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16 March 2009

ASX Announcement

Agreement for Share and Option Placement and Convertible Note Issue

- *Hostech has entered into an agreement for an investment of up to \$22,500,000 via a share and option placement and convertible note issue*
- *The investment is conditional on shareholder approval*
- *An initial investment of \$2,500,000 will be made by Flaxton Hunter Pty Ltd in newly issued Hostech ordinary shares at 1 cent per share*
- *Options will also be issued which if all exercised would raise an additional \$2,500,000*
- *Flaxton Hunter has agreed to provide Hostech a convertible note facility of up to \$17,500,000 with the first draw down of \$500,000 within three months of shareholder approval*
- *Each \$1.00 convertible note converts to 50 ordinary shares at an effective conversion price of 2 cents per share*
- *Funds will be used to support working capital requirements and to undertake an acquisition strategy*

The Directors of Hostech Limited (the 'Company') (ASX:HTC) are pleased to announce that after significant discussions and due diligence, the Company has entered into binding agreements with a private investment company, Flaxton Hunter Pty Ltd ('Flaxton Hunter') to secure an investment of up to \$22,500,000. The terms of investment are summarised below with further details to be provided by the Company in the notice of general meeting ('GM') envisaged for 21 April 2009 that the Company will send to all shareholders seeking their approval to the transactions.

The investment is the result of an exhaustive review of alternatives by the Board of the Company. The investment will materially transform the Company. Firstly, the initial \$2.5million equity investment will ensure the Company's survival by providing working capital and contribute to organic growth, whilst the additional convertible note funding provides the Company with the potential to undertake an acquisition strategy.

Flaxton Hunter is a private investment group and is associated with Algebraic Pty Ltd ('Algebraic'), Hostech's largest shareholder. Flaxton Hunter and Algebraic are unrelated to the Company other than via Algebraic's shareholding.

The global economic crisis has resulted in a reduction of asset values across the globe in the technology and telecommunications industry. The Directors believe that with access to these significant funds and with the addition of expertise on the board the Company will be in a position of strength to become a significant company in the sector.

The investment by Flaxton Hunter also represents a significant vote of confidence in the Company and the work that has been undertaken to improve the Company over the last year.

Details of the investment that will be put to shareholders for their approval are as follows:

- Flaxton Hunter will subscribe for 250,000,000 newly issued ordinary shares in the Company at \$0.01 each to raise \$2,500,000
- 250,000,000 options each over 1 share will also be issued with an exercise price of \$0.01 per option (exercisable within 5 years). If these options are all exercised this will raise an additional \$2,500,000
- Flaxton Hunter has also agreed to provide the Company with a convertible note facility of up to \$17,500,000
- An initial subscription for 500,000 convertible notes will be made by Flaxton Hunter within three months of shareholder approval
- Each convertible note will have a face value of \$1 and be convertible into 50 ordinary shares (representing an effective issue price of \$0.02 per share)
- The convertible notes that are drawn down will have a maturity date of 5 years from date of issue and bear interest at 7% per annum
- Convertible notes will be secured by a fixed and floating charge over the Company's assets
- The remaining \$17,000,000 of potential convertible notes will be drawn down by request of the Board to Flaxton Hunter to support acquisition activity (approval by Flaxton Hunter not to be unreasonably withheld).

Where required under the Listing Rules and Corporations Act, shareholder approval will be sought for future draw downs under the convertible note facility. The Company only pays interest on the convertible notes that have been issued.

Flaxton Hunter will have the ability to nominate up to 4 new directors to the Board. Mr Terry Wills Cooke will remain independent chairman and Mr Michael Abela will remain a director. Mr Vince Leone and Mr Damian Woods intend to resign after the GM.

