issue Shares to any person other than to the Noteholder shown on the register at the relevant Conversion Date.
- (c) If the Noteholder shown on the register at the relevant Conversion Date is different from the Noteholder giving the Conversion Notice, that Conversion Notice shall be disregarded and shall have no effect for the purpose of condition 1.5.

1.13 Purchase by Cardno

- (a) Provided that no event of default has occurred or is continuing, Cardno may purchase all or any of the Convertible Notes on-market or by tender or by private contract at any price;
- (b) Any Convertible Notes purchased by Cardno shall be cancelled and may not be resold or reissued and will be without further liability to Cardno to the relevant Noteholders in respect of those Convertible Notes.

1.14 Bonus issues

If the Noteholder exercises the Conversion Option and the Company at any time during the period subsequent to the issue of the Convertible Note to a Noteholder and prior to the Conversion Date shall have made a bonus issue to all its ordinary shareholders, then the following provisions shall apply:

- (a) Cardno shall on issuing the Shares in accordance with condition 1.8 on exercise of the Conversion Option, issue (on terms and conditions that are the same as or correspond with, or are no more favourable to the Noteholder than, the terms and conditions on which the bonus shares were allotted to the ordinary shareholders of the Company) to the Noteholder that number of bonus shares to which the Noteholder would have been entitled if that proportion of the Principal Amount of those Convertible Notes had been converted immediately prior to the making of each bonus issue by the Company; and
- (b) in respect of any reorganisation of capital referred to in condition 1.9(a) which would have applied to Shares issued under a pro rata bonus issue to which this condition 1.14 applies, the provisions of condition 1.9 shall apply with necessary changes to any Shares issued as bonus shares pursuant to this condition 1.14.

1.15 Power of the Noteholders to direct Trustee

Upon the occurrence of an event of default, the Noteholders shall have the following powers exercisable by ordinary resolutions:

- (a) to direct the Trustee to take any particular action under the Trust Deed or the Convertible Notes;
- (b) to direct the Trustee to direct Cardno to redeem the Convertible Notes in full;
- (c) to direct the Trustee to commence legal proceedings against Cardno to recover the moneys owing; and
- (d) to direct the Trustee to take such other action as the Noteholders deem appropriate to recover the moneys owing, and the Trustee shall comply with those directions subject to the terms of the Trust Deed and the Convertible Note Terms.

1.16 Record Date

The record date:

- (a) for the making of interest payments shall be 7 calendar days (excluding the Interest Payment Date itself) before the Interest Payment Date; and
- (b) for the making of any other payment (including payment of the Principal Amount on the Maturity Date or the Early Redemption Amount on the Early Redemption Date) shall be 7 calendar days (excluding the date of payment) before the Maturity Date, the Early Redemption Date or other payment date; and
- (c) for issuing Shares in Cardno after a Conversion Date shall be the Conversion Date; or,
- (d) in each case, such other date required by the Listing Rules or the ASTC Settlement Rules.

1.17 Method of payment

- (a) Subject to conditions 1.5 to 1.9 and 1.17(c), any interest or other monies payable on or in respect of any Convertible Notes must be paid in Australian dollars only:
 - (i) by payment of cheque marked 'not negotiable' and sent through the post to the address of the Noteholder on the register or other person entitled thereto, or where the Convertible Notes are held by joint Noteholders to the address of the Noteholder whose name stands first on the register in respect of those Convertible Notes; or
 - (ii) by deposit, including by way of telegraphic transfer, to such account with any ADI (as that expression is defined in the Banking Act 1959 (Cth)) in Australia as the Noteholder (or, where the Convertible Notes are held by joint Noteholders, the Noteholder whose name stands first on the register), by written notice to Cardno may direct; or
 - (iii) by any other method of transferring money approved by the Trustee from time to time.
- (b) Every cheque or payment referred to in condition 1.17(a)(i) will be sent at the risk of the person entitled to the moneys represented by the cheque and payment will be deemed to have been made when the cheque is posted or the deposit is made in accordance with this clause. The cost of any replacement cheque shall be at the expense of the Noteholder. The Noteholder will be wholly responsible for any account details provided to Cardno or any error or omissions made by Cardno in respect of that payment. Any cheque returned to Cardno, or any cheque not presented by a Noteholder, shall be treated by Cardno as unclaimed money.
- (c) If so requested by the Trustee, Cardno must make any payments payable to the Trustee under the Trust Deed:
 - (i) at a place in Australia and in a manner reasonably required by the Trustee; and
 - (ii) in immediately available funds and without setoff, counterclaim, conditions or, unless required by law or the provisions of the Trust Deed, deductions or withholdings.

