

HLI Limited
ACN 009 085 974

Notice of Annual General Meeting

An Annual General Meeting of Shareholders of HLI Limited will be held at 3 pm (Sydney time) on Wednesday, 8 September 2010 at Shaw Stockbroking Level 13, 60 Castlereagh Street, Sydney NSW 2000

This Notice of Meeting is dated 4 August 2010

Enclosed with this Notice of Meeting is an Explanatory Memorandum. The Explanatory Memorandum has been prepared to assist Shareholders in determining whether or not to vote in favour of the resolutions set out in this Notice of Meeting. The Explanatory Memorandum forms part of and should be read in conjunction with this Notice of Meeting.

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COMPANY DIRECTORY

DIRECTORS

Michael Knee (Director)
Ian Smith (Independent Director)
David McCann (Chairman, Director)
Andrew Phillips (Finance Director)
Karen Matthews (Chief Executive Officer, Director)

SECRETARY

Andrew Phillips

REGISTERED OFFICE

Level 9, 234 Sussex Street
SYDNEY NSW 2000

AUDITOR

HLB Mann Judd
Chartered Accountants
15 Rheola Street
WEST PERTH WA 6005

LAWYERS

Herceg Lawyers
Level 33, 264 George Street
SYDNEY NSW 2000

SHARE REGISTRY

Computershare Investor Services Pty Ltd
GPO Box 242
MELBOURNE VIC 3001

ASX CODE

HLI

NOTICE OF THE 2009 ANNUAL GENERAL MEETING

Notice is hereby given that the 2009 Annual General Meeting of HLI Limited ACN 009 085 974 (“**HLI**” or “**Company**”) will be held at 3 pm (Sydney time) on Wednesday, 8 September 2010 at Shaw Stockbroking Level 13, 60 Castlereagh Street, Sydney NSW 2000.

If you are unable to attend the meeting, you are encouraged to complete and return the enclosed proxy form. The completed proxy form must be received by no later than 3 pm (Sydney time) on Monday, 6 September 2010 at the addresses or facsimile number set out in section 4.3 below.

Shareholders should read the Explanatory Memorandum in full and in conjunction with this Notice of Meeting. Capitalised terms used in this Notice of Meeting are defined in the Glossary in section 8 of the Explanatory Memorandum.

1. ORDINARY BUSINESS

The following resolutions are to be considered at the Meeting and are further explained in the Explanatory Memorandum.

ITEM 1A: 2008 FINANCIAL STATEMENTS AND REPORTS

To receive and consider the Financial Reports of the Company, together with the Reports of the Directors and Auditor for the financial year ended 30 June 2008.

ITEM 1B: 2009 FINANCIAL STATEMENTS AND REPORTS

To receive and consider the Financial Reports of the Company, together with the Reports of the Directors and Auditor for the financial year ended 30 June 2009.

RESOLUTION 1A: 2008 ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, pass the following resolution as a non binding ordinary resolution of the Company:

“That, for the purposes of section 250R of the Corporations Act and for all other purposes, the Remuneration Report as set out in the Directors’ Report for the financial year ended 30 June 2008 be adopted.”

Note: The vote on this Resolution is advisory only and does not bind the Directors or the Company.

RESOLUTION 1B: 2009 ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, pass the following resolution as a non binding ordinary resolution of the Company:

“That, for the purposes of section 250R of the Corporations Act and for all other purposes, the Remuneration Report as set out in the Directors’ Report for the financial year ended 30 June 2009 be adopted.”

Note: The vote on this Resolution is advisory only and does not bind the Directors or the Company.

2. SPECIAL BUSINESS

RESOLUTIONS 2(a) to (e): SHARE ISSUES TO DIRECTOR AND RELATED PARTIES

To consider and, if thought fit, pass the following resolutions as **ordinary resolutions** of the Company:

“That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, Shareholders approve the issue and allotment of:

- (a) 314,358 Shares to Yarra-Brae Holdings Pty Ltd, an entity associated with Mr Michael Knee;*
- (b) 12,500 Shares to Mr Anthony Kiernan (a former director);*
- (c) 319,030 Shares to Todbern Pty Ltd, an entity associated with Mr John Cawood (a former director);*
- (d) 417,135 Shares to Mr Andrew McLean (a former director); and*
- (e) 86,250 Shares to DVM Telecommunications Pty Ltd, an entity associated with Mr Andrew McLean (a former director),*

each at an issue price of \$0.20 per Share and otherwise on the terms set out in section 5.1 of the Explanatory Memorandum.”

Note 1: Each issue of Shares under Resolutions 2(a) to (e) will be open for discussion as a separate item of business and voted on as a separate ordinary resolution.

Note 2: A voting exclusion applies to each of these Resolutions. Please refer to section 3.3 of this Notice of Meeting for details.

RESOLUTIONS 3(a) TO (d): SHARE ISSUES TO FORMER COMPANY SECRETARY AND PROFESSIONAL ADVISERS

To consider and, if thought fit, pass the following resolutions as **ordinary resolutions** of the Company:

“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, Shareholders approve the issue and allotment of:

- (a) 350,000 Shares to Dorado Corporate Services Pty Ltd, an entity associated with Mr Simon Storm (former Company Secretary);*
- (b) 169,759 Shares to Christensen Vaughan;*
- (c) 61,164 Shares to RSM Bird Cameron; and*
- (d) 12,500 Shares to Mr Paul Jacobs,*

each at an issue price of \$0.20 per share and otherwise on the terms set out in section 5.2 of the Explanatory Memorandum.”

Note 1: Each issue of Shares under Resolutions 3(a) to (d) will be open for discussion as a separate item of business and voted on as a separate ordinary resolution.

Note 2: A voting exclusion applies to each of these Resolutions. Please refer to section 3.3 of this Notice of Meeting for details.

RESOLUTION 4: ISSUE OF CONVERTIBLE NOTES

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, Shareholders approve the issue and allotment of 8,437,500 Convertible Notes with an aggregate face value of \$1,350,000 on the terms set out in section 5.3 of the Explanatory Memorandum.”

Note: A voting exclusion applies to this Resolution. Please refer to section 3.3 of this Notice of Meeting for details.

RESOLUTION 5: CONSOLIDATION OF ISSUED SHARE CAPITAL

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

“That, for the purposes of section 254H(1) of the Corporations Act, ASX Listing Rule 7.20, rule 41.1 of the Constitution and for all other purposes, Shareholders approve the consolidation of the total number of Shares on issue on the basis that every 1022 existing Shares be consolidated into 1 Share on the terms set out in section 5.4 of the Explanatory Memorandum.”

RESOLUTION 6: CHANGE OF COMPANY NAME

To consider and, if thought fit, pass the following resolution as a **special resolution** of the Company:

“That, for the purposes of section 157(1) of the Corporations Act and for all other purposes, the name of the Company be changed to ‘Beauty Health Group Limited’ effective from the close of this Meeting and for the reasons set out in section 5.5 of the Explanatory Memorandum.”

RESOLUTION 7: ACQUISITION OF THE BEAUTY SPA COMPANY

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

“That, for the purposes of ASX Listing Rule 11.1 and for all other purposes, Shareholders approve the change in the nature and scale of activities of the Company as described in section 5.6 of the Explanatory Memorandum.”

Note: A voting exclusion applies to this Resolution. Please refer to section 3.3 of this Notice of Meeting for details.

RESOLUTION 8: ISSUES TO ENTITIES ASSOCIATED WITH FCP GROUP

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

“That, for the purposes of item 7 of section 611 of the Corporations Act, ASIC Regulatory Guide 74 and for all other purposes, Shareholders approve the issue and allotment of:

- (a) 13,181,818 Shares at an issue price of \$0.22 per Share to BSGI pursuant to the TBSC Share Purchase Agreement;*
- (b) 499,500 Shares at an issue price of \$0.20 per Share to FCA pursuant to the loan provided by FCA to the Company; and*
- (c) 1,000,000 Shares at an issue price of \$0.20 per Share to FCA pursuant to the Consulting Services Agreement,*

the details of which are set out in section 5.7 of the Explanatory Memorandum.”

Note 2: A voting exclusion under the Corporations Act applies to this Resolution. Please refer to section 5.7(f) of the Explanatory Memorandum for details.

RESOLUTION 9: ISSUE OF CONVERTIBLE NOTES TO RELATED PARTY

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

“That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, Shareholders approve the issue and allotment of 937,500 Convertible Notes to Ms Karen Matthews with an aggregate face value of \$150,000 on the terms set out in section 5.8 of the Explanatory Memorandum.”

Note 1: A voting exclusion applies to this Resolution. Please refer to section 3.3 of this Notice of Meeting for details.

RESOLUTION 10: APPROVAL OF PUBLIC OFFER

To consider and, if thought fit, pass the following resolution as an **ordinary resolution** of the Company:

“That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, Shareholders approve the issue and allotment of up to 50,000,000 Shares to raise up to \$10 million under a proposed public offer and otherwise on the terms set out in section 5.9 of the Explanatory Memorandum.”

3. ENTITLEMENT TO VOTE

3.1 ELIGIBILITY TO VOTE

Individual Shareholders may vote in person or by proxy. A corporate Shareholder may vote by proxy or through a corporate representative.

If you hold your Shares jointly with another, please note that the Shareholder appearing first in the share register is entitled to attend and vote the Shares to the exclusion of the other Shareholders.

3.2 SNAPSHOT DATE

Pursuant to regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the Directors have determined that all persons who hold Shares at 3 pm (Sydney time) on Monday, 6 September 2010 shall, for the purposes of determining voting entitlements at the Meeting, be taken to be held by the persons registered as holding the Shares at that time.

3.3 VOTING EXCLUSION STATEMENTS

The Company will disregard any votes cast on:

- (a) Resolution 2(a) by Yarra-Brae Holdings Pty Ltd;
- (b) Resolution 2(b) by Mr Anthony Kiernan;
- (c) Resolution 2(c) by Todbern Pty Ltd;
- (d) Resolution 2(d) by Mr Andrew McLean;
- (e) Resolution 2(e) by DVM Telecommunications Pty Ltd;
- (f) Resolution 3(a) by Dorado Corporate Services Pty Ltd and a person who might obtain a benefit, except a benefit solely in the capacity of a shareholder, if the resolution is passed;
- (g) Resolution 3(b) by Christensen Vaughan and a person who might obtain a benefit, except a benefit solely in the capacity of a shareholder, if the resolution is passed;
- (h) Resolution 3(c) by RSM Bird Cameron and a person who might obtain a benefit, except a benefit solely in the capacity of a shareholder, if the resolution is passed;
- (i) Resolution 3(d) by Mr Paul Jacobs and a person who might obtain a benefit, except a benefit solely in the capacity of a shareholder, if the resolution is passed;
- (j) Resolution 4 by the Convertible Noteholders receiving Notes under this Resolution and a person who might obtain a benefit, except a benefit solely in the capacity of a shareholder, if the resolution is passed;

- (k) Resolution 7 by any person who might obtain a benefit if the resolution passed (except in capacity as a Shareholder); and
- (l) Resolution 9 by Ms Karen Matthews,
and any of their Associates.

However, the Company will not disregard a vote cast on the above Resolutions if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the Chairman of the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

4. PROXIES

A Shareholder entitled to attend and vote at the General Meeting may appoint a proxy to attend and vote for the Shareholder. Please note that:

- (a) a proxy does not have to be a member of the Company;
- (b) a proxy may be an individual or a body corporate; and
- (c) a Shareholder entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise but where the proportion or number is not specified, each proxy may exercise half of the votes.

A proxy appointed to attend and vote for a Shareholder has the same rights as the Shareholder to:

- (a) speak at the Meeting;
- (b) vote (only to the extent allowed by the appointment); and
- (c) join in a demand for a poll.

If you wish to appoint a proxy, you should:

- (a) complete the enclosed proxy form;
- (b) sign and date the proxy form; and
- (c) return the proxy form to the Company's share registry, Computershare Investor Services Pty Ltd, by no later than 3 pm (Sydney time) on Monday, 6 September 2010 at the addresses or facsimile number set out in section 4.3 below.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms. If you have appointed a proxy for this Meeting and you later decide to attend the Meeting, please note that your attendance at the Meeting will result in the proxy's appointment being suspended while you are presenting at the Meeting.

