# ConnXion Limited

**ACN 003 607 074**

# Explanatory Memorandum

This Explanatory Memorandum is intended to provide Shareholders of ConnXion Limited with sufficient information to assess the merits of Resolution 1(a) to Resolution 10 (inclusive) contained in the Notice of Extraordinary General Meeting of the Company for the Extraordinary General Meeting to be held at 11am on 2 July 2009.

The Directors recommend that Shareholders read this Explanatory Memorandum in its entirety before making any decision in relation to voting on the Resolutions contained in the Notice of Meeting. The information contained in this Explanatory Memorandum has been prepared by the Company and its Directors and is the responsibility of the Company. Balmoral Capital has prepared the Independent Expert Report which forms Annexure A and takes responsibility for that report.

Capitalised terms used in this Explanatory Memorandum are defined in the Glossary in Section 8.

## 1. Summary of the Proposal

The Proposal comprises of a series of transactions including:

- the issue of new Shares and Options to raise $2.5m;
- approval to issue new Shares and Options to raise a further $2.5m within 3 months;
- entry into an Investment Management Agreement with FCPC;
- appointment of two new Directors and a non-executive Chairman to the Board of the Company and the resignation of two of the existing Directors from the Board; and
- the change of name of the Company to “ConnXion Ventures Limited”.

Resolutions 2 to 9 of the Proposal are being proposed as a package to Shareholders and are interconditional. Furthermore, Resolution 10 (change of name to ConnXion Ventures Limited) is conditional upon Resolutions 2 to 9 being approved. Accordingly, if any of Resolutions 2 to 9 are not approved none of the transactions summarised above will proceed.

# 2. Background to the Transaction

*ASX Announcement: 21 April 2009*
*Strategic Investment by FCP Camino Management Pty Limited*

On 21 April 2009, the Company announced that it had entered into a Heads of Terms with FCP Camino Management Pty Limited under the terms of which FCPC and its associates intended to invest a cash amount of between $3.0 million and $5.0 million in the Company, in exchange for the issue of new Shares at a price of 5 cents per Share.

The terms of the proposed transaction included:

- The issue of unlisted options to FCPC, on the basis of 1 new option at an exercise price of 6 cents per Share for each new Share issued.
- The Company entering into an Investment Management Agreement with FCPC.
- The appointment of two new FCPC nominated Directors and an independent Chairman to the Board.
- A change in the name of the Company from ConnXion Limited to ConnXion Ventures Limited.
- A number of other conditions precedent, including the approval of Shareholders and final documentation.

*ASX Announcement: 3 June 2009*
*Confirmation of Strategic Investment by FCP Camino Management Pty Limited*
*Approval sought for $2.5 million Share Placement*
*Approval sought for Second Placement of up to $2.5 million within 3 months of EGM*
*Signing of Investment Management Agreement with FCP Camino Management Pty Limited*

On 3 June 2009 the Company announced that it had finalised the terms and conditions of the proposed capital raising with FCP Camino Management Pty Limited.

Under the terms of a Subscription Agreement agreed between the Company and FCPC, FCPC has undertaken to subscribe for, or to procure the subscription for a total of 60,975,610 Shares at a price of 4.1 cents per Share, for a total subscription consideration of $2.5 million.

Under the terms of the FCPC Placement, FCPC and/or its nominees will be issued with a total of 60,975,610 Options to subscribe for new Shares, at an exercise price of 7.0 cents per Share. The Options will be exercisable for a period of 36 months from their date of issue.

In addition to the FCPC Placement, the Company agreed to also seek Shareholder approval for the placement of up to a further 60,975,610 Shares at an issue price of at least 4.1 cents per Share within 3 months of the date of the EGM. Subject to the Second Placement being approved, the Company will also issue of up to a total of 60,975,610

Options to FCPC and/or its nominees at an Option exercise price of 7.0 cents per share. If the Second Placement is completed in full at 4.1 cents, it will result in the injection of up to a further $2.5 million into the Company.

The FCPC Placement and the Second Placement are subject to a number of conditions precedent, including Shareholder approval. Shareholders will also be asked at the EGM to approve a change in name of the Company to ConnXion Ventures Limited.

Subject to, and conditional on the FCPC Placement progressing to completion, Mr David Colvin, the current CEO of the Company will step down as a Director. Mr Colvin will however, continue in his current executive role as CEO of ConnXion's existing operating subsidiary. The Company will also request one other existing Director to resign from the Board and that one existing Director remain on the Board for 12 months. The Company will announce which other Director will be resigning at or before the EGM. The Company will also seek Shareholder approval to appoint two Directors nominated by FCPC, and a new independent Chairman nominated by the Company. Furthermore it is the Company's intention to appoint another non-executive Director nominated by the Company and another nominated by FCPC to join the Board of ConnXion following the EGM.

On 2 June 2009, the Company also entered into an Investment Management Agreement with FCPC, under the terms of which FCPC will, conditional on the FCPC Placement progressing to completion and Shareholder approval, manage and supervise the investments of the Company. The Board expects FCPC to use its extensive relationships in Asia to develop and expand the Company's data platform across China and Asia, through the management of its existing business and introduction of complementary business and investment opportunities.

# 3. Summary Terms of the Subscription Agreement

The material terms of the Subscription Agreement entered into between FCPC and the Company are set out as follows:

Subscription

FCPC agrees to subscribe for, or to procure the subscription for 60,975,610 Shares and 60,975,610 Options (the terms of which are set out in Section 7.2).

The Share subscription price shall be 4.1 cents per Share and the Options shall be issued for nil consideration.

In the event that between the date of the Subscription Agreement and completion the Company issues any Shares at a price of less than 4.1 cents per Share, then the Share subscription price under the FCPC Placement shall be adjusted to the lowest price at which the Company issues Shares prior to completion (resulting in a lesser total subscription amount).