1.18 No gross up

If Cardno is required by law to deduct or withhold taxes from any payment to the Trustee or a Noteholder it must:

- (a) make the required deductions and withholdings;
- (b) pay in accordance with the relevant law the full amount deducted or withheld;
- (c) deliver to the Trustee or the Noteholder (as the case may be) the receipt for each payment; and
- (d) reduce the amount of the payment due to the Trustee or the Noteholder (as the case may be) by an amount equal to the deduction or withholding and the payment of such reduced amount shall be in full satisfaction of Cardno's relevant payment obligation.

1.19 Joint Noteholders

In the case of Convertible Notes being held by more than one person, the following shall apply:

- (a) if several persons are entered in the register as joint Noteholders in respect of a Convertible Note the receipt by any one of such persons for the payment or satisfaction of any Moneys owing from time to time payable or repayable to the joint Noteholders will be an effective discharge by the Company of its obligations in relation to that Convertible Note;
- (b) Cardno will not be bound to register more than three persons as the joint holders of any Convertible Notes subject to condition 1.21(k);
- (c) subject to the Convertible Note Terms, all of the joint Noteholders in respect of any Convertible Note must join in any:
 - (i) application to transfer the relevant Convertible Note from one register to another register; or
 - (ii) transfer of the relevant Convertible Note.
- (d) in the case of the death of any one of the joint Noteholders, the survivors will be the only persons recognised by Cardno as having any title to or interest in the Convertible Notes registered in their names jointly.

1.20 Non-resident Noteholders

Where Convertible Notes are held by, or on behalf of, a person resident outside the Commonwealth of Australia, then, despite anything to the contrary contained in or implied by the Convertible Note Terms, it is a condition precedent to any right of the Noteholder:

- (a) to receive payment of the Principal Amount; or
- (b) to receive payment of any interest on the Convertible Notes,

that all necessary authorisations (if any) and any other statutory requirements which may then be in existence are obtained at the cost of the Noteholder and satisfied, provided that Cardno acknowledges that section 128F of the Income Tax Assessment Act 1936 has been satisfied in respect of the Convertible Notes.

1.21 Transfer of Convertible Notes

- (a) A Noteholder is entitled to transfer a Convertible Note by:
 - (i) an instrument in writing in any usual or common form or in such other form as Cardno may approve; or
 - (ii) a proper ASTC transfer or any other method of transferring or dealing in securities introduced by ASX or operated in accordance with the ASTC Settlement Rules or Listing Rules, and in any such case recognised under the Corporations Act.
- (b) If Cardno participates in a computerised or electronic securities transfer, settlement and registration system recognised by or permitted by the Corporations Act:
 - (i) Cardno must comply with and give effect to the rules of that system; and

- (ii) the only document required to be completed and delivered by Cardno in relation to a transfer of the Convertible Notes is such document (if any) as those rules require to be so completed and delivered.
- (c) A written transfer instrument must be forwarded for registration to the address of the register and together with such other evidence as the Directors may require to prove:
 - (i) the title of the transferor, or the Noteholder's right to transfer the Convertible Notes;
 - (ii) the due execution of the transfer; and
 - (iii) the due compliance with the provisions of any relevant statute relating to stamp duties, and if satisfied with such evidence and that the transferor has otherwise complied with this condition 1.21, Cardno will register the transfer and recognise the transferee as the Noteholder entitled to the Convertible Notes comprised in the transfer.
- (d) A written transfer instrument must be:
 - (i) executed by the transferor;
 - (ii) executed by the transferee; and
 - (iii) endorsed or accompanied by an instrument executed by the transferee to the effect that the transferee agrees to accept the Convertible Notes subject to the terms and conditions on which the transferor held them, to become a Noteholder and to be bound by the Trust Deed.

Subject to the Corporations Act, the written transfer instrument may comprise two or more documents.

