



13 January 2011

Company Announcements Office  
ASX Limited  
20 Bridge Street  
SYDNEY NSW 2000

***By electronic lodgement***

Total Pages: 5 (including covering letter)

Dear Sir/Madam

**Letter Sent to Shareholders**

Please find attached a copy of a letter to be sent shareholders today.

Yours sincerely

A handwritten signature in black ink, appearing to read "Warren Coatsworth".

**Warren Coatsworth**  
Company Secretary



13 January 2011

Dear Shareholder

**GENERAL MEETING OF SHAREHOLDERS AND SPECIAL MEETING OF MINORITY SHAREHOLDERS TO BE HELD ON 31 JANUARY 2011**

By Notices of Meeting dated 20 December 2010, Engin Limited (“**company**”) called a General Meeting of all of its shareholders, and a Special Meeting of Minority Shareholders, to be held on 31 January 2011. By now, all Engin shareholders should have received these Notices of Meeting and the Explanatory Statement, Independent Tax Opinion and Independent Experts’ Report accompanying them (“**Meeting Documentation**”).

The meetings are being called pursuant to the company receiving a member’s request under section 249D of the *Corporations Act 2001* (“**Act**”) to call the meetings for the purposes of considering, and if thought fit passing, resolutions relating to a selective capital reduction proposed by Network Investment Holdings Pty Limited (“**NIH**”) (a wholly owned subsidiary of Seven Group Holdings Limited) (collectively, “**SGH**”). Under the proposal, if passed, shareholders other than SGH will have their shares cancelled for a consideration of \$0.70 per share, paid as a capital payment.

**1. Nature of the proposal**

Engin Limited was served with member requests under section 249D of the Act dated 2 December 2010 to call these meetings. **These meetings have not been initiated by the company.** Shareholders should understand that as the proposal is not the company’s (but is that of the majority shareholder), the company and the Independent Chairman are not privy to matters such as the substantive reasons for the proposal from the point of view of the company’s majority shareholder, or any other detail relating to the proposal, except to the extent provided to the company by NIH/SGH as disclosed to you in the Meeting Documentation. Engin Limited is legally required under the Act to call these meetings and provide the Meeting Documentation for shareholders to consider the proposal as put forward to the company by SGH.

Accordingly, to assist the Minority Shareholders (and the Independent Chairman to make a recommendation to shareholders as shareholders normally expect from their Independent Chairman), the Independent Chairman engaged an independent expert to provide an independent expert’s report taking into account the interests of the shareholders, including the interests of the Minority Shareholders, on the proposal. The independent expert was instructed by the Independent Chairman as the other Board members have chosen to abstain from providing a recommendation to Minority Shareholders on this matter (for the reasons disclosed in section 8 of the Explanatory Statement).

**2. Correspondence from Mr Stuart Howes**

The Board of the company has recently become aware of correspondence sent to the company’s shareholders by a shareholder, Mr Stuart Howes, dated 24 December 2010 regarding the matters contained in the Meeting Documentation.

- (a) There are statements made by Mr Howes which are not correct. For the purposes of shareholders considering correct information, we refer you to the Meeting Documentation and in particular we note as follows:
  - (i) Mr Howes refers to Lonergan Edwards & Associates Limited as having produced “*a so-called “Independent Expert’s Report”*”. The inference that Lonergan Edwards &

Associates Limited is not genuinely independent for the purposes of producing the Independent Expert's Report ("**IER**") is incorrect. Lonergan Edwards & Associates were appointed by me, the company's Independent Chairman, after consideration of their considerable reputation and experience as reliable independent experts within the Australian corporate marketplace. Please refer to paragraph 5 of the IER in which Lonergan Edwards & Associates Limited confirm their independence from the company and from NIH. The terms of appointment included that the IER should consider the interests of the shareholders as a whole, including the Minority Shareholders.

The IER included in the Meeting Documentation has been produced by a genuinely independent expert who has duly considered the proposal on that basis, and formed the opinion that the offer is "**fair and reasonable**".

- (ii) Mr Howes refers to me as "*our allegedly Independent Chairman*". I was appointed to the Board to act as an independent director and Chairman and I have always acted as, and remain, an independent director and Chairman of the company. I do not place the interests of SGH ahead of the interests of company shareholders as a whole.
- (b) Mr Howes also raises the points set out below in his letter. While the Engin Board welcomes the right of Engin shareholders to openly discuss the company and its prospects, the information given in the Meeting Documentation should also be considered by shareholders.

In making my recommendation to shareholders on how to vote at the meeting in section 4 of the Meeting Documentation, a matter I took into consideration was the finding in the IER that the offer of \$0.70 cents per share is "**fair and reasonable**", and the basis of that finding as set out in the IER. That report is included in the Meeting Documentation for you to also consider. The matters raised by Mr Howes were addressed in the IER. For your ease of reference, I have referred below to some of those relevant parts of the IER. You should read the IER in full, and consider what the IER states about these matters.