Conditions

The issues of Shares and Options under the Subscription Agreement shall be subject, inter alia, to the following conditions:

- ConnXion Shareholder approval of the FCPC Placement and each other resolution interconditional to it (being Resolutions 2 to 9 (inclusive)) on or before 31 July 2009;
- the Company receiving in principal approval from ASX indicating that it will grant Official Quotation of the Shares;
- no material adverse event occurring in respect of the Company prior to completion;
- the Company not being suspended for more than one day prior to completion;
- the Company not raising more than an amount of $500,000 for additional working capital purposes (either by incurring further indebtedness through loan facilities or through the issue of Shares, or a combination of both) prior to completion; and
- the Company not issuing Shares at a price of less than 4.1 cents prior to completion.

Net Asset Value Adjustment

The Company agrees to instruct the Company's auditor to review the Company's financial position for the purposes of determining the Company's Net Asset Value as at 30 June 2009.

To the extent that it is determined that the Net Asset Value of the Company at 30 June 2009 is less than a fixed amount of $2,783,198 (being the Net Asset Value of the Company at 31 December 2008), then the Company must issue and allot for nil consideration to FCPC and/or its nominees such number of additional Shares, plus Options on a one for one basis, at a notional price equivalent to the price of Shares issued under the FCPC Placement based on the following formula:

Assumed Net Asset Value (being the Company's Net Asset Value at 31 December 2008 of $2,783,198) MINUS Net Asset Value as at 30 June 2009 MULTIPLIED BY FCPC and/or its nominees total percentage shareholding in the Company after the FCPC Placement DIVIDED BY Y, where Y = 4.1 cents (being the FCPC Placement issue price per Share).

A maximum of 5,234,635 Shares and 5,234,635 Options (representing a maximum shortfall of $700,000 from the 31 December 2008 Net Asset Value) can be issued under the NAV Adjustment. Any Net Asset Value shortfall of greater than $700,000 shall be compensated for by the Company to FCPC in cash. As required under the ASX Listing Rules, the Shares and Options issued under the NAV Adjustment must be issued within three months of the EGM.

Second Placement – Issue of FCPC Options

The Company agrees to seek Shareholder approval at the EGM for:

- a Second Placement of up 60,975,610 Shares at an issue price of not less than 4.1 cents per Share within 3 months of the EGM; and
- the issue of up to 60,975,610 Options (on a one for one basis) for nil consideration to FCPC and/or its nominees by way of a placement fee for managing the Second Placement.

Board Representation

The parties agree to select one existing Director to remain as a Director of the Company for a period of 12 months following completion, with the balance of the existing Directors requested to resign from the Board at the EGM, subject to approval of the EGM Resolutions.

The Company agrees to appoint;

- two new Directors nominated by FCPC; and
- a new independent Chairman nominated by the Company,

to the ConnXion Board at the EGM.

The parties acknowledge that it is the Company's intention to appoint a further non-executive Director nominated by the Company and a further Director nominated by FCPC to the ConnXion Board, following completion of the EGM.

Change of Company Name

The Company agrees to include in the Notice of Meeting a resolution proposing a change of name of the Company to "ConnXion Ventures Limited".

# 4. Summary Terms of the Investment Management Agreement

The material terms of the Investment Management Agreement entered into between FCPC and the Company are set out as follows:

<u>Commencement</u>

The Investment Management Agreement will commence upon approval by Shareholders at the EGM (the "Commencement Date").

<u>Duties, functions, obligations and services of the Investment Manager</u>

The Investment Manager shall perform all necessary functions to manage and supervise the investments of the Company, and any company that subsequently becomes part of the Company (a "Group Company") as their agent and only for the benefit of each Group Company.

These duties shall include:

- the development of an investment plan for approval to the Board of Directors of the Company;
- the identification, evaluation, presentation and recommendation of investments to the Board of Directors of the Company;
- the implementation of the investment and general management decisions of the Board of Directors of the Company;
- the day to day administration, accounting, banking and reporting functions of each Group Company;
- assisting in the management of the Company including compliance with ASX Listing Rules and providing quarterly reports to Shareholders; and
- any other functions in the business of each Group Company which the Company requests from time to time

The Investment Manager must manage and supervise the Group Companies but does not have the power to acquire or divest the Group Companies or any of the Company's assets.

<u>Fees and expenses of the Investment Manager</u>

The Company shall pay to the Investment Manager each of the following fees and expenses:

*Management Fee*

The Management Fee is to be calculated as the higher of the following:

- A$500,000.00 per annum; or
- the amount equivalent to 2.5% per annum of the consolidated audited net asset value; or
- the amount equivalent to 2.5% per annum the market capitalisation of the Company determined by reference to the volume weighted average price of the Company's Shares for the last 20 days on which the Company's Shares were traded.

The Management Fee is payable quarterly in advance.

*Performance Fee*

The Performance Fee is calculated as follows:

- Where the pre tax Internal Rate of Return (as defined) (IRR) is 10% or less, no Performance Fee will be payable;
- Where the pre tax IRR is greater than 10% and less than or equal to 25%, the Performance Fee will be calculated as 20% of the amount by which the Shareholder Return (as defined) exceeds the Capitalised Return (as defined) implied by a notional 10% pre tax IRR; or
- Where the pre tax IRR is greater than 25%, the Performance Fee will be calculated as the aggregate of:

  20% of the amount by which the Capitalised Return implied by a notional 25% pre-tax IRR exceeds the Capitalised Return implied by a notional 10% pre tax IRR,

  plus

  30% of the amount by which the Shareholder Return exceeds the Capitalised Return implied by a notional 25% pre-tax IRR,

**less** the aggregate of all Performance Fees previously paid by the Company to the Investment Manager in respect of the period from the Commencement Date up to the end of the previous Performance Fee period.

The Performance Fee is payable annually.

*Transaction Management Fees*

Transaction Management Fees are calculated and payable as 2.5% of the transaction value of any acquisition or divestment made by the Company.

Transaction Management Fees are to be paid to the Investment Manager within 90 days of completion of an acquisition or divestment. Any external corporate advisory fees incurred in relation to the acquisition or divestment must be repaid by the Investment Manager to the Company prior to payment of the Transaction

Management Fee. The Company may in its sole discretion elect to set off the external corporate advisory fees against the Transaction Management Fee.