- (e) Except in the case of a proper ASTC transfer, a transferor of Convertible Notes remains the owner of the Convertible Notes transferred until the transfer is registered and the name of the transferee is entered in the register in respect of the Convertible Notes, and the transferee of Convertible Notes on being entered in the register shall have all the rights and obligations which the transferor had and all the rights and obligations of a Noteholder under the Trust Deed.
- (f) Subject to the Listing Rules and the Convertible Note Terms, the Directors may in their absolute discretion refuse to register:
 - (i) any transfer that is not in accordance with the Convertible Note Terms; or
 - (ii) any transfer of a Convertible Note in favour of a person who is known to Cardno to be a minor or of unsound mind, but Cardno will not be bound to enquire as to the age or soundness of mind of any transferee.

The Directors shall not be bound to give any reason for refusing to register any transfer and their decision shall be final, conclusive and binding.

- (g) No instrument of transfer will be registered by Cardno during any period when the register is closed.
- (h) Cardno must:

- (i) register all valid, registrable transfer forms (if any) and transfers (if any); and
 - (ii) mark or note transfer forms (if any), without charge.
- (i) Any power of attorney granted by a Noteholder may be lodged, produced or exhibited to Cardno or any of its officers and will, as between Cardno and the Noteholder who granted the power of attorney:
- (i) be taken and deemed to continue and will remain in full force and effect; and
 - (ii) may be acted upon, unless express notice in writing of its revocation or of the death of the Noteholder who granted it is lodged with Cardno.
- (j) All instruments of transfer which are registered or surrendered to Cardno will remain the property of Cardno and will be retained by it for a period of 3 years or such minimum period or in such alternative form as may be permitted by law after receipt. However, any instrument of transfer which the Company declines to register will (except in the case of fraud or suspected fraud) be returned on demand to the person depositing the instrument.
- (k) No transfer of a Convertible Note may be made to more than 3 transferees jointly unless the transferees are the legal personal representatives or trustees of a deceased Noteholder.

1.22 Form and title

- (a) The Convertible Notes are constituted by, and owing under, the Trust Deed. Each entry in the register constitutes a separate and individual acknowledgment to the relevant Noteholder of its entitlement to the Convertible Notes.
- (b) Entries in the register in relation to a Convertible Note constitute conclusive evidence that the person so entered is the registered holder of the Convertible Note, subject to rectification for fraud or manifest error.

1.23 Certificates

No certificate or other evidence of title will be issued by or on behalf of the Company to evidence title to a Convertible Note other than notices required under the CHES security transfer system, unless Cardno determines that certificates should be made available or it is required to do so pursuant to any applicable law or regulation.

1.24 Indemnity to Cardno

- (a) Whenever in consequence of:
 - (i) the death of a Noteholder;
 - (ii) the non-payment of any income tax or other tax payable by a Noteholder;
 - (iii) the non-payment of any stamp or other duty by the legal personal representatives of a Noteholder or his estate; or
 - (iv) any other act or thing in relation to a Convertible Note or a Noteholder,
 any law for the time being of any other country or place, in respect of that Convertible Note, imposes or purports to impose any liability of any nature whatever on Cardno to make any payments to any governmental agency, Cardno

will in respect of that liability be indemnified by that Noteholder and the Noteholder's legal personal representatives and any monies paid by Cardno in respect of that liability may be recovered by action from that Noteholder and/or the Noteholder's legal personal representatives as a debt due to Cardno and Cardno will have a lien in respect of those monies upon the Convertible Notes held by that Noteholder or his legal personal representatives and upon the principal and interest payable in respect thereof.

- (b) Nothing in this condition 1.24 will prejudice or affect any right or remedy which any such law may confer or purport to confer on Cardno.

1.25 Deceased or insolvent Noteholders

The legal personal representatives of a deceased Noteholder (not being one of joint Noteholders) will be the only persons recognised by Cardno as having any title to that Noteholder's Convertible Notes. Any person becoming entitled to Convertible Notes in consequence of the death or liquidation of any Noteholder may, on producing such evidence of that person's title as the Directors think sufficient, be registered as the holder of the Convertible Notes or, subject to the preceding Convertible Note Terms as to transfer, may transfer those Convertible Notes. The Directors will be at liberty to retain the principal and interest and any other monies payable in respect of any Convertible Notes which any person under this term is entitled to or to transfer until such person is registered or has duly transferred the Convertible Notes in accordance with these Convertible Note Terms.