(i) **Timing**

Mr Howes comments on the introduction of NBN (National Broadband Network) legislation and the opportunities he sees for the company as a result. I urge you to read the IER included in the Meeting Documentation in full, but in particular please refer to paragraphs 85 to 87 of the IER which includes the statement (among others) that:

"85:... (a) *the final structure of the NBN is still unknown*

(b) *the potential exists for the removal of significant levels of competition from segments of the wholesale telecommunications industry, and the replacement thereof by a government-run monopoly."*

"86 *In our view, any apparent benefits to service providers that may arise from the NBN are speculative at this stage."*

(ii) **Price Offered**

Mr Howes states in his letter that the offer under the proposal of \$0.70 "*represents a further 53% reduction of the share price*".

However, the IER has concluded that the offer is "**fair and reasonable**". The basis of that finding is throughout the report, and at paragraphs 74 to 78 there is an analysis of the share price history over the 12 months up to 2 December 2010 (the date that SGH's member's request under section 249D of the Corporations Act 2001 to put the proposal to the vote of shareholders was received by the company). The low level of market liquidity is noted in paragraph 78, and ultimately the IER concludes (as summarised in paragraph 13) that:

- “13. (a) *the Proposal Consideration of 70 cents per share contains an implied premium which is well above the range of control premiums paid in takeovers generally*”.
- (b) *given Network Investment’s 57.33% holding in Engin, it is unlikely that an alternate offer or proposal will be made*
- (c) *if the Proposal does not proceed, the price of Engin shares is likely to trade at a significant discount to our valuation and the Proposal Consideration*
- (d) *given the illiquidity of the Engin shares, the Proposal provides Engin Minority Shareholders with a means of realising immediate value for their investment.*

### ***Premium offer price***

Section VII of the IER (paragraphs 159 onwards) contains more comments on the proposed premium to be paid for your shares.

For example, the implied control premium included in the IER at paragraph 168 shows that **\$0.70 per share is a 79.4% implied control premium** by reference to the volume weighted average market prices of the company’s shares in the 3 months ending on 2 December 2010.

If the Proposal does not proceed, the IER considers **there is a danger of your shares falling below the offer price of \$0.70 per share**:

“173 *In our opinion, if the Proposal lapses and no higher offer or alternative proposal emerges, it is likely (at least in the short-term) that Engin shares will trade at a discount to our valuation (consistent with the difference between the value of Engin on a portfolio basis and the value on a 100% controlling interest basis) and will trade at a significant discount to the Proposal Consideration of 70 cents per share*”.

### ***Illiquidity***

On the issue of the **illiquidity of the Engin shares**, paragraphs 175 and 176 of the IER state:

“175 *Engin Minority Shareholders should note that in the year prior to the announcement of the Proposal 0.681 million Engin shares traded, representing some 5.34% of the total Engin shares on issued as at 2 December 2010.*

“176 *In the absence of the Proposal, shareholders may therefore find it difficult to sell large parcels of shares or may need to do so at a discount to the last traded price.*

### (iii) ***Vision for Engin***

Mr Howes refers in his letter to the company having ‘turned a corner’. While this may be true, the prospects for the company are discussed in the IER, in particular in section III (paragraphs 79 to 91) and in section IV (paragraphs 92 to 111). At paragraph 88, the IER summarises as follows:

“88 *“Although Engin is forecast to achieve revenue growth by expanding its ADSL customer base, and may achieve some growth by implementing a strategy of entering the mobile telephony market, voice revenues and margins, which generate relatively higher margins than those derived on other services, are forecast to remain flat into the future.”*

### **3. Independent Chairman's Recommendation**

The IER concluded that the offer is "*fair and reasonable*". As mentioned in the Meeting Documentation, as the Independent Chairman I have closely considered the selective capital reduction proposal set out in the Meeting Documentation, the information contained in the Explanatory Statement, the Independent Expert's Report and the Independent Tax Opinion and my recommendation is set out in section 4 of the Meeting Documentation.

I urge you to read the Notice of Meeting, Explanatory Statement, Independent Tax Opinion and Independent Expert's Report in full, carefully consider the merits of the proposal and above all, to have your say by participating in the voting process, either by mailing your proxy form, voting online or attending the meetings in person.

If you have any questions arising from the Notices of Meeting, Explanatory Statement, the Independent Tax Opinion, the Independent Expert's Report or other correspondence that you have received, please call Matthew Gepp on (02) 8985 5835 or email [investorrelations@engin.com.au](mailto:investorrelations@engin.com.au).

Yours sincerely

**Engin Limited**

A handwritten signature in black ink, appearing to read 'Ian Smith', with a large, sweeping horizontal stroke above the name.

**Ian Smith**

**Independent Chairman**