*Payment in Shares*

The parties may agree to pay the Performance Fee or the Transaction Management Fee in Shares in the Company as calculated by the volume weighted average price of the Company's Shares for the last 20 days on which the Company's Shares were traded, subject to obtaining any necessary Shareholder or other approvals.

*Expenses of the Investment Manager*

The Company shall reimburse the Investment Manager for the expenses incurred in the provision of investment management services under the terms of the Investment Management Agreement. The Investment Manager may not pledge the credit of the Company or any Group Company without the express prior authority of the Board of Directors of the Company.

<u>Term of the Investment Management Agreement</u>

The Investment Management Agreement terminates on the 10th anniversary of the Commencement Date.

The Investment Manager may by notice in writing to the Company, elect to extend the term of its appointment for a further 10 years on the same or terms otherwise agreed provided approval of the Company in general meeting to do so is also obtained.

The Company may terminate the Investment Management Agreement without any further liability for fees in the event of the insolvency of the Investment Manager or if the Investment Manager materially breaches a material provision of the Investment Management Agreement. If the Company terminates the Investment Management Agreement for any other reason (other than expiry of the term) a fee of 8 times the quarterly Management Fee is payable to the Investment Manager.

<u>Board Representation</u>

The Investment Manager is entitled to appoint two Directors to the Board of the Company, one of whom can be the managing director of the Company.

<u>Exclusivity</u>

The Company is not precluded from appointing any other entities to provide services of the kind provided by the Investment Manager. The Investment Manager is not precluded from providing management services to another entity in relation to assets of the same kind as those held by the Company. There is no specific obligation for the Investment Manager to offer further investment opportunities to the Company of the kind held by the Company.

Related Party and Change of Control

There are no specific procedures in relation to the acquisition from or disposal of assets to a related party of the Investment Manager.  There are no change of control provisions in the Investment Management Agreement.

# 5. Parties to the Transaction

*First Capital Partners Limited*

FCP (www.firstcp.com) is a boutique investment banking services network and corporate services group that was established in 2001 as a result of the divestment from a large Hong Kong securities company. Headquartered in Hong Kong and with full operating offices in Shanghai, China under its Investment Banking platform, FCP consists of 4 major business focuses: FCP Corporate Services, FCP Advisory Services, FCP Direct Investments and First Capital Partners Limited.

In addition to its Asian and China infrastructure, FCP works through and with a number of partners in the United States, Europe, Asia and Australia to provide services and managed investment opportunities.

*FCP Direct Investments Limited*

FCPD is an Asian based direct investment company, with investments in Hong Kong, China, Asia and Australia. FCPD has previously invested in the transportation, financial and related services and retail industry sector, and continues to make investments in industry consolidation and expansion opportunities. FCPD is a wholly-owned subsidiary of FCP.

*FCP Camino Management Pty Limited*

FCPC is a joint venture investment vehicle established between FCP and Camino Capital (www.caminocapital.com), a Sydney based corporate advisory firm providing independent advice in relation to mergers and acquisitions, fund raising, restructuring, turnaround situations and corporate strategy. Headquartered in Sydney with offices in Shanghai and Hong Kong, FCPC is focused on advisory and investment opportunities that have potential for growth and expansion through its combined Australian, Asian and Chinese regional network.

# 6. Merits of the Transaction

*Background*

First listed on the ASX in January 2005, ConnXion is today a provider of document production, multi-channel delivery, archive & presentment and payment solutions. The Company produces business documents such as invoices, statements, notices, reminder letters, remittance advices and reports and delivers them to customers, Shareholders, employees and suppliers across multiple delivery channels including web presentment, email, fax, SMS and the traditional post.

ConnXion's objective is to provide a seamless migration from paper to electronic production and delivery, resulting in reduced document delivery costs, improved cash flow and enhanced productivity.

On 3 June 2009, the Company announced that it had entered into the Subscription Agreement with FCPC, under the terms of which FCPC undertook to procure a cash investment of $2.5 million into the Company at a price of 4.1 cents per Share.

As a condition of the agreement with FCPC, the Company also agreed to seek Shareholder approval for the raising of a further $2.5 million at a price of not less than 4.1 cents per Share, to be undertaken within a period of 3 months from the date of the EGM.

As a further condition of the Subscription Agreement, on 2 June 2009 the Company entered into the Investment Management Agreement with FCPC, under the terms of which FCPC will manage and supervise the investments of the Company including introducing and recommending new businesses and investments.

*The FCPC Proposition*

FCPC is a joint venture investment vehicle established between FCP and Camino Capital. A summary of the activities of FCP and Camino Capital is set out in Section 5 of this Explanatory Memorandum.

Through its joint venture partners, FCPC has demonstrated to the Board that it has the experience and capacity to leverage its combined Australian, Asian and Chinese regional network and introduce the Company to related business development and investment opportunities, which will include, but will not be limited to, full use of the extensive FCP and Camino Capital Australian, Asian and Chinese platforms, resources and connections. FCPC has also indicated that it is aware of a wide array of aligned investment opportunities that have potential for growth and expansion.

The opportunities will include leveraging the Company's existing technology platform more directly, both through organic growth as well as through acquisition, into a range of value-added services including;

- document and data management with alert and notification capabilities,

- payment processing,
- marketing solutions,
- loyalty and rewards management, and
- customer service functions.

FCPC has indicated that it will introduce to the Company related ventures in which FCPC and its associates may already have investments, and will identify complementary investment opportunities in high growth markets in Australia, China and Asia.

*Application of Funds Raised*

As at the end of the March 2009 the Company held cash reserves of $108,938.

Whilst the Company is currently at or near a breakeven cashflow position, it has insufficient funds to provide a meaningful working capital buffer or to finance further growth of its existing technology platform and customer base. To this end, the funds raised under the FCPC Placement and the Second Placement will be used to provide short term working capital assistance to the Company, strengthening the financial position of ConnXion's current operating business, as well as give the Company additional capital flexibility to grow its existing base and to complete complementary acquisitions, should these arise.