4.1 POWER OF ATTORNEY

If a Shareholder has appointed an attorney to attend and vote at the Meeting or if the proxy form has been signed under power of attorney or other authority, the original or a certified copy of the power of attorney or authority must also be received by the Company's share registry, Computershare Investor Services Pty Ltd, by no later than 3 pm (Sydney time) on Monday, 6 September 2010 at the addresses or facsimile number set out in section 4.3 below, unless the original or a certified copy has been previously lodged with the Company's share registry for notation.

4.2 CORPORATE REPRESENTATIVE

A corporate Shareholder who wishes to appoint a person to act as its representative at the Meeting should provide that person with a certificate or letter executed, in accordance with rule 47.2 of the Company's Constitution, authorising him or her to act as that company's representative or with a copy of the resolution appointing the representative, certified by a secretary or director of the company

The authority may be sent to the Company and/or the Company's share registry, Computershare Investor Services Pty Ltd, in advance of the Meeting (in which case the document should be received by no later than 3 pm (Sydney time) on Monday, 6 September 2010 at the addresses or facsimile in set out in section 4.3 below) or handed in at the Meeting when registering as a corporate representative.

A form of appointment of corporate representative may be obtained from the Company's share registry.

4.3 DELIVERY OF PROXY FORMS

Proxy forms must be received by the Company's share registry, Computershare Investor Services Pty Ltd, by no later than 3 pm (Sydney time) on Monday, 6 September 2010:

by mail to: GPO Box 242
MELBOURNE VIC 3001

by delivery to: GPO Box 242
MELBOURNE VIC 3001

by facsimile to: 1800 783 447 (within Australia)
+61 3 9473 2555 (outside Australia)

5. EXPLANATORY MEMORANDUM

The Explanatory Memorandum accompanying this Notice of Meeting is incorporated into and forms part of this Notice of Meeting.

By Order of the Board of Directors



Andrew Phillips
Company Secretary
HLI Limited

Dated 4 August 2010

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the 2009 Annual General Meeting to be held at 3 pm (Sydney time) on Wednesday, 8 September 2010 at Shaw Stockbroking Level 13, 60 Castlereagh Street, Sydney NSW 2000.

The purpose of this Explanatory Memorandum is to provide Shareholders with information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

This Explanatory Memorandum should be read in conjunction with the Notice of Meeting.

Capitalised terms in this Explanatory Memorandum are defined in the Glossary.

1. OVERVIEW

1.1 BACKGROUND TO THE PROPOSALS

Former business

HLI has been voluntarily suspended from trading on ASX since July 2004. The suspension stems from an unsuccessful investment by the Company in Hailian University in China. The Company's investment in Hailian University was adversely affected due to a third party creditor claim against the property on which the university was situated and the Company's joint venture partner, Professor Ling Xiao, failing to provide the Company with meaningful financial information in relation to the university. The Company looked into taking legal action but because the proceedings would be brought in China, the Company felt that the best course of action was to cease the joint venture and seek alternative opportunities and funding for the Company.

The Company has since been looking for suitable acquisitions and funding to secure its future.

Working with FCA

Since June 2009, the Company has been working with FCA on a proposed new direction for the Company in the beauty and health sector in Australia and Asia. On 15 June 2009, the Company announced that it entered into a Consultancy Services Agreement with FCA to assist with the Company's restructure and expansion in Australia, Asia and China in the beauty and health markets.

About FCA

First Capital Advisors Limited (Hong Kong) is part of the FCP Group, an Asian-based boutique Investment Banking and Direct Investment Company with core operating offices in Australia, Hong Kong and Shanghai that specialises in advisory and related direct investments focused on Australia and Asia, predominately China.

Acquisition of TBSC

On 27 November 2009, the Company announced that it entered into a conditional agreement to acquire 100% of the issued share capital of TBSC, an early stage Sydney based services and products company in the process of rolling out a number of products and services in the beauty and spa market sectors. The acquisition of TBSC will be the platform for HLI's entry into the beauty and health sector and for further strategic acquisitions and investment opportunities going forward.

Second key acquisition

The Company is currently in negotiations with owners of beauty and health related businesses that are consistent with the Company's new acquisition strategy going forward. The Company is looking to acquire either a NSW-based state-wide beauty salon and products franchise or a beauty products business in the cosmeceuticals and organics and naturals area. If the Company does enter into an agreement to acquire another business which significantly increases the scale of the Company's operations, if required by ASX, the Company will seek shareholder approval for such acquisition before Reinstatement which will likely be at the Company's 2010 annual general meeting later this year.

Investment Management Agreement

In furtherance of the Company's relationship with FCA, the Company entered into the Investment Management Agreement (**IMA**) with an associate of FCA. Under the terms of IMA, HLI will not only have access to extensive networks, experience and opportunities in the health and beauty industry, but it provides the mechanism with which HLI will be able to provide a strong presence in Asia, leveraging off the FCP Group regional platform. For details of the fees payable to the Investment Manager under the IMA, please see section 5.7(i).

Restructure

The Directors believe that there is considerable opportunity for HLI to expand into this beauty and health sector from both a product and services element. To achieve this business objective it will be necessary for the Company to reorganise its capital structure, raise additional funding by way of a public offer and reinstate trading of the Company's shares on ASX.

Approval of the Restructure Resolutions being put to Shareholders at the forthcoming Meeting is a critical step towards the Company's Shares being reinstated on ASX.

Requirements for Relisting

Due to the change in nature and scale of the business resulting from the proposed TBSC acquisition, ASX requires the Company to reapply for quotation under Chapters 1 and 2 of the ASX Listing Rules as though it was an Initial Public Offering (IPO).

Public Offer under the Prospectus

The Company will also be seeking to raise up to \$10m under a Prospectus for working capital and to fund strategic acquisitions.

1.2 INDICATIVE TIMETABLE

The indicative timetable for the proposed relisting is set out below.

Event	Target Date/Month
2009 Annual General Meeting	Wednesday 8 September 2010
Share Consolidation (anticipated)	Mid September 2010
Change of Company Name and ASX Code (anticipated)	Late September 2010
2010 Annual General Meeting	Early October 2010
Lodgement of Prospectus and Public Offer Opens	Early October 2010
Public Offer Closing Date (anticipated)	Late October 2010
Allotment of Shares under Prospectus and Restructure Resolutions	Early November 2010
Dispatch of holding statements (anticipated)	Early November 2010
Reinstatement of trading of Shares to commence on ASX (anticipated)	Early November 2010
Completion of TBSC Acquisition and any additional acquisitions (anticipated)	Early November 2010
Commencement of Investment Management Agreement (anticipated)	Early November 2010

1.3 SUMMARY OF THE RESTRUCTURE RESOLUTIONS

The Restructure Resolutions fall into 3 categories as set out below.

(a) Restructure and funding of the Company pending Re-listing

Resolutions 2 to 6 and 10 aim to restructure the Company so it is in a position to re-list and seek Shareholder approval for:

- the issue of Shares to Mike Knee (Non Executive Director) and certain previous directors of the Company in lieu of directors' fees and to repay loans advanced to the Company while the Company was in suspension;
- the issue of Shares to creditors of the Company to satisfy the Company's debts before relisting;

- the issue of Convertible Notes which are convertible into ordinary shares at a price of \$0.16 plus 1 attaching 3-year \$0.20 option for every 2 Shares received on conversion. The issue price of these shares represent a 20% discount to the re-listing price and is an important incentive to attract pre-listing funding;
- the consolidation of the Company's share capital. The Company currently has 262,856,506 Shares on issue. The ASX Listing Rules imposes a \$0.20 minimum on the requotation price of shares. The effect of the consolidation is to reduce the number of Shares on issue so that each Share, after the consolidation, will be quoted at \$0.20 upon re-listing;
- the change of the Company's name from "HLI Limited" to "Beauty Health Group Limited" a name which the Company thinks is consistent with the proposed new direction for the Company in the beauty and health sector; and
- approval to raise up to \$10,000,000 by way of a public offer under a prospectus including a priority entitlement to existing Shareholders.

(b) The acquisition of The Beauty Spa Company and further strategic acquisitions

A key part of the relisting proposal is the acquisition of The Beauty Spa Company Pty Ltd and its related entities (TBSC) and a new strategic direction for the Company in the beauty and health sector. Because this direction is different to the former education services business that the Company had invested in, the ASX Listing Rules require Shareholders to consider and vote on the proposed new direction of the business.

The Company is also currently in negotiations with owners of businesses in the beauty and health space. If the Company enters into an agreement acquire another substantial business, it may be required to seek further approval at the 2010 annual general meeting later this year.

Resolution 7 seeks shareholder approval for the change in the nature and scale of the business for the purposes of ASX Listing Rule 11.1.2.

For more information about TBSC, please refer to section 5.6(f) and 5.6(g).

(c) Shares to be issued to entities associated with the FCP Group

Entities associated with the FCP Group will be receiving Shares in the Company as consideration for:

- the sale of TBSC by Beauty Spa Group International Limited;
- a fee owing to FCA for the successful restructure and relisting of the Company under the Consulting Services Agreement; and
- the conversion of a loan made by FCA to the Company which was utilised by the Company for pre-relisting funding.

The aggregate of the Shares to be received by these associated entities will exceed the 20% threshold under the takeovers provisions in the Corporations Act.

Resolution 8 seeks shareholder approval for the purposes of Item 7, section 611 of the Corporations Act.

Section 5.7(g) and (h) of the Explanatory Memorandum sets out in detail the total voting power of these associated entities as a result of the acquisition of these shares and information about the intentions of the FCP Group for the Company going forward.

The Independent Directors have also commissioned an Independent Expert's Report on the proposed change in control of the Company as a result of these Share issues. The Independent Directors encourage you to read the Independent Expert's Report. The Independent Expert has opined that the acquisition of these Shares is **fair and reasonable**.

1.4 INTERDEPENDENCY OF THE RESOLUTIONS

Resolutions 4 (Issue of Convertible Notes), 5 (Share Consolidation), 7 (Acquisition of TBSC) and 8 (Share issues to FCP Group) are interdependent. Each of these Resolutions is necessary for the successful re quotation of the Company's Shares on ASX.

This means, that if one of these Resolutions is not approved, then none of Resolutions 4 (Issue of Convertible Notes), 5 (Share Consolidation), 7 (Acquisition of TBSC), 8 (Share issues to FCP Group) and 9 (Issue of Convertible Note) will be approved and could result in the Company continuing to be suspended from trading. If this occurs and the Company cannot find any other suitable business to invest in or raise new capital, it is possible that the Company will be delisted and privatised. It is important that you consider these Resolutions as whole and as part of an overall process to have the Company's shares reinstated to official quotation on ASX.

1.5 RE-LISTING CONDITION

Each of Resolutions 2(a) to (e) (Issues to related parties), 3 (a) to (d) (Share issues to creditors), 7 (Change in nature and scale), 8 (Issues to FCP-related entities) is conditional upon the successful re quotation of the Company's securities on ASX:

1.6 REFERENCES TO SHARES AND SHARE PRICES

In the Notice of Meeting and this Explanatory Memorandum all references to Shares or Share prices are stated on a post-consolidation basis (i.e. assuming the share consolidation resolution is passed by Shareholders).

2. ADVANTAGES AND DISADVANTAGES OF THE PROPOSAL

2.1 DIRECTORS' RECOMMENDATIONS

Having regard to the advantages and disadvantages of the Proposals below, in relation to each Resolution the Independent Directors **unanimously** recommend that Shareholders vote **in favour** of the Resolutions.

2.2 ADVANTAGES

- The Company will have an opportunity to reinstate trading of its Shares on ASX which will be the first time in approximately 6 years. This will give Shareholders an opportunity to realise their investment which could not otherwise be done while the Company's shares are suspended from trading.
- The TBSC Acquisition and anticipated further significant acquisitions will give the Company a platform for further expansion in the beauty and health sector.
- The issue of Shares to entities associated with FCP Group provides the opportunity and capital to undertake the TBSC Acquisition without raising additional capital from the existing Shareholders.
- The Company will benefit from the appointment of Karen Matthews as CEO, a former CEO of Ella Bache, a household name in the beauty product industry.