Flaxton Hunter will nominate Campbell Corfe and Matthew Costello as directors to the Board following the EGM. Mr Corfe brings a wealth of experience and strategic direction from a career spanning the globe. He was a partner of Global Accounting firm KPMG for 18 years and most recently as CEO & Executive Chairman, setting up the US operations for 5th International, an Australian Mobile Marketing Company. As a founding member of 5th Finger, Mr Costello has worked over the last 9 years to help shape the mobile industry in Australia. After selling the Australian interests of 5th Finger to ninemsn (a joint venture involving PBL and Microsoft) in 2005, he worked with ninemsn as Mobile Sales Director to integrate mobile marketing and mobile advertising capabilities across the PBL media group as well as being involved in various industry groups on formulating the self-regulatory framework. Further details attached.

The Board of the Company voted unanimously to enter into the agreements with Flaxton Hunter and will be unanimously recommending to shareholders that they support all resolutions in favour of the proposed investment at the GM.

The Board has taken the opportunity to address certain outstanding issues in the process of Flaxton Hunter completing its due diligence on the Company. The result is that the earn out provisions set out in the purchase agreement where the Company acquired AK Communications (Australia) Pty Ltd have now been limited to apply to the period ending December 31, 2009. Similarly, the Company has entered into an amendment to the sale agreement of MobiData Holdings Ltd with Commquest Ltd, whereby the Company has been released from its non-compete and warranty obligations and Commquest has been released from the revenue sharing obligations.

These changes have been implemented to provide the Company with the cleanest possible platform to acquire new entities and add scale to its operations.

Whilst the Board believes this is an exciting and positive development for the future of the Company, if shareholder support is not forthcoming, the future of the Company is not assured (as set out in the qualification to the Company's most recent accounts for the 6 months to 31 December 2008 noted by the Company's auditor).

Indicative Timetable	Date
Notice of GM to be sent to shareholders	19 March 2009
General Meeting	21 April 2009
Estimated completion of initial investment	24 April 2009
Estimated completion of initial convertible note issue	21 July 2009

Shareholder queries should be directed to Mr Michael Abela, Chief Executive Officer on +613 9698 7800.

Justyn Stedwell

Company Secretary

On behalf of the Board of Directors

Hostech Limited

Campbell E. Corfe, B.Com, MBA, ACA, CPA

Campbell qualified as a Chartered Accountant in Australia and practiced as a Certified Public Accountant in America. He was a partner for 18 years with the global accounting firm of KMG Main Hurdman (now KPMG) in various postings in Australia, USA, Europe and Asia. Leading up to the merger with Peat Marwick, in which he was heavily engaged, he was the partner in charge of global operations for the US firm based in New York, responsible for all accounting and consulting services provided to the firm's multi-national clients.

After leaving KPMG, he became Chief Operating Officer for the Ohio, USA based Hercules Engines for 2 years. Hercules was a successful "management buy out" of an old-line manufacturing business dealing with the US Army.

Campbell then returned to Australia and worked with a number of companies in the finance and insurance sector, including Amlink, Suncorp and Colonial State Bank.

Most recently, as CEO, he set up the US operations of the venture capital backed Australian mobile marketing company, 5th International, in San Francisco, USA. In this position, he has identified a number of emerging opportunities in the global mobile sector.

Campbell is a member of several boards, including 5th Finger and Youi Insurance. He brings to the board of Hostech a wealth of experience and strategic direction, both local and international.

Matthew Costello, MMgt, MAICD

Matthew holds a Masters of Finance Management degree and is currently completing his MBA at Macquarie Graduate School of Management. He is also a member of the Australian Institute of Company Directors holding several board positions with small private companies including 5th Finger (5th International Group Pty Ltd).

As a founding member of 5th Finger, Matthew has worked over the last 9 years to help shape the mobile industry in Australia. After selling the Australian interests of 5th Finger to ninemsn (a joint venture involving PBL and Microsoft) in 2005, he worked with ninemsn as Mobile Sales Director to integrate mobile marketing and mobile advertising capabilities across the PBL media group.

Most recently, Matthew worked with the 5th Finger International team in the US as Director Strategy, putting in place a roll out and expansion plan to build on the success of the start-up launch in early 2008.