*Commerciality of the Proposal*

Under the terms of the FCPC Placement and the Second Placement, it is proposed to issue new Shares at a price of not less than 4.1 cents per share. This price represents a premium of approximately 17.3% to the volume weighted average price of ConnXion Shares over the past 20 days on which Shares in the Company were traded on the ASX prior to the date of this document.

Taking into account the Share price premium referred to above, the current cash constraints of the Company, the business prospects offered through the FCPC Placement and the Investment Management Agreement and the difficulty in securing additional capital in the current financial environment, ***the Directors are unanimous in their support for the Proposal, which they believe will build value for Shareholders going forward.***

In reaching their view, the Directors have considered the contents of the Independent Expert Report prepared by Alan J. Humphris of Balmoral Capital in relation to the fairness and reasonableness of the Investment Management Agreement to the Company and its non associated Shareholders (a copy of which is attached as Annexure A to this Explanatory Memorandum).

Against this background, and taking into account the contents of this Explanatory Memorandum, each of ***the Directors consider that the Proposal in the best interests of Shareholders and unanimously recommend that Shareholders vote in favour of all the Resolutions set out in the Notice of Meeting forming part of this Explanatory Memorandum.*** In making their recommendations, the Directors advise Shareholders to read this Explanatory Memorandum in its entirety.

When considering the Resolutions, Shareholders should take into account that Resolutions 2 to 9 of the Proposal are being proposed as a package and are interconditional. Furthermore, Resolution 10 (change of name to Connxion Ventures Limited) is conditional upon Resolutions 2 to 9 being approved. Accordingly, if any of Resolutions 2 to 9 are not approved none of the transactions with FCPC discussed above will proceed.

# 7. Special Business

### 7.1 Ratification of previous Share issues

*ASX Listing Rule 7.1 prohibits a listed company from issuing or agreeing to issue securities without obtaining prior shareholder approval if the result is that the amount of capital issued within the previous 12 months is greater than 15% of the total issued securities of the Company. Under ASX Listing Rule 7.4, an issue of securities will be treated as having been made with prior shareholder approval for the purpose of ASX Listing Rule 7.1 if the issue did not breach ASX Listing Rule 7.1 (ie. exceed the 15% limit referred to in ASX Listing Rule 7.1) and holders of ordinary securities subsequently approve it.*

Resolution 1(a) to Resolution 1(d) of the Notice of Meeting each seek Shareholder approval under the provisions of ASX Listing Rule 7.4 to ratify the issue and allotment of Shares detailed below.

**(a) Ratification of previous Share issue to Nick Debenham**

To enable Shareholders to ratify the previous issue and allotment of Shares within the prior 12 month period, the Directors provide the following information in accordance with ASX Listing Rule 7.5:

On 19 May 2009, a total of 500,000 Shares were issued for nil consideration to Nick Debenham for consulting services provided between January 2009 and April 2009 inclusive.

***The Directors unanimously recommend that Shareholders vote in favour of this Resolution so as to enable the Company at any time during the next 12 months to issue up to the full 15% limit referred to under ASX Listing Rule 7.1 without further reference to Shareholders and without the Shares described above counting towards the calculation***.

The Directors do not believe that there are any disadvantages to the Shareholders which arise from a ratification of this issue of Shares and recommend that Resolution 1(a) be approved.

**(b) Ratification of previous Share issue to Mike Markham**

On 19 May 2009, a total of 359,238 Shares were issued for nil consideration to Mark Markham, an employee of the Company. The Shares were issued for services provided between December 2008 and February 2009 inclusive in lieu of remuneration.

***The Directors unanimously recommend that Shareholders vote in favour of this Resolution so as to enable the Company at any time during the next 12 months to issue up to the full 15% limit referred to under ASX Listing Rule 7.1 without further reference to Shareholders and without the Shares described above counting towards the calculation***.

The Directors do not believe that there are any disadvantages to the Shareholders which arise from a ratification of this issue of Shares and recommend that Resolution 1(b) be approved.

**(c) Ratification of previous Share placement to institutional investors**

On 31 December 2008, a total of 588,235 Shares were issued at a price of 8.5 cents per Share to institutional investors who were existing Shareholders of the Company, raising a total of $50,000 before expenses. The funds were raised for working capital purposes, principally to support licensing agreements in relation to recently implemented contracts.

***The Directors unanimously recommend that Shareholders vote in favour of this Resolution so as to enable the Company at any time during the next 12 months to issue up to the full 15% limit referred to under ASX Listing Rule 7.1 without further reference to Shareholders and without the Shares described above counting towards the calculation***.

The Directors do not believe that there are any disadvantages to the Shareholders which arise from a ratification of this issue of Shares and recommend that Resolution 1(c) be approved.

**(d) Ratification of previous Share placement to institutional investors**

On 31 October 2008, 2,941,176 Shares were issued at a price of 8.5 cents per Share to institutional investors who were existing Shareholders of the Company, raising a total of $250,000 before expenses. The funds were raised for working capital purposes, principally to support licensing agreements in relation to recently implemented contracts.

***The Directors unanimously recommend that Shareholders vote in favour of this Resolution so as to enable the Company at any time during the next 12 months to issue up to the full 15% limit referred to under ASX Listing Rule 7.1 without further reference to Shareholders and without the Shares described above counting towards the calculation***.

The Directors do not believe that there are any disadvantages to the Shareholders which arise from a ratification of this issue of Shares and recommend that Resolution 1(d) be approved.

### 7.2 Resolution 2: Proposed issue of Shares and unlisted Options to FCP Camino Management Pty Limited and/or its Nominees

On 3 June 2009 the Company announced that it had finalised the terms and conditions of a proposed capital raising with FCPC.

Under the terms of the FCPC Placement, FCPC agreed to subscribe for, or to procure the subscription for a total of 60,975,610 Shares at a price of 4.1 cents per Share, for a total subscription consideration of $2.5 million.

Under the terms of the FCPC Placement, FCPC and/or its nominees will be issued with a total of 60,975,610 Options to subscribe for new Shares, at a subscription price of 7.0 cents per Share. The Options will be exercisable for a period of 36 months from their date of issue.