2.3 DISADVANTAGES

- Apart from the general business risks set out in section 6 of this Explanatory Memorandum, the main disadvantage is that the Company will not be able to take advantage of other opportunities in the short term, should they arise.
- Shareholders will have exposure to the operations and risks of the TBSC business.
- The volume of Shares to be issued will have a substantial dilutive effect on current Shareholders.

3. CHANGES TO CAPITAL STRUCTURE AND PRO FORMA BALANCE SHEET

3.1 CHANGES TO CAPITAL STRUCTURE

	Number of Shares on a fully diluted basis ¹
Shares currently on issue (post Share Consolidation)	257,304
Shares to be issued to convert the Company's debts into equity ²	1,742,696
Shares available to be issued to Convertible Noteholders (including after exercise of options received upon conversion of note) ³	14,062,500
Shares to be issued to FCP-related entities ⁴	14,681,318
Assuming a \$10 million public offer ⁵	50,000,000
Total Shares on Issue after Proposals⁶	80,743,818

¹ This assumes that all Convertible Notes and Options have been converted into Shares.

² Includes shares to be issued under Resolutions 2(a) to (e) (1,149,273) and 3(a) to (d) (593,423)

³ (a) Includes convertible notes to be issued under Resolutions 4 and 9.

(b) Does not take into account any interest that may be converted into Shares

⁴ See Resolution 8.

⁵ See Resolution 10.

⁶ Assumes public offer is fully subscribed.

3.2 PRO FORMA BALANCE SHEET

Set below is a consolidated pro-forma statement of financial position of the Company as 30 June 2010 and after completion of all transactions contemplated by the Resolutions.

	HLI as at June 30, 2010	After completion of transactions contemplated by resolutions
ASSETS		
Cash on Hand	13,712	17,281
Proceeds from public offering*		10,000,000
Proceeds from convertible notes**		1,500,000
Inventory	0	16,913
Fixed assets	99,000	140,222
Other assets	0	2,682,826
TOTAL ASSETS	112,712	14,357,242
CURRENT LIABILITIES		
Trade Creditors	329,980	257,325
GST Liabilities	-26,355	-5,773
Payroll Liabilities	0	42,181
Loans	55,722	55,722
	359,347	349,455
LONG TERM LIABILITIES		
Other loans	221,476	121,476
Post reconstruction loans	139,733	0
Superannuation liability	0	22,767
Beauty Spa Group International	0	0
Loan AIS	52,500	52,500
Total Long Term Liabilities	413,709	196,742
TOTAL LIABILITIES	773,056	546,197
NET ASSETS	-660,344	13,811,045
EQUITY		
Issues Share Capital	29,739,062	2,900,001
Issued Share Capital - public offering**		10,000,000
Issued Share Capital - convertible notes***		1,500,000
Issued Share Capital - Loan Conversion	691,003	500,000
Retained Earnings	-30,817,500	-633,230
Current Year Earnings	-272,908	-455,726
Historical Balancing Account		0
Total Equity	-660,344	13,811,045

* See Resolution 10

** See Resolutions 4 and 9

4. DETAILED EXPLANATION OF THE ORDINARY BUSINESS OF THE AGM

4.1 ORDINARY BUSINESS

Due to the limited funding of the Company and its voluntary suspension from trading on ASX since 2004, the Company has had limited resources to comply with its reporting requirements. The Company is actively taking steps to lift the suspension from trading and re-list before the end of 2010. In an effort to properly comply with its reporting requirements, the Company is holding a “catch-up” AGM to allow Shareholders to consider the Company’s accounts for the 2007/08 and 2008/09 financial years.

4.2 ITEM 1A AND B: FINANCIAL STATEMENTS AND REPORTS

As required by the Corporations Act, the financial reports of the Company for the years ended 30 June 2008 and 30 June 2009 (including the Financial Statements, Directors’ Report and Auditors’ Report) have been provided to you in the Company’s 2008 and 2009 Annual Report.

A copy of the Company’s 2008 and 2009 Annual Report is available for download from ASX’s website at www.asx.com.au.

There is no requirement for Shareholders to approve these reports. However, time will be allowed during the AGM for consideration by Shareholders of the financial statements and the associated Directors’ and Auditors’ Reports.

4.3 RESOLUTION 1A AND B: ADOPTION OF REMUNERATION REPORT (NON-BINDING)

The Remuneration Report for 2008 and 2009 is contained in the Directors’ Report section of the Company’s 2008 and 2009 Annual Report, respectively. The Remuneration Report describes the underlying policies and structure of the remuneration arrangements of the Company and sets out the remuneration arrangements in place for Directors and senior executives of the Company.

Section 250R(2) of the Corporations Act requires that a resolution to adopt the Remuneration Report be put to the vote of Shareholders and Shareholders will have the opportunity to discuss the Remuneration Report at the Meeting. However, under section 250R (2) of the Corporations Act, the vote on Resolution 1A and B is advisory only and is not binding on the Company or its Directors.

5. DETAILED EXPLANATION OF THE RESTRUCTURE RESOLUTIONS

5.1 RESOLUTIONS 2(a) to (e): SHARE ISSUES TO RELATED PARTIES

(a) Introduction

Resolutions 2(a) to (e) seek Shareholder approval for the issue and allotment of Shares to the related parties set out in the table below for the purposes of converting the amounts owed to these related parties into Shares.

Mr Michael Knee is a related party of HLI because he is a director.

Mr Anthony Kiernan, Mr Andrew McLean and Mr John Cawood are former directors of the Company. Under section 228(5) of the Corporations Act, a former director is a related party if it was a related party within the previous 6 months. The former directors resigned less than 6 months ago so they are considered related parties. Entities controlled by a related party are also related parties including Yarra-Brae, Todbern and DVM.

Resolutions 2(a) to (e) will be open for discussion as a separate item of business and voted on as a separate ordinary resolution.

(b) Corporations Act - Section 208

The proposed issues of Shares constitute the giving of financial benefits to related parties under section 208 of the Corporations Act which requires shareholder approval unless an exception applies.

As Mr Andrew Cawood (Todbern) and Mr Andrew McLean will be receiving Shares in lieu of accrued Directors' fees, the Company has considered that these Share issues are reasonable remuneration in accordance with section 211(1) of the Corporations Act and therefore, does not require the approval of Shareholders under section 208.

Also, in relation to the issues of Shares in satisfaction of the Directors' loans and services provided by DVM, in accordance with section 210(a) of the Corporations Act, Shareholder approval is not required under section 208 as the Shares to be issued is at the proposed relisting price of \$0.20 and the price at which non-related parties are receiving shares in satisfaction of debts owed by the Company under Resolution 3(a) to (d). Therefore, the financial benefit given is on arm's length terms.

(c) ASX Listing Rule 10.11

Listing Rule 10.11 requires shareholder approval to be obtained where a company issues, or agrees to issue, securities to a related party unless an exception in Listing Rule 10.12 applies. As none of these exceptions apply in the circumstances, the Company is seeking Shareholder approval for the issue and allotment of the following Shares:

Table 1

	1 Person receiving Shares	2 Associated Director	3 Amounts owing		4 Shares to be issued (Post Share- Consolidation)
			Remuneration	Directors ' Loans	
2(a)	Yarra-Brae	Yarra Brae is an entity that Mr Knee controls. Mr Knee is a non executive director of HLI.	\$60,371.60	\$2,500	314,358
2(b)	Anthony Kiernan	Anthony Kiernan is a former director of HLI.	N/A	\$2,500	12,500
2(c)	Todbern	Todbern is an entity that Mr Cawood controls. Mr Cawood is a former director of HLI.	\$58,806	\$5,000	319,030
2(d)	Andrew McLean	Andrew McLean is a former director of HLI.	\$80,927	\$2,500	417,135
2(e)	DVM	Andrew McLean (former director) is a director of DVM.	N/A	\$17,250	86,250

ASX Listing Rule 7.1 prohibits the Company from issuing equity securities such as Shares without shareholder approval which in any 12-month period exceeds 15% of the total number of the Company's fully paid ordinary shares on issue 12 months before the date of a proposed issue. However, in accordance with exception 4 of ASX Listing Rule 7.2, approval under Listing Rule 7.1 is not required because the Company is seeking approval under Listing Rule 10.11.

Accordingly, if Resolutions 2(a) to (e) are approved, the Shares issued under those Resolutions will not count towards the 15% threshold.

(d) Information required by ASX Listing Rule 10.13

In accordance with the notice requirements in Listing Rule 10.13, the following information is provided:

- (i) the Shares will be issued to the persons set out in Column 1 of Table 1;
- (ii) the maximum number of Shares to be issued to each of the persons is set out in Column 4 of Table 1 above;
- (iii) the Shares will be issued by no later than one month after the date of this Meeting (or such later date as permitted by any ASX waiver or modification of the Listing Rules) and it is anticipated that all of the Shares will be issued on the same date;
- (iv) the relationship between the person receiving the Shares and the Director that requires approval to be obtained is set out in Column 2 of Table 1.
- (v) the terms of the issues are as follows:

- (1) the issue price of the Shares is \$0.20 per Share;
- (2) the Shares are fully paid ordinary shares issued in the capital of the Company and rank equally with all existing Shares on issue; and
- (3) the Shares will be issued in satisfaction of the debts owing as set out in Column 3 of Table 1; and
- (4) the Shares may be subject to a mandatory escrow period in accordance with the Listing Rules for up to 24 months from the date of issue; and
- (vi) no funds will be raised from the issues as the Shares are being issued in satisfaction of the debts owing as set out in Column 3 of Table 1.

Directors' Recommendation: David McCann, Andrew Phillips, Ian Smith and Karen Matthews, being Directors who will not receive any Shares under Resolutions 2(a) to (e), **unanimously** recommend that Shareholders vote **in favour** of Resolutions 2(a) to (e).

5.2 RESOLUTIONS 3(a) TO (d): SHARE ISSUES TO FORMER COMPANY SECRETARY AND PROFESSIONAL ADVISERS

(a) Introduction

Resolutions 3(a) to (d) seek Shareholder approval to issue Shares to certain non-related parties of HLI in satisfaction of debts owed by HLI as explained in more detail in Table 2 below.

Resolutions 3(a) to (d) will be open for discussion as a separate item of business and voted on as a separate ordinary resolution.

(b) Listing Rule 7.1

Under ASX Listing Rule 7.1, the Company is prohibited, without shareholder approval, from issuing equity securities (including Shares), if the equity securities will in themselves or when aggregated with the securities issued by the Company during the previous 12 months, exceed 15% of the number of fully paid ordinary shares on issue at the commencement of that 12 month period (with certain exceptions). As none of the exceptions in Listing Rule 7.2 apply, the Company is seeking Shareholder approval for the purposes of Listing Rule 7.1 to ensure that the Company does not exceed the 15% threshold.

(c) Information required by Listing Rule 7.3

In accordance with the notice requirements in Listing Rule 7.3, the following information is provided:

Table 2

	1 Name of Allottee	2 Max no. of Shares (Post Share Consolidation)	3 Reason for Share Issue
3(a)	Dorado	350,000	\$70,000 owing in unpaid remuneration in performance of Mr Storm's duties as a company secretary of the Company
3(b)	Christensen Vaughan	169,759	\$33,951.82 for legal services provided to HLI
3(c)	RSM Bird Cameron	61,164	\$12,232.73 for accounting services provided to HLI
3(d)	Mr Paul Jacobs	12,500	\$2,500 loan to the Company

- (i) The maximum number of Shares to be issued to the allottees is set out in Column 2 of Table 2;
- (ii) the Shares are expected to be issued upon or shortly before requotation in accordance with the indicative timetable set out in section 1.2 of this Explanatory Memorandum but, in any case, not later than three months after the date of this Meeting (or such later date as permitted by any ASX waiver or modification of the Listing Rules);
- (iii) the Shares will be issued at an issue price of \$0.20 per Share;
- (iv) the Shares will be allotted to the allottees set out in Column 1 of Table 2;
- (v) the terms of the Shares are as follows:
 - (1) the Shares are fully paid ordinary shares issued in the capital of the Company and will rank equally with all existing Shares on issue; and
 - (2) the Shares will be granted in satisfaction of the debts referred to in Column 3 of Table 2; and
- (vi) no funds will be raised from the issue as the Shares are being issued for the purpose set out in Column 3 of Table 2; and
- (vii) the Shares are expected to be allotted on the proposed date of allotment of Shares upon close of the Offer under the Prospectus and as set out in the indicative timetable in section 1.2 of this Explanatory Memorandum. .