9. ADDITIONAL INFORMATION

9.1 Nature of this Prospectus

This Prospectus has been issued pursuant to section 713 of the Corporations Act as a prospectus for the offer of continuously quoted securities because the Convertible Notes are convertible into Shares.

9.2 Regular reporting and disclosure obligations

Cardno is a disclosing entity for the purpose of the Corporations Act and as such it is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules. These obligations require Cardno to notify ASX of information about specified events and matters as they arise for the purpose of ASX making that information available to the stock market conducted by ASX. In particular, Cardno has an obligation under the Listing Rules (subject to certain limited exceptions) to notify ASX immediately once it becomes aware of any information concerning Cardno, which a reasonable person would expect to have a material effect on the price or value of Shares or other securities issued by Cardno. That information is available on the public file at ASX.

Copies of documents lodged with ASIC in relation to Cardno may be obtained from, or inspected at, an ASIC office.

9.3 Documents which will be supplied upon request

Cardno will provide a copy of each of the documents listed below, free of charge, to any person who asks for same in the period commencing on the date of this Prospectus and ending on the Closing Date:

- annual financial report of Cardno for the year ended 30 June 2004, being the most recent annual financial report of Cardno lodged with ASIC before the date of the Prospectus, and
- all documents used to notify ASX of information concerning Cardno under the Listing Rules relating to continuous disclosure after lodgement of Cardno's 30 June 2004 annual financial report with ASIC and before lodgement of this Prospectus with ASIC which are as follows:

| Date lodged | Description of Document |
|-------------|--|
| 26/05/2005 | Trading Halt |
| 26/05/2005 | Request for Trading Halt |
| 03/05/2005 | Further Upgrade to Forecast Profit |
| 01/03/2005 | Change of Director's Interest Notice |
| 28/02/2005 | Change of Director's Interest Notice |
| 28/02/2005 | Record Date for Interim Dividend |
| 23/02/2005 | Presentation re Half Year Report |
| 23/02/2005 | Letter to Shareholders re Half Year Result |

| Date lodged | Description of Document |
|--------------------|---|
| 23/02/2005 | On Track to Meet Upgraded Full Year Forecast |
| 23/02/2005 | Pro Forma Financial Statements for the Half Year |
| 23/02/2005 | Half Year Accounts |
| 23/02/2005 | Half Yearly Report |
| 15/12/2004 | Updated Managing Director's Presentation |
| 13/12/2004 | Network expands to 23 with New Office in Rockhampton |
| 02/12/2004 | Lifts Forecast Profit |
| 26/11/2004 | Appendix 3B - New Issue |
| 18/11/2004 | Appendix 3B - Performance Equity Plan |
| 15/11/2004 | Change of Director's Interest Notice |
| 04/11/2004 | Final Director's Interest Notice x2 |
| 04/11/2004 | Initial Director's Interest Notice |
| 02/11/2004 | Cardno Board Continues Transition |
| 01/11/2004 | Results of 2004 AGM |
| 01/11/2004 | Managing Director's Presentation |
| 01/11/2004 | Chairman's Address to Shareholders |
| 26/10/2004 | Escrow period for Share Issue |
| 26/10/2004 | Expands Seaward via Merger with Lawson & Treloar |
| 26/10/2004 | Appendix 3B - Acquisition of Lawson & Treloar Pty Ltd |
| 20/10/2004 | Escrow Period for Share Issue |
| 20/10/2004 | Acquisition of consulting firm BSD Consultants |
| 20/10/2004 | Appendix 3B |
| 30/09/2004 | Proxy Form |
| 30/09/2004 | Notice of Annual General Meeting |
| 30/09/2004 | 2004 Annual Report |

9.4 Interests of Directors

Shares and Options

The table below sets out the interests of the Directors (personally or through associates) in Shares and Options at the date of this Prospectus:

| Director | Shares | Options | Entitlement to Convertible Notes under the Rights Issue |
|-----------------|-----------|---------|---|
| John Massey | 20,000 | Nil | 7,273 |
| Andrew Buckley | 1,845,810 | 30,000 | 671,204 |
| Ronald Fisher | 1,260,342 | 15,000 | 458,306 |
| Trevor Johnson | 1,527,990 | 15,000 | 555,632 |
| Ian Johnston | 60,000 | Nil | 21,818 |
| Richard Kell AM | 619,458 | Nil | 225,257 |
| Graham Tamblyn | 1,512,000 | Nil | 549,820 |
| James Verco | 1,094,402 | Nil | 397,964 |

Dr Stephen Moss will be appointed as an executive Director after completion of the Acquisition. As a Vendor, Dr Moss (personally or through associates) will be issued 431,348 Shares and paid \$2,006,373 on completion of the Acquisition.