The principal terms of the Options will be as follows:

| | |
|---|---|
| Option exercise price | 7.0 cents per Share |
| Expiry date | 36 months from date of issue |
| Option vesting conditions | Exercisable from date of issue through to expiry date |
| Other principal conditions | • Exercisable at the option of the holder<br>• Fully transferrable<br>• Unlisted |

The other terms and conditions of the Options are:

1. The rights of an Option holder will be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital, at the time of the reorganisation.
2. The Option does not grant the holder any rights to participate in any new issues without exercising the Option.
3. There are no rights to change the exercise price of the Option or the underlying Shares over which the Option can be exercised, except as set out in the paragraphs 4 to 7 below.
4. The number of Shares over which the Option is exercisable does not change if the Company makes any bonus issue.
5. In any consolidation or sub-division of capital the number of Options must be consolidated (or sub-divided as the case may be) in the same ratio as the consolidation or sub-division of Shares and the exercise price must be amended in inverse proportion to that ratio.
6. In any return of capital the number of Options must remain the same and the exercise price must be reduced by the same amount as the amount returned in relation to each Share.

7. In any other case such as a pro rata cancellation of capital, the number of Options or the exercise price or both must be reorganised so that the holder of the Options will not receive a benefit that holders of the Shares do not receive.

<u>Approval under the ASX Listing Rules</u>

*ASX Listing Rule 7.1*

> *ASX Listing Rule 7.1 provides that a listed company may not issue securities in any 12 month period where the total number of securities to be issued exceeds 15% of the number of fully paid ordinary securities on issue 12 months before the date of issue, except with the prior approval of members of the company in general meeting of the terms and conditions of the proposed issue.*

Resolution 2 of the Notice of Meeting has been included so that Shareholders may approve pursuant to ASX Listing Rule 7.1 the issue of 60,975,610 Shares and 60,975,610 Options to FCPC and/or its nominees on the terms and conditions set out in this Explanatory Memorandum.

For the purposes of the requirement for approval under ASX Listing Rule 7.1 the following additional information is provided:

(a) the maximum number of securities to be issued is 60,975,610 Shares and 60,975,610 Options;

(b) the Shares and Options the subject of the Resolution 2 will be issued within 10 Business Days of the EGM unless otherwise agreed between the parties, but no later than 3 months after the EGM;

(c) the Shares will be issued at a price of 4.1 cents per Share;

(d) the Options will be issued for nil consideration, with an Option exercise price of 7.0 cents per Share and otherwise on the terms described in this Section 7.2;

(e) the Shares and Options will be allotted to FCPC and/or its nominees as directed by FCPC, taking into account the provisions of the ASX Listing Rules and the Corporations Act;

(f) the funds raised will be used to provide short term working capital assistance to strengthen the financial position of ConnXion's current operating business and to give the Company additional capital flexibility to complete complementary acquisitions, should these arise.

Resolution 2 seeks Shareholder approval for the issue of 60,975,610 Shares at an issue price of 4.1 cents per Share and the issue of 60,975,610 Options exercisable at 7.0 cents per Share at any time within 36 months of issue, to FCPC and/or its nominees under the provisions of ASX Listing Rule 7.1.

At the date of this Explanatory Memorandum and the Notice of Meeting, FCPC does not hold any security interests in the Company.

***The Directors unanimously recommend that Shareholders vote in favour of Resolution 2 of the Notice of Meeting. In making their recommendation, the Directors advise Shareholders to read this Explanatory Memorandum in its entirety***.

If Resolution 2 is approved, its implementation will be conditional upon the passing of Resolutions 3 to 9 (inclusive) of the Notice of Meeting.

### 7.3 Resolution 3: Proposed issue of Shares and unlisted Options to FCP Camino Management Pty Limited and/or its Nominees under the terms of a Net Asset Value Adjustment calculation

Under the terms of clause 7 of the Subscription Agreement the Company has agreed to instruct the Company's auditor to review the Company's financial position for the purposes of determining the Company's Net Asset Value as at 30 June 2009.

To the extent that it is determined that the Net Asset Value of the Company at 30 June 2009 is less than a fixed amount of $2,783,198 (being the Net Asset Value of the Company at 31 December 2008), then the Company must issue and allot for nil consideration to FCPC and/or its nominees such number of additional Shares, plus Options on a one for one basis, as calculated by the formula for the NAV Adjustment (which is set out in Section 3). A maximum of 5,234,635 Shares and 5,234,635 Options) (representing a maximum shortfall of $700,000 from the 31 December 2008 figure) can be issued under the NAV Adjustment. Any Net Asset Value shortfall greater than $700,000 shall be compensated for by the Company in cash.

<u>Approval under the ASX Listing Rules</u>

*ASX Listing Rule 7.1*

> *ASX Listing Rule 7.1 provides that a listed company may not issue securities in any 12 month period where the total number of securities to be issued exceeds 15% of the number of fully paid ordinary securities on issue 12 months before the date of issue, except with the prior approval of members of the company in general meeting of the terms and conditions of the proposed issue.*

Resolution 3 of the Notice of Meeting includes provision for Shareholders to approve the issue of up to 5,234,635 Shares and up to 5,234,635 Options to FCPC and/or its nominees under the terms of the NAV Adjustment, pursuant to Listing Rule 7.1.

For the purposes of the requirement for approval under ASX Listing Rule 7.1, the following additional information is provided:

(a) the maximum number of securities to be issued is 5,234,635 Shares and 5,234,635 Options;

(b) the Shares and Options the subject of the Resolution 3 will be issued within 1 month of the EGM unless otherwise agreed between the parties, but no later than 3 months after the EGM;

(c) the Shares will be issued for nil consideration;

(d) the Options will be issued for nil consideration with an Option exercise price of 7.0 cents per Share and otherwise on the terms set out in Section 7.2;

(e) the Shares and Options will be issued to FCPC and/or its nominees as directed by FCPC, taking into account the provisions of the ASX Listing Rules and the Corporations Act;

(f) no funds will be raised from the issue of the Shares and Options.