Directors' Recommendation: The Directors **unanimously** recommend that Shareholders vote **in favour** of Resolutions 3(a) to (d).

5.3 RESOLUTION 4: ISSUE OF CONVERTIBLE NOTES

(a) Introduction

The Company proposes to issue 8,437,500 Convertible Notes with an aggregate face value of \$1,350,000 on the terms summarised in paragraph (c) below which will be used to develop TBSC and for working capital pending Reinstatement.

(b) Listing Rule 7.1

Under ASX Listing Rule 7.1, a company may not, without shareholder approval, issue equity securities if the equity securities will in themselves or when aggregated with the securities issued by the company during the previous 12 months, exceed 15% of the number of fully paid ordinary shares on issue at the commencement of the 12 month period.

The definition of “equity securities” for the purposes of ASX Listing Rule 7.1 includes securities which are convertible into shares such as the Convertible Notes.

The effect of Resolution 4, if approved, will be that the holders of the Convertible Notes will be entitled to convert the Convertible Notes into Shares and Options on the terms set out below without further approval required from Shareholders.

(c) Information required by Listing Rule 7.3

Listing Rule 7.3 requires the following information to be provided to approve the issue of Convertible Notes:

- (i) The maximum number of Convertible Notes to be issued is 8,437,500;
- (ii) The Convertible Notes will be issued within 3 months of the date of the Meeting;
- (iii) The issue price of each Convertible Note is \$0.16. On conversion of the Notes, Noteholders will receive 1 Share for every \$0.16 of the face value of the note plus one Option for every 2 Shares received on conversion of the Note (interest may also be converted).
- (iv) The Company has entered into agreements to issue the Convertible Notes (subject to shareholder approval). The Company will issue Notes to sophisticated investors or persons that do not require disclosure a disclosure document to be issued for the offer of Notes in accordance with section 708 or 708AA of the Corporations Act.
- (v) The terms of the Convertible Notes are as follows:
 - (1) **Coupon:** the Notes have a coupon rate of 12% per annum, payable quarterly in arrears;
 - (2) **Condition precedent:** the notes cannot be converted until shareholder approval (i.e. this Resolution 4) is obtained and, as requested by ASX, cannot be converted until the Company’s shares are reinstated to official quotation;
 - (3) **Default Interest:** if this Resolution is not approved and the Noteholders cannot convert their Note, the coupon rate increases to 18% per annum.
 - (4) **Expiry:** the Notes will expire 2 years after the date of issue (**Maturity Date**) at which time the principal sum plus any interest accrued but not paid (**Repayment Amount**) are due and payable in cash, Shares at the Conversion Rate or a combination of both at the Noteholder’s election, unless otherwise repaid or satisfied earlier (see paragraph (5));

- (5) **Early repayment:** at any time before the Maturity Date the Company may redeem a Note with the Noteholder's prior consent by paying the Repayment Amount to the Noteholder;
 - (6) **Conversion:** at any time before the Maturity Date a Noteholder may convert up to 100% of the Repayment Amount into Shares at the Conversion Rate;
 - (7) **Conversion Rate:** the conversion rate is 1 Share for each \$0.16 of the Repayment Amount and for every 2 Shares issued, 1 option will also be issued;
 - (8) **Option terms:** options received on conversion of the note will be exercisable into 1 Share at any time within 3 years from the date of issue of the option at an exercise price of \$0.20 per Share. The Shares will rank equally with all other Shares on issue. Chapter 6 of the ASX Listing Rules applies to the Options;
 - (9) **Ranking:** all payments to Noteholders will rank:
 - (A) equally among themselves; and
 - (B) in priority to all other unsecured securities issued by the Company.
 - (10) **Redemption:** If the Company breaches a material term of these terms, fails to pay any amount owing to a Noteholder within 30 days of the Noteholder requesting payment or an insolvency event occurs in relation to the Company, all amounts owing to the Noteholder (including any interest accrued and to be accrued up to the Maturity Date) will be immediately due and payable by the Company.
 - (11) **Secured:** the Notes are secured by a fixed and floating charge over the assets of the Company;
 - (12) **Fractional entitlements:** in calculating a Noteholder's entitlement to Shares on conversion, an entitlement to a fraction of a Share will be disregarded; and
 - (13) **Additional entitlements:** In the event that the Company conducts a:
 - (A) pro rata offer of Shares to Shareholders, an offer will be made to Noteholders on the same terms as the pro rata offer and proportionate to the number of Shares that the Noteholder would have if it had converted its Note immediately before the entitlement date for that pro rata offer;
 - (B) bonus issue, Noteholders will receive (on conversion of the Note) the number of Shares that it would have received if the Noteholder had converted its Note immediately before the entitlement date for that bonus issue;
 - (14) **Reconstructions:** in the event of a reconstruction of the capital of the Company by way of consolidation, subdivision, reduction, return, scheme of arrangement or otherwise (but other than by way of a bonus issue, rights issue or other security issue), a proportionate adjustment will be made to the number and issue price of Shares to which the Noteholder is entitled upon conversion of the Note so that: the value of the Note is not adversely affected by the reconstruction; the Noteholder is not conferred with any additional benefits which are not also conferred on Shareholders; and in all other respects the terms for the conversion of the Note remains unchanged.
- (vi) the funds raised from the issue of the Convertible Notes will be applied towards working capital pending Reinstatement the development of TBSC and its subsidiaries once the acquisition has been completed.
 - (vii) The Convertible Notes may be escrowed in accordance with the ASX Listing Rules.

Directors' Recommendation: The Directors **unanimously** recommend that Shareholders vote **in favour** of Resolution 4.

Interdependency: Approval of Resolution 4 is conditional on all other Interdependent Resolutions being approved. This means that if any Interdependent Resolution is not approved, then none of the Interdependent Resolutions will be approved.

5.4 RESOLUTION 5: CONSOLIDATION OF ISSUED SHARE CAPITAL

(a) Consolidation

Amongst other things, the Company will be required to satisfy the ASX that the Company has a minimum share price of \$0.20 pursuant to Listing Rule 2.1, Condition 2. To achieve this minimum share price, the Directors propose that the Shares be consolidated on the basis that every 1022 Shares be consolidated into one Share (**Consolidation**) effective from the close of the Meeting. This will result in the number of Shares in the Company's issued capital being reduced from 262,856,506 Shares to approximately 257,304 Shares (the final number of Shares on issue after the consolidation will depend on the rounding of fractions).

As the consolidation applies equally to all Shareholders (subject only to rounding of fractions), the Share Consolidation will have no effect on the percentage interest of each Shareholder in the Company.

(b) Corporations Act and Constitution

Section 254 of the Corporations Act and rule 41.1 of the Constitution enables a company to convert all or any of its shares into a smaller number of shares by a resolution passed at a general meeting. Accordingly, Shareholder approval is sought under Resolution 5 for the Consolidation.

(c) Listing Rule 7.21

Under Listing Rule 7.21, an entity which has convertible securities on issue may only reorganise its capital if, in respect of the convertible securities, the number of securities or the conversion price (or both) is reorganised so that the holder of the convertible securities will not receive a benefit that ordinary shareholders do not receive.

Hence, the Convertible Notes, the subject of Resolutions 4 and 9, have been issued on terms which reflect the post-Consolidation share capital so no further reorganisation of the Convertible Notes is required.

(d) Information required by Listing Rule 7.20

The following information is provided in accordance with ASX Listing Rule 7.20 in relation to the Consolidation:

- (i) the effects of the Consolidation are as follows:
 - (1) every 1022 Shares will be consolidated into one Share;
 - (2) the capital structure of the Company will be as set out in section 3.1 of this Explanatory Memorandum;
 - (3) each Shareholder will still hold the same proportion of the Company's share capital as pre-Consolidation (subject to rounding); and
 - (4) there will be no change to the current rights attaching to the Shares; and

- (ii) where the Consolidation results in a fraction of a Share on issue, that fraction will be rounded up to the nearest whole Share; and
- (iii) there will be no change to the terms of the Convertible Notes as they will be issued based on the post-consolidation numbers.

(e) Post-Consolidation

After the Consolidation:

- (i) all holding statements for Shares will cease to have any effect, except as evidence of an entitlement to a certain number of post-Consolidation Shares;
- (ii) the Company will despatch a notice to Shareholders advising them of the number of Shares held by each Shareholder both before and after the Consolidation; and
- (iii) the Company will also arrange for new holding statements to be issued to Shareholders.

It is not considered that there will be any taxation consequences for Shareholders arising from the Consolidation. However, Shareholders are advised to seek their own tax advice on the effect of the Consolidation and none of the Company, the Directors or the Company's advisers accept any responsibility for any individual Shareholder's taxation consequences of the Consolidation.

(f) Share Consolidation Timetable

The timetable (which is indicative and, subject to the Listing Rules, may be varied) for the Consolidation is as follows:

Event	Date
Announcement of share consolidation	4 August 2010
Meeting to approve Consolidation	8 September 2010
Last day of trading of pre-Consolidation Shares	N/A*
Shares trade on a deferred settlement basis	N/A*
Last day for the Company to register transfers on a pre-Consolidation basis	16 September 2010
First day for HLI to send notices to each Shareholder	17 September 2010
Despatch of notices and holding statements or certificates (as applicable)	23 September 2010
Deferred trading ends	N/A*

* This event is not applicable as the Company's Shares are not trading.

Directors' Recommendation: The Directors **unanimously** recommend that Shareholders vote **in favour** of Resolution 5.

Interdependency: Approval of Resolution 5 is conditional on all other Interdependent Resolutions being approved. This means that if any Interdependent Resolution is not approved, then none of the Interdependent Resolutions will be approved.

5.5 RESOLUTION 6: CHANGE OF COMPANY NAME

As part of HLI's restructure and rebranding as described in section 1 above, the Directors propose to change the Company's name to 'Beauty Health Group Limited' to better reflect the Company's proposed operations in the beauty and health industry.

Section 157(1) of the Corporations Act states that if a Company wishes to change its name, it must pass a special resolution adopting that name. A special resolution is a resolution which is passed by at least 75% of the votes that are cast by Shareholders entitled to vote on the resolution (in person or by proxy).

The change of name will be effective on and from the passing of the Resolution. The name change and change of ASX code will occur on ASX's records as soon as possible after the consolidation under Resolution 5 is completed.

Board Recommendation: The Directors **unanimously** recommend Shareholders vote **in favour** of Resolution 6 to change the Company's name.

5.6 RESOLUTION 7: APPROVAL OF ACQUISITION OF TBSC

(a) Introduction

The Company is proposing to change the nature of its activities by entering into the beauty and health sector. The first step in this new direction for the Company is the acquisition of 100% of the issued share capital in TBSC which is the subject of this Resolution 7. The TBSC Acquisition, by itself, may not be sufficient to warrant relisting approval by ASX. Accordingly, the Company is currently in negotiations with potential acquisition targets in the beauty and health space and, if further acquisitions are signed up, these may require shareholder approval which the Company intends to seek at the 2010 AGM. If the Proposal is approved and the Company is successfully relisted, the Company, with the expertise and assistance of First Capital Advisors Management Limited, will actively pursue strategic acquisitions in the beauty and health sector.

(b) New acquisition and expansion strategy in the beauty and health sector

HLI (to be renamed "Beauty Health Group") intends to activate a considerable strategy within the beauty and health industry to consolidate a premium range of products and services to develop HLI into a leading regional business.

HLI's two main arms will be its services and products divisions. The services side of the new HLI business will be focused on high-end, high-margin retail treatment businesses, ranging from premium natural day spas to medi-clinics where treatments are administered by trained professionals and registered nurses. HLI aims to create a nationwide brand dedicated to high standards and quality of service within this range. Advanced discussions are already underway with several leading Australian brands to establish HLI's business on the services side, with several opportunities in Asia also under discussion.