Contracts with Directors or Director related entities

Ian Johnston, a Director, is also a director of ABN AMRO Morgans Limited and ABN AMRO Morgans Corporate Limited, both of which are entitled to receive certain fees. For further details see Section 9.5.

Payment to Directors

The constitution of the Company provides that the Directors may be paid, as remuneration for their services, a sum determined from time to time by the Company's shareholders in general meeting, with that sum to be divided amongst the Directors in such manner and proportion as they agree.

The maximum aggregate amount, which has been approved by shareholders for payment to the Directors is \$300,000 per annum. Approximately \$20,000 was paid to non-executive Directors in 2004FY and it is anticipated that approximately \$82,714 will be paid in 2005FY based on an annual total fee of \$85,000.

John Massey and Ian Johnston are the only non-executive Directors. The executive Directors are not paid Directors' fees.

9.5 Interests of experts and advisers

No expert and no firm in which a Director or expert is a partner has any interest in the promotion of Cardno and no amounts have been paid or agreed to be paid (whether in cash, shares or otherwise) to an expert or to such firm by any person for services rendered by them or the firm in connection with the promotion of Cardno other than as set out below:

ABN AMRO Morgans Corporate Limited has acted as underwriter to the Rights Issue and adviser to the Acquisition, in respect of which it will receive fees as set out in Section 7.4.

McCullough Robertson has acted as the legal adviser in relation to the Rights Issue and has performed work in relation to preparing the legal due diligence, verification programme and Prospectus for the Rights Issue and legal due diligence with respect to the Acquisition. Cardno will pay approximately \$130,500 (GST exclusive) to McCullough Robertson for work undertaken in respect of those services to the date of this Prospectus. Further amounts may be paid to McCullough Robertson in accordance with their normal time based charges.

9.6 Consents and Disclaimers of Responsibility

None of the parties referred to below has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified below. Each of the parties referred to below, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for, any part of this Prospectus, other than the reference to its name and a statement included in this Prospectus with the consent of that party, as specified below.

- ABN AMRO Morgans Corporate Limited has given, and has not withdrawn, its written consent to be named as underwriter and manager to the Rights Issue in the form and context in which it is named.
- ABN AMRO Morgans Limited has given, and has not withdrawn, its written consent to be named as broker to the Rights Issue in the form and context in which it is named.
- The Public Trustee of Queensland has given, and has not withdrawn, its written consent to be named as Trustee in the form and context in which it is named.
- McCullough Robertson has given, and has not withdrawn, its written consent to be named as lawyers in the form and context in which it is named.
- William Buck has given, and has not withdrawn, its written consent to be named as auditor in the form and context in which it is named.
- ASX Perpetual Registrars Limited has given, and has not withdrawn, its written consent to be named as share registry in the form and context in which it is named.
- Dr Stephen Moss has given, and has not withdrawn, his consent to be named as a potential director of Cardno in the form and context in which he is named.

9.7 Governing law

This Prospectus and the contracts which arise on the acceptance of Applications are governed by the laws applicable in Queensland and each Applicant submits to the non-exclusive jurisdiction of the courts of Queensland.

9.8 Directors' Authorisation

Each Director of Cardno has given and has not withdrawn his consent to the lodgement of this Prospectus with ASIC.