***The Directors unanimously recommend that Shareholders vote in favour of Resolution 3 of the Notice of Meeting. In making their recommendation, the Directors advise Shareholders to read this Explanatory Memorandum in its entirety***.

If Resolution 3 is approved, its implementation will be conditional upon the passing of Resolution 2 and Resolutions 4 to 9 (inclusive) of the Notice of Meeting.

## 7.4 Resolution 4: Proposed issue of Shares under Private Placement

Under the terms of clause 8 of the Subscription Agreement, the Company agreed to seek Shareholder approval under ASX Listing Rule 7.1. to issue and allot up to a further 60,975,610 Shares at an issue price of not less than 4.1 cents per Share within 3 months of the EGM under the Second Placement.

<u>Approval under the ASX Listing Rules</u>

*ASX Listing Rule 7.1*

> *ASX Listing Rule 7.1 provides that a listed company may not issue securities in any 12 month period where the total number of securities to be issued exceeds 15% of the number of fully paid ordinary securities on issue 12 months before the date of issue, except with the prior approval of members of the company in general meeting of the terms and conditions of the proposed issue.*

Resolution 4 of the Notice of Meeting includes provision for Shareholders to approve the issue of Shares under the terms of the Second Placement, pursuant to ASX Listing Rule 7.1.

For the purposes of requirement for approval under ASX Listing Rule 7.1 the following additional information is provided:

(a) a maximum number of 60,975,610 Shares will be issued under the Second Placement;

(b) the Shares issued under the Second Placement will be issued progressively and within 3 months of the EGM;

(c) the Shares issued under the Second Placement will be issued at a price of not less than 4.1 cents per Share;

(d) the Shares issued under the Second Placement will be allotted at the discretion of the Company, taking into account the provisions of the ASX Listing Rules and the Corporations Act; and

(e) the funds raised under the Second Placement will be used to provide short term working capital assistance to strengthen the financial position of ConnXion's current operating business and to give the Company additional capital flexibility to complete complementary acquisitions, should these arise.

***The Directors unanimously recommend that Shareholders vote in favour of Resolution 4 of the Notice of Meeting. In making their recommendation, the Directors advise Shareholders to read this Explanatory Memorandum in its entirety***.

If Resolution 4 is approved, its implementation will be conditional upon the passing of Resolutions 2 to 3 (inclusive) and Resolutions 5 to 9 (inclusive) of the Notice of Meeting.

## 7.5 Resolution 5: Proposed issue of unlisted Options to FCP Camino Management Pty Limited and/or its

Under the terms of clause 8 of the Subscription Agreement, subject to Shareholder approval, the Company agreed to issue to FCPC and/or its nominees, for nil consideration, up to 60,975,610 Options by way of a placement fee for managing the Second Placement, on the basis of one new Option for each new Share issued under the Second Placement.

Approval under the ASX Listing Rules

*ASX Listing Rule 10.11*

> *ASX Listing Rule 10.11 provides that an entity must not issue or agree to issue securities to a related party of that entity without the approval of holders of ordinary shares.*

At the time of issue of the Options, it is anticipated that FCPC will have at least 2 directors on the Board. Furthermore, it is anticipated that, as a consequence of participation in the FCPC Placement, FCPC and entities associated with it will hold a combined interest of at least 10% of the Shares in the Company. Accordingly, FCPC may be considered to be a related party of the Company, in which case it is necessary to obtain prior Shareholder approval of the proposed issue of these Options for the purpose of ASX Listing Rule 10.11.

Resolution 5 of the Notice of Meeting includes provision for Shareholders to approve the issue of Options to FCPC and/or its nominees, pursuant to Listing Rule 10.11.

For the purposes of requirement for approval under ASX Listing Rule 10.11, the following additional information is provided:

(a) a maximum number of 60,975,610 Options will be issued to FCPC as part of the Second Placement;

(b) the Options will be issued on a progressive basis on or before 30 September 2009 (as set out in the ASX waiver from the requirements of ASX Listing Rule 10.13.3 dated 2 June 2009);

(c) the Options will be issued for nil consideration, with an option exercise price of 7.0 cents per Share and otherwise on terms set out in Section 7.2 of this Explanatory Memorandum;

(d) the Options will be allotted to FCPC and/or its nominees, taking into account the provisions of the ASX Listing Rules and the Corporations Act;

(e) no funds will be raised on the issue of the Options.

***The Directors unanimously recommend that Shareholders vote in favour of Resolution 5 of the Notice of Meeting. In making their recommendation, the Directors advise Shareholders to read this Explanatory Memorandum in its entirety***.

If Resolution 5 is approved, its implementation will be conditional upon the passing of Resolutions 2 to 4 (inclusive) and Resolutions 6 to 9 (inclusive) of the Notice of Meeting.

## 7.6 Resolution 6: Approval of entry by the Company into an Investment Management Agreement with FCP Camino Management Pty Ltd

On 3 June 2009 the Company announced that it had conditionally entered into the Investment Management Agreement with FCPC.

Under the terms of the Investment Management Agreement, FCPC will manage and supervise the investments of the Company including introducing and recommending new businesses and investments. The Board expects FCPC to use its extensive relationships in Asia to develop and expand the Company's data platform across China and Asia, through the management of its existing business and introduction of complementary business and investment opportunities.

A summary of the key terms of the Investment Management Agreement is set out in Section 4 of this Explanatory Memorandum.

*ASX Listing Rule 10.1*

> *ASX Listing Rule 10.1 provides that an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to any a related party of, or a substantial holder in that entity, or to any associate of either of those parties, except with the prior approval of members of the company in general meeting.*

Following completion of the Proposal, it is anticipated that FCPC will have at least 2 directors on the Board. Furthermore, it is anticipated that, as a consequence of participation in the FCPC Placement and the Second Placement, FCPC and entities associated with it will hold a combined interest of at least 10% of the Shares in the Company. Accordingly, FCPC may be considered to be a related party and a substantial holder of the Company for purposes of ASX Listing Rule 10.1, in which case it is necessary to obtain Shareholder approval prior to the Company entering into the Investment Management Agreement with FCPC.