The products side of the HLI business intends to acquire the rights to expand a selected range of premium brands throughout its retail base and grow these brands through other distribution channels, such as high volume wholesale distribution to department stores throughout Australia and Asia. These brands fall within the cosmeceutical and natural/organic skincare range of beauty and health products where there are significant opportunities to aggregate the brands within this fractured market.

HLI expects to develop a nationwide footprint within the first 12 months from requotation and will have a broad yet focused product and services suite with distribution agreements both on and offshore, with a particular focus to grow into Asia and China in the near future.

HLI's new acquisition model will be to acquire a majority shareholding in target businesses of between 51% to 75%, through a combination of shares in the listed entity and cash which will go into the target business as expansion capital. As the specific situation to each acquisition will vary, some targets will be acquired with an option to buy out the minority shareholder(s) whilst in other acquisitions, the minority shareholder(s) will be kept in the business as part of the Company's strategy to expand its range of brands in Australia and Asia. Through this acquisition model, HLI plans to establish a footprint in the beauty and health markets throughout Australia and Asia and develop a strong business within this industry.

(c) Listing Rule 11.1

Under Listing Rule 11.1, if a company purposes to make a significant change to the nature and scale of its activities, it must provide full details of the proposed change to ASX and, if required by ASX, must obtain shareholder approval to undertake the change and meet the requirements of Chapters 1 and 2 of the Listing Rules as if the Company was applying for admission to the official list of ASX.

ASX has confirmed that the Company must obtain Shareholder approval to undertake the change in the nature and scale of its activities that will result from the TBSC Acquisition and any potential further substantial acquisition.

Accordingly, the Company is seeking Shareholder approval of Resolution 7 to allow for completion of the TBSC Acquisition upon Reinstatement.

(d) Summary of the TBSC Share Purchase Agreement

The Company entered into the TBSC Share Purchase Agreement on 27 November 2009 with BSGI under which the Company has agreed to acquire 100% of the shares of TBSC. Information about TBSC is set out in section 5.6(f) below.

The TBSC Acquisition is conditional on the successful requote of the Company on ASX. The conditions precedent must be satisfied or waived by 30 September 2010 or such other date agreed between the parties.

The consideration payable by HLI for the acquisition is \$2.9 million which will be funded by vendor finance and, if Resolution 7 is passed, the Vendor's loan will be repaid by the issue of 13,181,818 ordinary shares at an issue price of \$0.22 representing a 10% premium to the requote price of \$0.20.

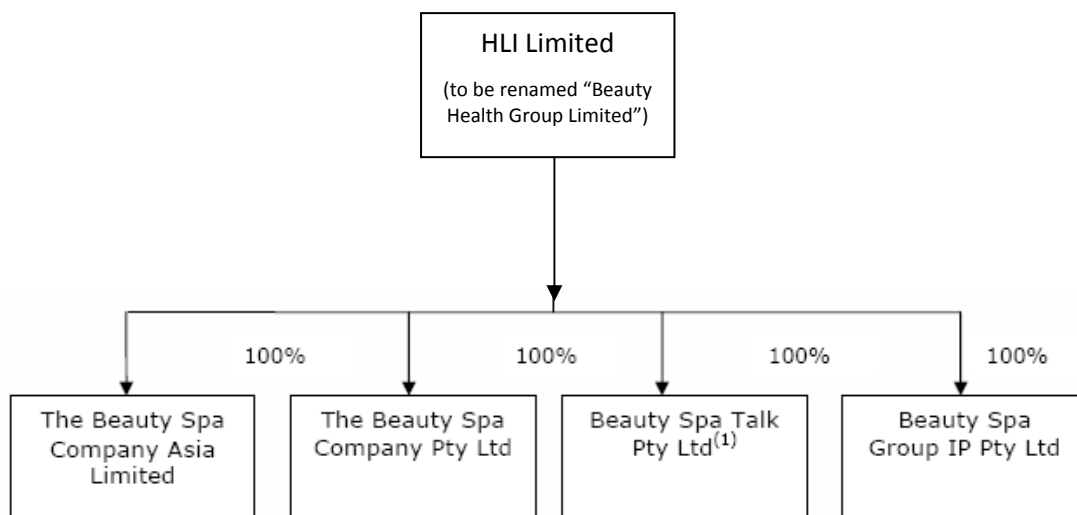
The Vendor Loan Agreement has a term of 6 months and an interest rate of 8% per annum. 10% interest is payable on overdue amounts. The lender may request the Company to enter into a fixed and floating charge in respect of the loaned money. The lender may elect to receive payment of the principal and interest in Shares, however, if Resolution 7 is approved by Shareholders, the Vendor will receive the purchase price in Shares and no interest will be payable under the Vendor Loan Agreement.

Under the TBSC Share Purchase Agreement, the Seller was entitled to nominate two directors to the Board of Directors of the Company before completion. David McCann and Andrew Phillips, were appointed to the board on 12 April 2010. Additional information about these directors is set out in section 5.7(h)(iii) of this Explanatory Memorandum.

The TBSC Acquisition is expected to settle upon HLI's securities being reinstated to official quotation in accordance with the indicative timetable set out in section 1.2 of this Explanatory Memorandum.

(e) Proposed Group Structure

Following completion of the TBSC Acquisition, the group structure of the Company will be as follows:



(1) to be renamed "The Luxe Company Pty Ltd"

(f) TBSC Overview

The Beauty Spa Company Pty Ltd

The Beauty Spa Company Pty Ltd (TBSC) is a beauty, health and services company that was re-established in 2009 and has a number of products, services and related concepts that it sells and markets throughout Australia, Asia and China. It currently owns and operates two businesses located in the Sydney CBD and Paddington. The Paddington store is currently being refurbished.

Beauty Spa Talk Pty Ltd

Beauty Spa Talk Pty Ltd ('BST') was established to undertake distribution of the products sold through the TBSC spas and to other spa businesses. At this stage, BST has not commenced activities and has no material assets or liabilities.

Beauty Spa Group IP Pty Ltd

Beauty Spa Group IP Pty Ltd ('BSGIP') was established to house the intellectual property of TBSC and BST. The company has no material assets or liabilities.

The Beauty Spa Company Asia Limited (Hong Kong)

TBSC Asia Pty Ltd was established to be the entity through which the group intends expanding its beauty and health markets in the Asian region.

(g) **TBSC Financial Information**

Summarised Profit and Loss Statement for the 12 months ended 30 June 2010:

Revenue	\$163,480
Net Loss	\$(182,818)

Simplified unaudited Balance Sheet as at 30 June 2010:

Total Assets	\$61,703
Total Liabilities	\$372,898
Net Assets	\$(311,195)

(h) **ASX Listing Rule 10.1 and s 208 of the Corporations Act**

ASX has confirmed that the Company does not require approval under ASX Listing Rule 10.1 for the TBSC Acquisition due to the application of the fifth exception in ASX Listing Rule 10.3 which says ASX Listing Rule 10.1 does not apply to a transaction between the entity and a person who is a related party by reason only of the transaction and the application to it of section 228(6) of the Corporations Act. The TBSC Acquisition does not require shareholder approval under the Corporations Act because the TBSC Share Purchase Agreement was negotiated at arm's length.

Directors' Recommendation: The Independent Directors recommend that Shareholders vote **in favour** of Resolution 7.

Interdependency: Approval of Resolution 7 is conditional on all other Interdependent Resolutions being approved. This means that if any Interdependent Resolution is not approved, then none of the Interdependent Resolutions will be approved.

5.7 RESOLUTION 8: ISSUES TO ENTITIES ASSOCIATED WITH FCP GROUP

(a) **Introduction**

Under the Restructure, the Company proposes to issue up to:

- (i) 13,181,818 Shares at an issue price of \$0.22 per Share to the Vendor as consideration for the TBSC Acquisition (**BSGI Share Issue**); and
- (ii) 499,500 Shares at an issue price of \$0.20 per Share to FCA pursuant to the Convertible Loan Agreement and 1,000,000 Shares at an issue price of \$0.20 per Share to FCA pursuant to the Consulting Services Agreement (**FCA Share Issue**).

Each of the entities receiving Shares are associated with FCP Group.

ASX has confirmed that the BSGI Share issue does not require ASX Listing Rule 7.1 approval due to the application of Exception 16 in ASX Listing Rule 7.2 which refers to an issue of securities approved for the purposes of Item 7 of section 611 of the Corporations Act. ASX has also confirmed that ASX Listing Rule 10.11 approval is not required for the FCA Share Issue due to the application of Exception 6 in ASX Listing Rule 10.12 which says ASX Listing Rule 10.11 does not apply if the person is a related party by reason only of the transaction which is the reason for the issue of the securities and the application to it of section 228(6) of the Corporations Act. These transactions do not require shareholder approval under the Corporations Act because the transactions were negotiated at arm's length.

(b) Summary of Convertible Loan Agreement

FCA has loaned \$99,900 to the Company for urgent interim funding needs, which the Company has agreed to repay by issuing 499,500 Shares at an issue price of \$0.20 per Share upon Reinstatement. The loan is interest free.

(c) Summary of Consulting Services Agreement

HLI entered into a consulting services agreement with FCA in June 2009 whereby FCA will assist the Company in the restructuring, rebranding and implementation of its beauty and health business. In return, FCA will receive a success fee of \$200,000 if the Company is successfully relisted on ASX. The Company has agreed to pay this fee in Shares at an issue price of \$0.20 per Share in line with the requotation price.

(d) Summary of TBSC Share Purchase Agreement

A summary of the TBSC Share Purchase Agreement is set out in section 5.6(d) of this Explanatory Memorandum.

(e) Takeover provisions in the Corporations Act

Section 606(1) of the Corporations Act provides that a person must not acquire a relevant interest in issued voting shares of a listed company if the person acquiring the interest does so through a transaction in relation to the securities entered into by or on behalf of the person and, because of the transaction, that person's or someone else's voting power in the listed company increases:

- (i) from 20% or below to more than 20%; or
- (ii) from a starting point that is above 20% and below 90%.

Under section 610, the calculation of a person's voting power for the purposes of section 606(1) includes the total number of voting shares that the person or the person's associate has a relevant interest in. Furthermore, pursuant to section 608(1) of the Corporations Act, a person has a relevant interest in securities if they:

- (i) are the holder of the securities;
- (ii) have power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (iii) have power to dispose of, or control the exercise of a power to dispose of, the securities.

Following the above issues of Shares pursuant to the BSGI Share Issue and FCA Share Issue, BSGI, FCA and their associates will have combined voting power of 35.22% immediately upon Reinstatement in contravention of section 606(1) assuming a minimum of \$5m is raised under the public offer.

Nevertheless, under item 7 of section 611 of the Corporations Act, an acquisition that was approved previously by a resolution passed at a general meeting of the company in which the acquisition is made is exempt from section 606(1).

Accordingly, the Company seeks Shareholder approval for the BSGI Share Issue and FCA Share Issue for the purposes of item 7 of section 611 of the Corporations Act.

(f) Voting exclusion required by item 7 of section 611

The exemption under item 7 of section 611 is subject to no votes being cast in favour of the resolution by:

- (i) the person proposing to make the acquisition and their associates; or
- (ii) the persons (if any) from whom the acquisition is to be made and their associates.

BSGI, FCA and their Associates are the persons whose votes must be excluded, however, none of these persons hold any HLI Shares so no votes are able to be cast by them.

(g) Information required by item 7 of section 611

In accordance with Item 7 of section 611 of the Corporations Act, the following information is provided to Shareholders, being all the information known to the BSGI, FCA or their Associates, or known to the Company, that is material to the decision on how to vote on Resolutions 8:

Table 3

	Person making the acquisition and their associates		TOTAL**
	FCA	BSGI	
Number of Shares held before acquisition	0	0	0
Voting power before acquisition	0	0	0
Number of Shares to be allotted	1,499,500	13,181,818	14,681,318
Maximum increase in voting power*	35.22%	35.22%	35.22%
Number of Shares held after acquisition	1,499,500	13,181,818	14,681,318
Voting power as a result of acquisition*	35.22%	35.22%	35.22%
* This is the maximum voting power assuming a minimum of \$5m is raised under the public offer referred to in Resolution 10.			
** Assuming a fully subscribed public offer of \$10 million, FCP Group's voting power will be reduced to 22.01%.			