Glossary

| | |
|-------------------------------------|--|
| AASB | Australian Accounting Standards Board |
| ACIL | ACIL Australia Pty Ltd ACN 006 170 869 |
| ACIL Notes | the loan notes issued by ACIL pursuant to a Loan Agreement dated 13 September 2002, but does not include any loan notes redeemed on or before the Completion Date |
| ACIL Securities | all of the issued shares in ACIL and all of the ACIL Notes |
| Acquisition | the acquisition by the Company of all the issued capital of ACIL from the Vendors pursuant to the Share Sale Agreement |
| Additional Convertible Notes | Convertible Notes which may be allocated to Qualifying Shareholders out of any Entitlements not taken up |
| AEST | Australian Eastern Standard Time |
| A-GAAP | Australian accounting standards, other authoritative pronouncements of the AASB and Urgent Issues Consensus Views |
| A-IFRS | Australian Equivalents to International Financial Reporting Standards |
| Applicant | a person or entity who submits an Entitlement and Acceptance Form |
| Application | an application for Convertible Notes on an Entitlement and Acceptance Form |
| Application Monies | money received by the Company pursuant to the Rights Issue, being the Issue Price multiplied by the number of Convertible Notes applied for |
| ASIC | Australian Securities and Investment Commission |
| ASTC | ASX Settlement and Transfer Corporation Pty Ltd ABN 49 008 504 532 |
| ASTC Settlement Rules | the operating rules of ASTC |
| ASX | Australian Stock Exchange Limited ABN 98 008 624 691 |
| AusAID | Australian Agency for International Development, an Australian Government agency within the Department of Foreign Affairs and Trade |
| Board | board of directors of Cardno |
| Cardno or Company | Cardno Limited ACN 108 112 303 and, where the context so requires, its Subsidiaries |
| Cash Equivalent | in relation to a Convertible Note, an amount equal to the greater of the Issue Price and the VWAP calculated in respect of the period from (and including) the 10 Business Days prior to the Conversion Date multiplied by the number of Shares which the Company would otherwise be obliged to issue on Conversion of that Convertible Note |
| Chairman | chairman of Cardno |

| | |
|-------------------------------|---|
| Closing Date | date on which the Rights Issue closes, being Thursday 23 June 2005, which may be varied without prior notice by Cardno |
| Completion Date | the date on which completion of the Acquisition occurs, scheduled for Friday, 1 July 2005 as at the date of this Prospectus |
| Constitution | the constitution of the Company |
| Contracts | the contracts entered into by ACIL with other entities pursuant to which ACIL conducts its consulting, advisory and project management services and sources its revenue |
| Conversion | conversion of Convertible Notes into Shares as provided for by the Convertible Note Terms |
| Conversion Date | where a Conversion Notice is given under condition 1.5 of the Convertible Note Terms: <ul style="list-style-type: none"> (a) an Interest Payment Date; (b) the Maturity Date; or (c) any date during a Takeover Period. |
| Conversion Event | an event provided for by the Trust Deed which entitles a Noteholder to convert its Convertible Notes into Shares |
| Conversion Notice | the notice in the form required by the Trust Deed which must be served by a Noteholder on Cardno for Conversion to occur |
| Conversion Option | the option conferred on the Noteholder (where a Conversion Notice is given by a Noteholder) to: <ul style="list-style-type: none"> ▪ apply all or part of the redemption proceeds towards subscription for Shares, or ▪ receive the Cash Equivalent (other than during a Takeover) in full satisfaction of the Principal Amount otherwise owing on the Convertible Note |
| Conversion Ratio | one (1) subject to adjustment pursuant to the Convertible Note Terms |
| Convertible Note | a Convertible Note offered pursuant to this Prospectus under the Rights Issue |
| Convertible Note Terms | the terms and conditions on which the Convertible Notes are issued as set out in the Trust Deed and in Section 8.2 |
| Corporations Act | Corporations Act 2001 |
| Director | a director of Cardno |