Resolution 6 of the Notice of Meeting seeks Shareholder approval for the Company to enter into the Investment Management Agreement with FCPC, pursuant to ASX Listing Rule 10.1.

*ASX Listing Rule 10.10*

> *ASX Listing Rule 10.10 provides that where a company acquires a substantial asset from a related party of that entity, the notice of meeting seeking approval from shareholders for that transaction must include a report on the transaction from an independent expert. ASX Listing Rule 10.10 states that the report must contain a statement as to whether the transaction is considered to be fair and reasonable to holders of voting shares in the company whose votes are not to be disregarded,.*

Expert Report

On 3 June 2009, Alan J. Humphris of Balmoral Capital provided an Independent Expert Report on the fairness and reasonableness of the Investment Management Agreement to the non associated Shareholders in accordance with ASX Listing Rule 10.10.2.

**The Independent Expert concluded on page 3 of the Independent Expert Report that, when considered in the context of the proposals set out in Resolutions 2 to 5 and 7 to 9, inclusive, of the Notice of Meeting, it is their opinion that the proposed Investment Management Agreement (considered under Resolution 6 to the Notice of Meeting) is fair and reasonable to the non associated Shareholders of the Company.**

A full copy of the Independent Expert Report is attached as Annexure A to this Explanatory Memorandum.

***The Directors unanimously recommend that Shareholders vote in favour of Resolution 6 of the Notice of Meeting. In making their recommendation, the Directors advise Shareholders to read this Explanatory Memorandum and the attached Independent Expert Report.***

If Resolution 6 is approved, its implementation will be conditional upon the passing of Resolutions 2 to 5 (inclusive) and Resolutions 7 to 9 (inclusive) of the Notice of Meeting.

### 7.7 Resolution 7: Election of Ian Smith as Director of the Company

Under the terms of clause 9 of the Subscription Agreement, the Company has agreed to:

- appoint an independent Chairman, nominated by the Company, to the Board,
- appoint two new Directors nominated by FCPC to the Board; and
- request the resignation of two of the three existing Directors from the ConnXion Board.

In accordance with the Corporations Act 2001 (Cth) and clause 6.2 of the Company's constitution, new Directors may be appointed by the Company in general meeting.

The Company has nominated Mr Ian Smith to be considered as an appointee to the Board, conditional on the Resolutions 2 to 9 (inclusive) being approved by Shareholders.

FCPC has nominated Mr David McCann and Mr Warren Riddell to be considered as appointees to the Board, conditional on Resolutions 2 to 9 (inclusive) being approved by Shareholders. Resolutions 8 and 9 relate to the appointment of David McCann and Warren Riddell respectively to the Company's Board.

Subject to, and conditional on Resolutions 2 to 9 (inclusive) being approved by Shareholders, Mr David Colvin, the current CEO of the Company has agreed to step down as a Director of the Company. Mr Colvin will however, continue in his current executive role as CEO of ConnXion's existing operating subsidiary. The Company will also request one other existing Director to resign from the Board, which will be announced at or before the EGM.

Ian Smith has offered himself for election as a Director of the Company.

Ian has over 25 years experience working in global media, marketing and technology companies in Australia, the US, Europe and Asia. Most recently Ian was CEO of Yahoo!7, one of Australia's leading online portals and Chairman of Yahoo!Xtra, a joint venture with Telecom New Zealand. Prior to that he held CEO and senior executive roles in global media, marketing communications and advertising companies. This included being the Regional CEO for Bates where he helped drive the business to become one of the largest marketing communications group in Asia. This was followed by five years as President International of Bates Worldwide based in New York. Ian was also a Board Director of Cordiant PLC based in London. Ian was CEO of The Communications Group (TCG), one of Australia's largest marketing services holding company which included ownership of George Patterson Advertising, Zenith Media, Professional Public Relations and a number of other marketing, technology, sponsorship, branded content and communications companies. In 2002, Ian led a private equity backed buyout of TCG which was subsequently sold to WPP in 2005.

Ian is a Director and Trustee of the State Library of New South Wales, a Director of the Garvan Medical Research Institute and a Director of Outcomes Australia, a think tank and action group focused on the practical resolution to some of Australia's major social and economic issues.

Ian is a regular speaker on media trends and the impact of technology and new media on the global marketing industry. He also speaks regularly on the growing importance of management teams in successful private equity portfolio companies.

Ian holds a Bachelor degree in Sociology and Psychology from La Trobe University in Melbourne.

Subject to his election to the Board, it is intended that Ian will be appointed to the position of Non-executive Chairman of the Company.

The Directors believe that Ian Smith has a proven track record in his field of expertise and will add significantly to the achievement of the goals of the Company in the future.

***The Directors unanimously recommend that Shareholders vote in favour of Resolution 7 of the Notice of Meeting. In making their recommendation, the Directors advise Shareholders to read this Explanatory Memorandum in its entirety.***

If Resolution 7 is approved, its implementation will be conditional upon the passing of Resolutions 2 to 6 (inclusive) and Resolutions 8 and 9 of the Notice of Meeting.

## 7.8 Resolution 8: Election of David McCann as a Director of the Company

David McCann has offered himself for election as a Director of the Company.

David has successfully applied his international career in management and operations to providing entrepreneurial corporate advisory leadership on a series of M&A and capital raising transactions. From 1994 to 1996 David had a range of senior business development and operations roles in the USA. This included working directly with investors to build up value in organisations and prepare them for exit.

David's equity interests and operational leadership expanded to include a range of other ventures in the USA, Australia and New Zealand operating in the call centre, data networks, financial services and marketing sectors. In 2007 he co- founded Camino Capital a bespoke corporate advisory and investment firm, where he led a series of M&A and capital raising transactions.

David holds a BA (Hons) in Economics and French from University College Galway (Ireland). He has postgraduate training with AICD (Diploma in Company Directorship). David is a Director of FCPC.

The Directors believe that David McCann has a proven track record in his field of expertise and will add significantly to the achievement of the goals of the Company in the future.

Subject to his election to the Board, it is intended that David will be appointed to the position of managing director of the Company.