(h) Information required by ASIC Regulatory Guide 74

Under ASIC Regulatory Guide 74: *Acquisitions Agreed to by Shareholders* requires that the following information be provided to Shareholders to enable Shareholders to make an informed decision on Resolution 8:

- (i) **Identity of the allottees:** The identity of the allottees, their associates and any person who will have a relevant interest in the shares to be allotted:

(1) **to FCA are:**

(A) Relevant Interests

FCA; Olwyn Ventures Limited 1418604; First Capital Partners Limited F0013673; FCP Direct Investments Limited; First Capital Partners (Hong Kong) Limited 0764788; David McCann; Andrew Waters.

(B) Associates

The persons listed in (1)(A) above and BSGI; FCP Direct Investments II Limited; FCA Management Limited 1472629; First Capital Management Aust Pty Ltd ACN 135 591 721; FCP Corporate Services Limited F0013672; FCP Corporate China Limited 0866295; FCP Corporate (HK) Limited 0852130; FCP Corporate Services Aust Pty Ltd ACN 138 331 941; FCP WFOE.

(2) **to BSGI are:**

(A) Relevant Interests

BSGI; FCP Brencorp No.12 Limited; FCP Brencorp No.1 Limited 1110669; FCP Brencorp No.2 Limited 1116833; FCP Brencorp No.3 Limited 1136668; Andrew Waters.

(B) Associates

The persons listed in (2)(A) above and TBSC; FCP Brencorp No.12 Limited; FCP Direct Investments Limited; FCP Direct Investments II Limited; First Capital Partners Limited F0013673; FCA Management Limited 1472629; First Capital Management Aust Pty Ltd ACN 135 591 721; FCP Corporate Services Limited F0013672; FCP Corporate China Limited 0866295; FCP Corporate (HK) Limited 0852130; FCP Corporate Services Aust Pty Ltd ACN 138 331 941; FCP WFOE.

- (ii) **Particulars of shares to be acquired:** Full particulars (including the number and the percentage) of the Shares in the Company to which the allottee will be entitled immediately before and after the proposed acquisition is set out in Table 3 above.
- (iii) **Directors appointed:** As a result of the TBSC Acquisition, BSGI is entitled to appoint 2 directors to the Board of HLI. At the date of this Explanatory Memorandum, Mr David McCann and Mr Andrew Phillips have been appointed to the board effective 12 April 2010.

David McCann

David has 15 years international business experience in providing entrepreneurial corporate advisory leadership on M&A, capital raising transactions and corporate turnarounds, particularly in the US, Australia and Europe. David is currently an Executive Director of listed ASX company Connexion Ventures Limited (ASX: CXN) and is also a Director of Asia based First Capital Partners. David McCann is a director and shareholder of FCA.

Andrew Phillips

Previously Group Financial Controller for Aristocrat Limited, Executive Director for Recovre (a former division of Allianz Insurance), CFO and Director for Hoya. Has over 20 years corporate experience in both New Zealand and Australia within a number of large national and multinational companies. Has a career in Australia in executive financial management and corporate governance. Currently Finance Director and Company Secretary for Connexion Ventures Limited, facilitating the restructuring and acquisition activity of this ASX listed company. Currently Independent Director of Richfield International Limited, an ASX listed company. Andrew Phillips is a director and shareholder of FCP Corporate Services Pty Ltd.

(iv) **Intentions of FCP Group:** FCP Group has indicated to the board of HLI that:

- it is supportive of the establishment and growth of the company in the beauty and health industry;
- other than as set out in this Explanatory Memorandum, it does not presently intend to inject further capital into the Company;
- because HLI is not currently trading and has not done so for several years, the Company had no employees. The Company has recently appointed Ms Karen Matthews as CEO who will lead the growth of the business and the Company will employ personnel as required consistent with the growth of the business;
- other than the proposed acquisition of TBSC and issue of Shares to BSGI and FCA under Resolution 8, there is no current proposal whereby any property will be transferred between FCP Group and HLI;
- there is no present intention to redeploy or dispose of any of the assets unless it is commercially sound to do so; and
- FCP Group does not have any present intention to change significantly the financial or dividend policies of the Company.

(v) **Particulars:** Particulars of the terms of the proposed allotment of:

- (1) the BSGI Shares is set out in the summary of the TBSC Share Purchase Agreement in section 5.6(d) of this Explanatory Memorandum;
- (2) the FCA Shares is set out in the summary of the Convertible Loan Agreement in section 5.7(b) of this Explanatory Memorandum and the summary of the Consulting Services Agreement in section 5.7(c) of this Explanatory Memorandum.

(vi) **Timing:** The allotment of the BSGI Shares and FCA Shares is to be made upon Reinstatement and expected to occur in accordance with the issue and allotment of Shares under the public offer and as set out in the indicative timetable in section 1.2 of this Explanatory Memorandum.

(vii) **Reasons for share issues:** The reasons for the proposed allotment of the BSGI Shares and FCA Shares are set out in sections 1.1(Background to the Proposals) and 1.3 (Summary of the Restructure Resolutions) of this Explanatory Memorandum.

(viii) **Directors' interests:** The interests of Directors in the Resolutions including Resolution 8 are set out in section 7 of this Explanatory Memorandum.

- (ix) **Directors' decision to put Resolution 8 to Shareholders:** Each of Mr Michael Knee and Ian Smith, the Directors who do not have an interest in the outcome of this Resolution 8 approved the proposal to put Resolution 8 to Shareholders and the information for Shareholders set out in this Explanatory Memorandum.
- (x) **Independent Expert's Report:** The Independent Expert's Report in the Annexure to this Explanatory Memorandum contains an analysis of whether the issue and allotment of the FCA Shares and BSGI Shares in accordance with Resolution 8 is fair and reasonable, when considered in the context of the interests of, the Shareholders, other than those involved in the proposed allotment or associated with such persons. The Independent Expert has opined that the issue of the FCA Shares and BSGI Shares is **fair and reasonable**. The Directors encourage you to read the report.
- (xi) **Additional Information:** Neither the Company nor the Directors are aware of any additional information not set out in this Explanatory Memorandum that would be relevant to Shareholders in deciding how to vote on Resolution 8.

Board Recommendation: The Independent Directors, Mr Michael Knee and Mr Ian Smith, being Directors who are not associated with BSGI or FCA, recommend that Shareholders vote **in favour** of Resolutions 8 because the issue of Shares to FCP Group is an important step in the overall process to have the Company's Shares reinstated to trading on ASX and being able to pursue the new strategic direction of the business in the beauty and health sector.

Andrew Phillips refrained from making a recommendation as he was appointed to the board of HLI as a result of the TBSC Share Purchase Agreement. Karen Matthews, although she might be considered independent, refrained from making a recommendation because she was introduced to HLI by an FCP Group-related entity. David McCann refrained from making a recommendation because he is interested in the outcome of Resolution 8 (see section 7 for details).

Interdependency: Approval of Resolution 8 is conditional on all other Interdependent Resolutions being approved. This means that if any Interdependent Resolution is not approved, then none of the Interdependent Resolutions will be approved.

(i) Investment Management Agreement

As part of the transaction, the Company has entered into an IMA with First Capital Advisors Management Limited (the **Investment Manager**) (an entity associated with FCP Group) which will commence upon Reinstatement. A summary of the proposed terms of the IMA, having regard to Guidance Note 26 *Management Agreements*, is set out below.

Under the IMA, the Investment Manager will be responsible for, and provide management services in:

- assisting the Company in developing agreed business strategies and plans;
- strategic business support to the Company across the Asia-Pacific region;
- the identification, evaluation, presentation and recommendation of acquisitions and the general management of such acquisitions; and
- the implementation of decisions of the Board of Directors of the Company and any group company.

The term of the agreement is 10 years unless the Investment Manager and the Company agree otherwise in writing. The term of the agreement may be extended by a further 10 years after the Company receives shareholder approval. The Company may terminate the IMA with 7 days notice if:

- the Investment Manager becomes an externally-administered body corporate for the purposes of Corporations Act; or
- the Investment Manager breaches the agreement and fails to remedy the breach within 60 days.

The Investment Manager may terminate the IMA if:

- the Company becomes an externally-administered body corporate for the purposes of Corporations Act or if any step is taken to initiate proceedings to make the Company an externally-administered body corporate;
- if the Company fails to pay any monies due within 30 days of receiving a demand from the Investment Manager;
- the Company breaches the agreement and fails to remedy the breach within 60 days; or
- the Investment Manager gives at least 3 months written notice of its intention to retire as the investment manager.

A termination fee is payable to the Investment Manager by the Company if the Company terminates the appointment of the Investment Manager. The termination fee is equal to the lesser of:

- an amount equal to 8 times the Management Fee payable in the quarter immediately preceding the Company notifying the Investment Manager that its appointment has been terminated; and
- the sum of all amounts due and payable to the Investment Manager, the costs associated with cancelling all agreements entered into by the Investment Manager during its appointment as Investment Manager, the reasonable costs of terminating employees/contractors of the Investment Manager due to the early termination of the IMA and the amount that the Investment Manager would reasonably have expected to earn if the Investment Manager's appointment had continued until completion of the term of the IMA.

The termination fee is not payable if the Company terminates the Investment Manager's appointment because FCM becomes an externally-administered body corporate or the Investment Manager fails to remedy a breach of the IMA within 60 days.

In consideration for providing these services, the Investment Manager will be entitled to receive:

- a management fee based on the higher of \$500,000 per annum, 2.5% of net asset value and 2.5% of the Company's market capitalisation;
- a performance fee linked to total shareholder return (TSR) which sets in when TSR exceeds 10%; and

- a transaction management fee equal to the higher of 2.5% of the value of any acquisition or divestment made by the Company of \$50,000.

The IMA is not an exclusive appointment. The Investment Manager may provide similar services to other companies and the Company may obtain investment management services from another investment manager. The Investment Manager must comply with the Company's investment plan at all times and may make recommendations to the board regarding the investment plan. The parties must follow the Corporations Act and ASX Listing Rules in relation to any related party dealings. There is no change of control clause in the IMA.

ASX has confirmed that the Company does not require approval under ASX Listing Rule 10.1 for entry into the IMA due to the application of the fifth exception in ASX Listing Rule 10.3 which says ASX Listing Rule 10.1 does not apply to a transaction between the entity and a person who is a related party by reason only of the transaction and the application to it of section 228(6) of the Corporations Act.

5.8 RESOLUTION 9: ISSUE OF CONVERTIBLE NOTES TO RELATED PARTY

(a) Introduction

Resolution 9 seeks Shareholder approval for the issue and allotment of Convertible Notes to Ms Karen Matthews with a face value of \$150,000 convertible into Shares at an issue price of \$0.16 plus one Option for every 2 Shares.

Ms Matthews is considered a related party of the Company because she is a director.

(b) Corporations Act - Section 208

The proposed issue of Convertible Notes constitutes the giving of financial benefits to related parties under section 208 of the Corporations Act which requires shareholder approval unless an exception applies.

As Ms Matthews will not receive any interest and because the Convertible Notes will be unsecured, the terms of the notes are less favourable to Ms Matthews than the Convertible Notes to be issued to non-related investors under Resolution 4. Therefore, the Company has determined that the arm's length exception set out in section 210(b) of the Corporations Act applies to this situation and therefore, does not require the approval of Shareholders under section 208.

(c) ASX Listing Rule 10.11

Listing Rule 10.11 requires shareholder approval to be obtained where a company issues, or agrees to issue, securities to a related party unless an exception in Listing Rule 10.12 applies. As none of these exceptions apply in the circumstances, the Company is seeking Shareholder approval for the issue and allotment of the Convertible Notes with a face value of \$150,000 to Ms Matthews.

ASX Listing Rule 7.1 prohibits the Company from issuing equity securities such as Convertible Notes without shareholder approval which in any 12-month period exceeds 15% of the total number of the Company's fully paid ordinary shares on issue 12 months before the date of a proposed issue. However, in accordance with exception 4 of ASX Listing Rule 7.2, approval under Listing Rule 7.1 is not required because the Company is seeking approval under Listing Rule 10.11.

Accordingly, if Resolution 9 is approved, the issues of Convertible Notes and the subsequent issue of Shares and Options upon conversion of the Note to Ms Matthews will not count towards the 15% threshold.