| | |
|--|---|
| Early Redemption Amount | <p>in relation to a Convertible Note on any day, the greater of:</p> <ul style="list-style-type: none"> ▪ the Issue Price (plus any interest accrued but unpaid on the Convertible Note up to and including the Early Redemption Date), ▪ the VWAP of that Convertible Note during the 10 Business Days after the occurrence of the relevant Takeover Event or Tax Event (the Calculation Period) |
| Early Redemption Announcement | an announcement to be made by Cardno to ASX stating that Cardno will redeem the Convertible Notes and repay the Early Redemption Amount and specifying the basis upon which the Early Redemption Amount is calculated, the number of Convertible Notes to be redeemed and the Early Redemption Date |
| Early Redemption Date | the date specified in an Early Redemption Announcement as the date on which Convertible Notes are to be redeemed by the Company which must not be later than 90 calendar days after the Early Redemption Announcement |
| EBIT | earnings before interest and tax expense |
| EBITA | earnings before interest, tax expense and amortisation |
| Entitlement | the entitlement of each Qualifying Shareholder under the Rights Issue as shown on the Entitlement and Acceptance Form |
| Entitlement and Acceptance Form | a Qualifying Shareholder's personalised Entitlement and Acceptance Form accompanying this Prospectus |
| Entitlement Notice | a notice from the Company to each Noteholder, setting out the entitlement of each Noteholder and the information required under the Listing Rules |
| EPS | earnings per Share |
| Fee Revenue | revenue generated from the provision of professional services |
| FY | financial year |
| Interest Payment Date | 31 December 2005 and the last day of each subsequent financial half year until the Maturity Date and includes the Maturity Date (except that where there is a Conversion Date or where the Convertible Notes are redeemed under condition 1.3, the Conversion Date or the Early Redemption Date (as the case may be) shall be the final Interest Payment Date in respect of the Convertible Notes converted or redeemed) |

| | |
|---|---|
| Interest Period | in relation to a Convertible Note, the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date and thereafter means: <ul style="list-style-type: none"> (a) where there is a Conversion Date or where the Convertible Notes are redeemed under condition 1.3 (as the case may be), the period from (and including) the preceding Interest Payment Date to (and excluding) the Conversion Date or the Early Redemption Date (as the case may be), (b) the period from (and including) the preceding Interest Payment Date to (but excluding) the following Interest Payment Date, or (c) the period from (and including) the preceding Interest Payment Date to (but excluding) the Maturity Date |
| Interest Rate | 9% per annum |
| IPO | Initial public offering |
| ISO 9001 | standards issued by the International Organisation for Standardization |
| Issue Date | the date on which the Convertible Notes are issued, which as at the date of this Prospectus is scheduled for Friday 1 July 2005 |
| Issue Price | \$2.50 per Convertible Note |
| Listing Rules | listing rules of ASX |
| Managing Director | the managing director of Cardno appointed by the Board |
| Maturity Date | the date on which the Company may redeem those Convertible Notes not earlier converted into Shares, being the Business Day immediately before the 3 year anniversary of the Issue Date which, as at the date of this Prospectus, is scheduled for 30 June 2008 |
| Non Participating Foreign Shareholders | shareholders with registered addresses in places outside Australia or New Zealand to whom the offer under the Rights Issue will not be made |
| Noteholder | the registered holder of a Convertible Note |
| NPAT | net profit after tax |
| OECD | Organisation for Economic Cooperation and Development |
| Option | an option to acquire a Share |
| Principal Amount | in relation to each Convertible Note, is the nominal principal amount of such Convertible Note recorded in the register of Noteholders (being the Issue Price) |
| Prospectus | this Prospectus dated 27 May 2005 |
| Qualifying Shareholder | holders of Shares as at the Record Date other than Non Participating Foreign Shareholders |
| Record Date | 6 June 2005 |

| | |
|-----------------------------|--|
| Redemption | redemption by the Company of all or some of the Convertible Notes then outstanding as provided for by the Trust Deed |
| Rights | the renounceable rights to subscribe for Convertible Notes pursuant to this Prospectus |
| Rights Issue | the issue of approximately 13,196,711 Convertible Notes at an Issue Price of \$2.50 per Convertible Note pursuant to this Prospectus to Qualifying Shareholders as at the Record Date |
| Rights Issue Period | the period during which Qualifying Shareholders may deal with their Rights, including apply for their Entitlement and Additional Convertible Notes by lodging an Entitlement and Acceptance Form in accordance with Section 4 |
| SCH | Securities Clearing House or any relevant organisation which is an alternative to, or is a successor or replacement of, the Securities Clearing House or any applicable CS facility licensee as defined in the Corporations Act |
| SCH Business Rules | the SCH business rules approved under the Corporations Act or any relevant rules which are an alternative to, or are a successor or replacement of, the SCH business rules |
| Share | a fully paid ordinary share in the Company |
| Share Registry | ASX Perpetual Registrars Limited ABN 54 083 214 537 |
| Share Sale Agreement | the agreement dated 27 May 2005 between the Company and the Vendors for the acquisition by the Company of all securities in ACIL |
| Subsidiary | a subsidiary of Cardno Limited as defined by the Corporations Act |
| Takeover Event | <p>means:</p> <ul style="list-style-type: none"> (a) announcement of a takeover bid under which the bidder proposes to obtain voting power in the Company of 50% or more, or (b) announcement to ASX of a scheme of arrangement which, if effective, would result in a person obtaining voting power in the Company of 50% or more, <p>whether or not the bidder or person obtaining voting power already has voting power in the Company of 50% or more</p> |
| Takeover Period | <p>means the period of time:</p> <ul style="list-style-type: none"> (a) in the case of a takeover bid, commencing on the announcement of the bid and ending on the day on which the bid becomes unconditional, and (b) in the case of a scheme of arrangement, the day on which the Court makes an order approving the scheme |