***The Directors unanimously recommend that Shareholders vote in favour of Resolution 8 of the Notice of Meeting. In making their recommendation, the Directors advise Shareholders to read this Explanatory Memorandum in its entirety.***

If Resolution 8 is approved, its implementation will be conditional upon the passing of Resolutions 2 to 7 (inclusive) and Resolution 9 of the Notice of Meeting.

### 7.9 Resolution 9: Election of Warren Riddell as a Director of the Company

Warren Riddell has offered himself for election as a Director of the Company.

Warren has had an international career in corporate advisory and investment management for over twenty five years. Originally qualifying as a chartered accountant with Touche Ross in London his roles have included being; a Director in a London and New York based private investment fund, Managing Director of an international aerospace engineering company, Director and Partner in Ernst & Young where he worked on the privatization program in Europe and established their privatization and infrastructure finance practice in the Middle East.

Warren was Partner in Charge of Arthur Andersen's Asia Pacific Infrastructure and Project Finance practice, then more recently as Managing Director he led the turnaround of a junior private equity fund manager achieving $100m in funds under management in two years. He has been an angel investor and Director of a number of emerging companies.

Warren has a BA (Hons) in Economics, Finance and Law from Lancaster University, a MA from Sydney University and is a Fellow of the Institute of Chartered Accountants (ICAEW).

The Directors believe that Warren Riddell has a proven track record in his field of expertise and will add significantly to the achievement of the goals of the Company in the future.

***The Directors unanimously recommend that Shareholders vote in favour of Resolution 9 of the Notice of Meeting. In making their recommendation, the Directors advise Shareholders to read this Explanatory Memorandum in its entirety.***

If Resolution 9 is approved, its implementation will be conditional upon the passing of Resolutions 2 to 8 (inclusive) of the Notice of Meeting.

### 7.10 Resolution 10: Approval of Change of Name of Company

The Company proposes to change its name from ConnXion Limited to ConnXion Ventures Limited. It is considered that this new name more accurately reflects the activities and future direction of the Company.

As a special resolution, Resolution 10 requires the approval of not less than 75% of Shareholders voting in person, or by proxy, at the EGM.

***The Directors unanimously recommend that Shareholders vote in favour of Resolution 10 of the Notice of Meeting. In making their recommendation, the Directors advise Shareholders to read this Explanatory Memorandum in its entirety.***

If Resolution 10 is approved, its implementation will be conditional upon the passing of Resolutions 2 to 9 (inclusive) of the Notice of Meeting.

### 7.11 Interconditionality of Resolutions

Resolutions 1(a) to 1(d) are separate resolutions and may each be approved even if no other Resolutions are approved. Resolutions 2 to 9 are interdependent. If any of these Resolutions are not approved then each of Resolution 2 to Resolution 9 will not be approved. Resolution 10 is conditional upon approval of Resolutions 2 to 9 (inclusive). However, if Resolution 10 is not approved, Resolutions 2 to 9 can still be approved by Shareholders. Votes will be counted for each of these Resolutions separately.

## 8. GLOSSARY

**ASX** means the ASX Limited ACN 008 624 691.

**ASX Listing Rules** means Listing Rules of ASX.

**Balmoral Capital** means Balmoral Capital Pty Limited ACN 072 672 989.

**Board** means the Board of Directors of the Company.

**Camino Capital** means Camino Capital Pty Limited ACN 125 411 921.

**CEO** means the chief executive officer of the Company.

**Chairman** means the chairman of the Board of the Company.

**Company and Connxion** means Connxion Limited ACN 003 607 074.

**Constitution** means the constitution of the Company.

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

**Director** means a director of the Company.

**EGM** means the extraordinary general meeting of the Company to consider the Resolutions scheduled to be held on 2 July 2009.

**Explanatory Memorandum** means this Explanatory Memorandum and the attached Notice of Meeting, which should be read together.

**FCP** means First Capital Partners Limited, a Company incorporated in Hong Kong.

**FCPC** means FCP Camino Management Pty Limited ACN 135 591 721.

**FCPC Placement** means the placement of 60,975,610 Shares and 60,975,610 Options with FCPC and/or its nominees, as described in Resolution 2.

**FCPD** means First Capital Partners Direct Investment Limited, a company incorporated in Hong Kong.

**Independent Expert** means Balmoral Capital.

**Independent Expert Report** means the Independent Expert Report dated 3 June 2009 prepared by the Independent Expert and which is attached as Annexure A to this Explanatory Memorandum.

**Investment Management Agreement** means the Investment Management Agreement dated 2 June 2009 between FCPC and the Company, which is subject to Shareholder approval at the EGM.

**NAV Adjustment** means the Net Asset Value adjustment set out in the Subscription Agreement as detailed in Section 3 of this Subscription Agreement.

**Net Asset Value** means the net asset value of the Company as determined by the Company's auditor.

**Notice of Meeting** means the notice of meeting for the extraordinary general meeting of Shareholders to be held on 2 July 2009 in relation to the Resolutions set out in this Explanatory Memorandum which is attached to this Explanatory Memorandum and should be read with it.

**Options** means unlisted options to acquire Shares issued under the terms set out in Section 7.2 of this Explanatory Memorandum.

**Proposal** means the transactions contemplated in Resolutions 1 to 10 set out in the Notice of Meeting and further described in the Explanatory Memorandum.

**Resolutions** means Resolutions 1(a) to 10 set out in the Notice of Meeting and further explained in this Explanatory Memorandum.

**Second Placement** means the placement of up to 60,975,610 Shares at a price of at least 4.1 cents per Share, as described in Resolution 7.4.

**Shareholder** means a holder of Shares in the Company.

**Shares** means fully paid ordinary shares in the Company which rank equally and have identical rights to all other existing ordinary shares in the Company on issue.

**Subscription Agreement** means the Subscription Agreement between FCPC and the Company dated 2 June 2009 in relation to the Placement, Second Placement and other matters which Shareholder approval is sought at the EGM.

## ANNEXURE A – INDEPENDENT EXPERT REPORT