(d) Information required by ASX Listing Rule 10.13

In accordance with the notice requirements in Listing Rule 10.13, the following information is provided:

- (i) the Convertible Notes will be issued to Ms Karen Matthews;
- (ii) 937,500 Convertible Notes will be issued to Ms Matthews so the maximum number of Shares to be issued upon conversion of the Notes is 937,500 and 468,750 Options;
- (iii) the Convertible Notes will be issued no later than one month after the date of this Meeting (or such later date as permitted by any ASX waiver or modification of the Listing Rules);
- (iv) the terms of the Convertible Notes are as follows:
 - (1) **Payment of principal:** the Noteholder must pay the principal (\$150,000) in monthly instalments of \$5,000 per month and the balance at the end of the term unless paid in full earlier.
 - (2) **No conversion until principal paid:** the Noteholder cannot exercise its conversion rights until the principal sum is paid in full.
 - (3) **No coupon:** the Notes have no coupon;
 - (4) **Condition precedent:** conversion of the note into Shares is subject to shareholder approval (i.e. this Resolution 9) and, as requested by ASX, cannot be converted until the Company's shares are reinstated to official quotation;
 - (5) **Expiry:** the Notes will expire 20 months after the date of issue (**Maturity Date**) at which time the face value is due and payable in cash, Shares at the Conversion Rate or a combination of both at the Noteholder's election, unless otherwise repaid or satisfied earlier (see paragraph (6));
 - (6) **Early repayment:** at any time before the Maturity Date the Company may redeem the Note with the Noteholder's prior consent by paying the principal paid up to the Noteholder;
 - (7) **Conversion:** at any time before the Maturity Date the Noteholder may convert up to 100% of the principal into Shares at the Conversion Rate;
 - (8) **Conversion Rate:** the conversion rate is 1 Share for each \$0.16 of the Repayment Amount and for every 2 Shares issued, 1 option will also be issued;
 - (9) **Option terms:** options received on conversion of the note will be exercisable into 1 Share at any time within 3 years from the date of issue of the option at an exercise price of \$0.20 per Share. The Shares will rank equally with all other Shares on issue. Chapter 6 of the ASX Listing Rules applies to the Options;
 - (10) **Ranking:** all payments to Noteholders will rank:
 - (A) *pari passu* among themselves; and
 - (B) in priority to all other unsecured securities issued by the Company.
 - (11) **No security:** the Notes are not secured;

- (12) **Redemption:** If the Company breaches a material term of these terms, fails to pay any amount owing to the Noteholder within 30 days of the Noteholder requesting payment or an insolvency event occurs in relation to the Company, all amounts owing to the Noteholder (including any interest accrued and to be accrued up to the Maturity Date) will be immediately due and payable by the Company.
- (13) **Termination:** if the Noteholder ceases employment with the Company for any reason, the Note is deemed to have matured; the Noteholder forfeits its conversion rights and the Company has 3 months from the date employment ceased to repay the part of the principal paid up.
- (14) **Fractional entitlements:** in calculating a Noteholder's entitlement to Shares on conversion, an entitlement to a fraction of a Share will be disregarded; and
- (15) **Additional entitlements:** In the event that the Company conducts a:
- (A) pro rata offer of Shares to Shareholders, an offer will be made to the Noteholder on the same terms as the pro rata offer and proportionate to the number of Shares that the Noteholder would have if it had converted its Note immediately before the entitlement date for that pro rata offer;
 - (B) bonus issue, the Noteholder will receive (on conversion of the Note) the number of Shares that it would have received if the Noteholder had converted its Note immediately before the entitlement date for that bonus issue.
- (16) **Reconstructions:** in the event of a reconstruction of the capital of the Company by way of consolidation, subdivision, reduction, return, scheme of arrangement or otherwise (but other than by way of a bonus issue, rights issue or other security issue), a proportionate adjustment will be made to the number and issue price of Shares to which the Noteholder is entitled upon conversion of the Note so that: the value of the Note is not adversely affected by the reconstruction; the Noteholder is not conferred with any additional benefits which are not also conferred on Shareholders; and in all other respects the terms for the conversion of the Note remains unchanged.
- (v) the funds raised from the issue of the Convertible Notes will be applied towards working capital pending Reinstatement the development of TBSC and its subsidiaries once the acquisition has been completed.
- (vi) The Convertible Notes may be escrowed in accordance with the ASX Listing Rules.

Directors' Recommendation: The Directors (other than Karen Matthews), **unanimously** recommend that Shareholders vote **in favour** of Resolution 9.

5.9 RESOLUTION 10: APPROVAL OF PUBLIC OFFER

(a) Introduction

Resolution 10 seeks Shareholder approval for the issue of up to 50,000,000 Shares to raise up to \$10 million under a public offer prior to Reinstatement.

The public offer will be open to the general public under which applicants may subscribe for a minimum parcel of \$2,000 worth of Shares at \$0.20 per Share. The public offer will be open to the general public as well as existing Shareholders. The Company will offer a priority entitlement equivalent to at least 10% of the Shares available to be issued under the public offer (**Priority Entitlement**). This means that 10% of the offer will be set aside for existing Shareholders. To the extent existing Shareholders do not subscribe for Shares under the Priority Entitlement, these remaining Shares may be issued to the general public so that the Company can raise the full amount under the public offer. If the Company is required to further consolidate the share capital of the Company, the terms of the public offer will be amended to reflect the consolidation.

The Company expects to lodge a prospectus for the purposes of this capital raising in accordance with the timetable set out in section 1.2 of this Explanatory Memorandum.

(b) Listing Rule 7.1

The proposed issue requires approval under ASX Listing Rule 7.1 which is explained in section 5.2(b) and 5.3(b) above.

(c) Information required by Listing Rule 7.3

In accordance with the notice requirements in Listing Rule 7.3, the following information is provided in relation to the proposed issue of Shares under public offer:

- (i) the maximum number of Shares to be issued is 50,000,000 Shares;
- (ii) the Shares are expected to be issued within three months after the date of this Meeting (or such later date as permitted by any ASX waiver or modification of the Listing Rules);
- (iii) the issue price of Shares will be not less than \$0.20 per Share;
- (iv) the proposed allottees will be the general public which could also include existing Shareholders;
- (v) the Shares will be fully paid ordinary shares issued in the capital of the Company and will rank equally with all existing Shares on issue;
- (vi) the funds will be used for to expand TBSC and to acquire businesses in the beauty and health sector consistent with the Company acquisition and expansion strategies outlined in section 5.6(b) above and for working capital; and
- (vii) the Shares are expected to be allotted shortly before Reinstatement in accordance with the proposed timetable set out in section 1.2 of this Explanatory Memorandum.

Directors' Recommendation: The Directors **unanimously** recommend that Shareholders vote **in favour** of Resolution 10.

6. RISKS ASSOCIATED WITH THE TRANSACTION

Shareholders should consider the risk factors described below, together with information contained elsewhere in this Explanatory Memorandum. The following is not intended to be an exhaustive list of the risk factors which relate to the Company and the proposed transactions pending relisting. The risk factors that Shareholders should specifically consider include, but are not limited to, the following:

Risks Associated with Re quotation

If the Resolutions in this meeting are not approved, there is a risk that the Company may not be relisted. Even if the Resolutions are approved, there are other risks that may result in the Company not being relisted, including but not limited to: if the Company is unable to meet the conditions set out in Chapters 1 and 2 of the ASX Listing Rules including the Company not being able to source suitable acquisitions to increase the level of the Company's operations; if the market falls; or if the public offer does not meet a minimum subscription requirement (if one is set).

Risks Associated with Business Integration

The Company intends to acquire TBSC and plans to acquire more businesses in the future. There is the risk that fully integrating these businesses may take longer or cost more than anticipated by the Company, which could impact on the profitability of the Company. Potential investors should be aware that different accounting systems, information technology systems, staff cultures, distribution and supply arrangements and other matters may impact the Company. There is no guarantee that the combined businesses of the Company will operate as profitably after integration as they did prior to their integration. The performance of the Company's businesses may be adversely affected by changes such as an increase in overheads, changes in management or a reduction in sales with customers who do not view the combined businesses favourably.

Risks Associated with Key Personnel

Growth of the Company's operations may place a significant strain on the Company's resources. Inability to manage growth or integration could have a material adverse effect on the Company. The Company is dependent on its management, the loss of whose services could materially and adversely affect the Company and impede the achievement of its objectives. Because of the specialised nature of the Company's businesses, the ability to develop the Company's businesses will depend in part upon its ability to attract and retain suitable management, however there can be no assurance that the Company will be able to retain such personnel in future.

Risks Associated with Dividends

The quantum of dividends is dependent on net profit after tax available after taking into consideration the cash requirements of the Company. Payment of dividends and the level of franking of dividends will be dependent upon a range of factors, including these risk factors, government legislation and the tax position of the Company. The Company can give no assurance about the future level of dividends or the franking of those dividends.

Risks Associated with Intellectual Property

The Company's intellectual property rights include the trade marks of each of its businesses, domain names and business names. The Company's intellectual property rights may be infringed, or the Company may infringe the intellectual property rights of other entities, resulting in loss of competitive advantage or significant costs in pursuing or defending legal and commercial action.

Risks Associated with the Company's General Business Operations

Factors that will determine the Company's profitability include competitive factors, regulatory developments and the ability of the Company to manage costs and execute its strategic objectives. Successful execution of the Company's business plan is dependent on the implementation of initiatives, including expanding the scale of the Company's operations. There are inherent risks in the execution of the Company's business plans. There are inherent risks that historical experience with regard to the relationships between business development activities and revenues may not continue into the future. The Company may fail to realise forecast sales and profit due to an unexpected decline in consumer demand for its products and services, competition in the Company's markets, failure to develop new products or significant unforeseen expenses or actions. There are risks that the Company's performance could be impacted by potential adverse circumstances such as losses from fraud, systems failure or legal issues, including the enforceability of contracts, status of intellectual property rights or breaches of regulatory requirements and potential losses as a result of the default of entities that owe money to the Company.

Risks Associated with Funding

The Directors expect that the Company will have adequate working capital to carry out its stated objectives, however, there is the risk that additional funds may be required to fund the Company's long term objectives, which include the acquisition of complementary businesses. Future business acquisitions may require funding by raising debt and equity finance in future.

Risks Associated with Product Liability

Health and skincare products carry an inherent risk of product liability. Although the Company maintains product liability insurance, it would be imprudent not to highlight that the Company may be subject to risks associated with product liability, including but not limited to, damage to the Company's brands, reputation, investment profile and commercial relationships.

Risks Associated with Capital Markets and Liquidity

If the Company is successfully relisted and its Shares recommence trading on ASX, the market price of the Company's Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities. The trading price of Shares at any given time may be higher or lower than the price you paid for your Shares. There is potential risk that an investor will be unable to exit or realise their investment because the market for the Company's securities is illiquid, because of the terms of the security or because the Company cannot meet its obligations under the Shares. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

Risks Associated with Economic and Political Circumstances

General economic conditions, movements in interest and inflation rates in the Company's markets and currency exchange rates may have an adverse effect on the Company's activities. The Company may be exposed to risks such as unexpected changes in regulatory requirements, longer payment cycles, problems in collecting debts, fluctuations in currency rates, foreign exchange controls which restrict or prohibit repatriation of funds and potentially adverse tax consequences. The Company's operations, business and profitability can be affected by these factors, which are beyond the control of the Company. The Company may be subject to political and other uncertainties, including risk of civil rebellion, expropriation, nationalisation, renegotiation or nullification of contracts, assets or other agreements in each of its markets.

Risks Associated with Legislation

New legislation and changes to existing legislation and government policy may impact upon the Company and affect its operating performance. Taxation rates and other fiscal regulation in the Company's regions of operations may change significantly in the future. Future expansion of the Company's range of products and services may be governed by Government regulatory controls in each target market and it is not possible for the Company to guarantee that approvals in all target markets will be obtained and maintained in future.

7. INTERESTS OF DIRECTORS IN THE RESOLUTIONS

The table below sets out Directors' interests in the Resolutions other than in their capacity as a Shareholder. These Directors abstained from voting on whether those Resolutions should be put to the Meeting. Voting exclusions also apply to these Resolutions. Please see section 3.3 of the Notice of Meeting for details.