| | |
|-------------------------------|--|
| Tax Event | occurs if the Directors resolve on reasonable grounds (having obtained an opinion from a reputable legal counsel or tax adviser) that a change in any taxation law, interpretation or ruling issued by any relevant governmental body has occurred (or is announced) and that change will materially increase the net costs to the Company of having the Convertible Notes on issue (having regard, without limitation, to any tax deductions available to the Company in connection with the payment of interest) |
| Top Up Facility | the facility for Qualifying Shareholders to apply for Rights in addition to their Entitlement as described in Section 3.10 |
| Trust Deed | the Unsecured Convertible Note Trust Deed between the Company and the Trustee dated 26 May 2005 and summarised in Section 7.1 |
| Trustee | The Public Trustee of Queensland ABN 12 676 939 467 |
| UK | United Kingdom |
| Underwriter | ABN AMRO Morgans Corporate Limited ABN 32 010 539 607 |
| Underwriting Agreement | the underwriting agreement between the Company and the Underwriter dated 27 May 2005 |
| USA | United States of America |
| Vendors | the holders of all issued securities in ACIL |
| VWAP | has the meaning given in condition 1.11 of the Convertible Note Terms as set out in Section 8.2 |
| Winding up Event | <p>means any of the following events:</p> <ul style="list-style-type: none"> (a) the Company resolves in general meeting or by special resolution in lieu of a general meeting, to be wound up or to appoint a liquidator; (b) an administrator, liquidator or provisional liquidator is appointed to the Company; (c) a court makes an order to wind up, or for the appointment of a liquidator to the Company (other than to effect a solvent reconstruction or amalgamation); (d) a receiver, receiver and manager, administrative receiver, statutory manager or similar officer is appointed to all or substantially all of the assets and undertaking of the Company; <p>or</p> <p>the Company enters into a compromise, arrangement or composition with, or assignment for the benefit of, its condition or a class of them</p> |
| XP Software | XP Software Pty Ltd, XP Services Pty Ltd, XP Software Inc, or their business |

Corporate Directory

Board of Directors

Chairman

John Clarence Massey

Deputy Chairman

Graham George Tamblyn

Managing Director

Andrew David Buckley

Directors

Ronald John Fisher

Trevor Charles Johnson

Ian John Johnston

Richard Albert Kell AM

James Gordon Armour Verco

Company Secretary

Ronald John Fisher

Registered Office

Cardno Limited

ACN 108 112 303

Level 1

5 Gardner Close

MILTON QLD 4064

Tel: (07) 3369 9822

Fax: (07) 3369 9722

www.cardno.com.au

Share Registry

ASX Perpetual Registrars Limited

Level 22

300 Queen Street

BRISBANE QLD 4000

www.asxperpetual.com.au

Underwriter and Manager to the Rights Issue

ABN AMRO Morgans Corporate Limited

ABN 32 010 539 607

Level 29, Riverside Centre

123 Eagle Street

BRISBANE QLD 4000

www.abnamromorgans.com.au

Broker to the Rights Issue

ABN AMRO Morgans Limited

ABN 49 010 669 726

Level 29, Riverside Centre

123 Eagle Street

BRISBANE QLD 4000

www.abnamromorgans.com.au

Auditor

William Buck

Chartered Accountants

Level 16

William Buck Centre

120 Edward Street

BRISBANE QLD 4000

www.williambuck.com.au

Lawyers

McCullough Robertson Lawyers

Level 12

Central Plaza Two

66 Eagle Street

BRISBANE QLD 4000

www.mccullough.com.au