Resolution		Director	Nature of Interest
2(a)	Share issue to Yarra Brae	Michael Knee	Michael Knee controls Yarra Brae. Yarra Brae will be receiving 314,358 Shares under Resolution 2(a).
8	Share issues to entities associated with FCP Group	David McCann	FCA will be receiving 1,499,500 Shares under Resolution 8. David McCann is a director and shareholder of FCA.
9	Convertible Note issue to Karen Matthews	Karen Matthews	Karen Matthews will be receiving 937,500 Convertible Notes under Resolution 9.

8. GLOSSARY

\$ or dollars	means Australian dollars.
ASIC	means the Australian Securities and Investments Commission.
Associate	means an “associate” as defined in the Corporations Act.
ASX	means Australian Securities Exchange Limited (ABN 98 008 624 691), or as the context requires, the financial market operated by it.
ASX Listing Rules or Listing Rules	means the Listing Rules of the ASX and any other rules of the ASX which are applicable to the Company.
Board	means the board of Directors of the Company.
BSGI or Vendor	means Beauty Spa Group International Limited (Company No. 1290700) (HK).
BSGI Shares	means the Shares to be issued to BSGI as set out in Resolution 8.
Company or HLI	means HLI Limited ACN 009 085 974.
Completion	means the completion of the Transaction.
Consolidation	has the meaning set out in section 5.4 of this Explanatory memorandum.
Constitution	means the Company’s constitution.
Consulting Services Agreement	means the Consulting Services Agreement dated 17 February 2010 described in section 5.7(c) of this Explanatory Memorandum.
Convertible Loan Agreement	means the Convertible Loan Agreement dated 25 June 2009 described in section 5.7(b) of this Explanatory Memorandum.
Convertible Note or Note	means a convertible note issued by the Company.
Convertible Noteholder or Noteholder	means a holder of a Convertible Note.
Corporations Act	means the Corporations Act 2001 (Cth).
Director	means a director of the Company.
Dorado	means Dorado Corporate Services Pty Ltd ACN 082 162 409, an entity associated with Mr Simon Storm (former company secretary)

DVM	means DVM Telecommunications Pty Ltd ACN 109 482 895, an entity associated with Mr Anthony Kiernan (a former director).
Explanatory Memorandum	means this explanatory memorandum accompanying and forming part of the Notice of Meeting.
FCA	means First Capital Advisors Limited 1392233, a company incorporated in Hong Kong
FCA Shares	means the Shares to be issued to FCA as set out in Resolution 8.
FCP Group	means the group of entities associated with BSGI and FCA.
Investment Manager	means First Capital Advisors Management Limited (Company No. 1472629).
General Meeting, Meeting or AGM	means this 2009 Annual General Meeting of the Shareholders held at 3 pm (Sydney time) on Wednesday, 8 September 2010 at Shaw Stockbroking Level 13, 60 Castlereagh Street, Sydney NSW 2000 and any adjournment thereof.
IMA	means the Investment Management Agreement dated 12 April 2010 described in section 5.7(i) of this Explanatory Memorandum.
Independent Director	means, in relation to a Resolution, a Director that will not receive any material personal benefit from the Resolution being passed.
Interdependent Resolutions	means Resolutions 4 (Issue of Convertible Notes), 5 (Share Consolidation), 7 (Acquisition of TBSC) and 8 (Share issues to FCP Group).
Notice of Meeting or Notice	means this notice of meeting for the AGM.
Option	means an option to acquire a Share.
Professional Advisers	has the meaning set out in section 3.4(a) of this Explanatory Memorandum.
Restructure Resolutions	means Resolutions 2 through 10.
Share	means a fully paid ordinary share in the capital of the Company.
Shareholder	means a holder of a Share.
TBSC	means The Beauty Spa Company Pty Ltd (ACN 134 616 872), The Beauty Spa Company Asia Limited, The Luxe Company Pty Ltd and Beauty Spa Group IP Pty Ltd.

TBSC Share Purchase Agreement	means the Share Sale and Purchase Agreement dated 20 November 2009, as amended by the Deed of Amendment dated 12 April 2010, described in section 5.6(d) of this Explanatory Memorandum.
Todbern	means Todbern Pty Ltd ACN 010 483 637, an entity associated with Mr John Cawood (a former director).
Yarra-Brae	means Yarra-Brae Holding Pty Ltd ACN 009 317 613, an entity associated with Mr Michael Knee (Non-executive director).

ANNEXURE

INDEPENDENT EXPERT'S REPORT

A J Humphris
Managing Director

BALMORAL CAPITAL

MERCHANT BANKERS

Suite 2,
3B Macquarie Street
Sydney, NSW, 2000 Australia
Tel: +612 9251 9088

4 August 2010

The Directors
HLI Limited
c/- FCP Corporate Services (Australia) Pty Limited
Level 9
234 Sussex Street
Sydney NSW 2000

Dear Sirs

Independent Expert Report and Financial Services Guide

1. Introduction and Background

- 1.1 HLI Limited ('HLI' or the 'Company'), by its independent director, has engaged Balmoral Capital Pty Limited ('Balmoral') to prepare an independent expert report (the 'Report') for inclusion with the Notice of Meeting. The Report sets out in Balmoral's opinion as to whether the terms of the proposed transactions referred to in Resolution 8 of the Notice of Meeting are fair and reasonable to the HLI shareholders who are not associated with First Capital Advisors Limited (Company No. 1392233) ('FCA') and Beauty Spa Group International Limited (Company No. 1290700) ('BSGI') and their associates. FCA and BSGI are companies associated with First Capital Partners Limited ('FCP').
- 1.2 Resolution 8 of the Notice of Meeting includes the issue and allotment of HLI securities in the following circumstances:
- 13,181,818 ordinary fully paid post-consolidation shares ('Shares') as consideration for the proposed acquisition of all of the outstanding shares of four companies (the 'Proposed Acquisitions') from BSGI pursuant to the Share Sale and Purchase Agreement dated 20 November 2009 (the 'Sale and Purchase Agreement') and Deeds of Amendment dated 12 April 2010 and 6 May 2010;

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- 499,500 Shares to satisfy repayment of a loan of \$99,900 provided by First Capital Advisors Limited ('FCA'), an associated company of FCP, to HLI for working capital purposes pursuant to the Heads of Terms Agreement between the parties dated 10 February 2010; and
- 1,000,000 Shares in satisfaction of a restructuring consultancy fee of \$200,000 payable to FCA upon the successful re-quoting of the Company on the ASX pursuant to the Consulting Services Agreement between FCA and HLI dated 17 February 2010.

In this Report, these transactions are referred to collectively as the Proposals.

- 1.3 The Report is required under Item 7(b) of s 611 of the *Corporations Act 2001* (Cth) for acquisitions approved by shareholders and is prepared in accordance with Regulatory Guide 74 ('RG 74'), '*Acquisitions Agreed to by Shareholders*' and Regulatory Guide 111 ('RG111'), '*Content of Expert Reports*'.
- 1.4 HLI's shares were suspended from Official Quotation on 16 July 2004 at the request of its directors and continue to be suspended as at the date of this Report. On 11 May 2009, the directors of HLI, who had been seeking to acquire a new business to provide the basis for re-quotation of HLI on the ASX, announced that they had identified an investment opportunity. This followed an announcement advising that the potential acquisition of Zoogole Interactive Pty Ltd by HLI had been terminated.
- 1.5 On 11 June 2009, the Company announced that it was considering opportunities in the beauty and health sector of Australia and Asia. The Company stated that it was 'reviewing a number of capital raising opportunities to strengthen the Company's capital reserves to undertake this expansion strategy.'
- 1.6 HLI announced on 15 June 2009 that it had entered an agreement with FCP Advisory (HK) Limited (now known as First Capital Advisors Limited), a subsidiary of FCP, to work together with the intention of developing business opportunities and undertaking investments in the beauty and health industries. HLI also announced that it had entered into a Consulting Services Agreement with FCA to assist the Company to expand into the beauty and health markets of Australia and Asia, including China. The Company foreshadowed the need to reorganise its capital structure and raise additional capital.
- 1.7 On 27 November 2009, HLI announced that it had entered into a Sale and Purchase Agreement to acquire 100% of The Beauty Spa Company Pty Ltd ('TBSC') and related entities, an early stage Sydney based beauty services and products' company. According to HLI, TBSC provides a suitable vehicle for the company to enter the beauty and health sector. The consideration was stated to be \$3.3 million payable by the issue of HLI shares and options to BSGI, the seller.
- 1.8 The terms of the Sale and Purchase Agreement were amended on 12 April 2010 with the effect that the total consideration for TBSC and related entities was to be \$3.8 million payable as cash and funded by vendor finance. Subsequently, on 22 July 2010, HLI announced that the purchase price had been re-negotiated such that the total consideration for TBSC and related entities is to be \$2.9 million. The consideration is payable in cash and funded by vendor finance. We note that the Sale and Purchase Agreement (as amended) provides for the consideration for the acquisitions to be effectively paid in the form of HLI shares. The Company stated, in a release to the ASX

dated 15 April 2010, that the date by which conditions precedent under the Sale and Purchase Agreement must be satisfied or waived had been extended to 30 September 2010. The announcement also stated that completion of the acquisition is to occur after obtaining all regulatory approvals and re-quotations of the Company's securities on the ASX and that the seller, BSGI, is entitled to nominate two directors to the board of the Company prior to completion.

- 1.9 HLI announced on 19 April 2010 that it had entered into an Investment Management Agreement with First Capital Management Aust Pty Ltd ('FCM'), a company associated with FCA, for the provision of a range of management services. The Company stated that this arrangement would facilitate the management and expansion of HLI's proposed beauty and health business. On 20 May 2010, the Company announced the appointment of Ms Karen Matthews, formerly the CEO of Ella Bache in Australia, as CEO of HLI. Ms Matthews was appointed a director of HLI on 9 July 2010.
- 1.10 The principal terms of material agreements relevant to the Proposals are summarised in Section 5 of this Report.

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2. Opinion

- 2.1 In our opinion, the terms of the Proposals relevant to Resolution 8 in the Notice of Meeting are fair and reasonable to the shareholders of HLI who are not associated with FCP and its associates.

- 2.2 Our opinion of fairness indicates that the non-associated shareholders of HLI are not being unfairly diluted by the Resolution 8 Proposals. Since the Proposals, in our opinion, are fair, they are also reasonable. However, a number of other factors also support the reasonableness of the Proposals. These are, in particular: the condition that the Proposals will not be implemented if approved by shareholders unless and until the Company is added to the Official List of the ASX and its shares become requoted; and the adverse position of the Company if the Proposals are not approved and implemented.
- 2.3 The opinion is given, and should be read, in conjunction with Section 9 of this Report and with the entire Report, including the qualifications expressed.

3. Scope of the Report

Purpose of the Report

- 3.1 The directors of HLI have engaged Balmoral to prepare an independent expert report setting out its opinion as to whether the Proposals to be considered in Resolution 8 are fair and reasonable to the shareholders of the Company who are not associated with FCP and its associates. Our Report is prepared to satisfy the requirements of Item 7 of s 611 of the *Corporations Act 2001* (Cth) and RG74.

Basis of our Assessment

- 3.2 In making our assessment we have determined that we should follow the directions set out in RG 111 '*Content of Expert Reports*' in connection with Control Transactions. We have also referred to RG 74 '*Acquisitions Agreed to by Shareholders*' (which has been partially replaced by RG 111) and RG 112 '*Independence of Experts*'.
- 3.3 In accordance with RG 111, we have considered 'fair' and 'reasonable' as separate concepts. In assessing whether the terms of each of the Proposals are fair, we have examined the value of the consideration being offered compared with the value of the shares, loan, services, or convertible notes received. The value of the HLI shares is based on the value of HLI's shares on a 100% ownership basis and inclusive of a control premium. The control premium may be regarded as the converse of the minority shareholder discount applicable to the price at which parcels of shares trade, compared with the value of the company as a whole, in the absence of strategic value.
- 3.4 In the case of the Proposed Acquisitions (part (a) of Resolution 8), we have compared the consideration offered (13,181,818 Shares) with the value of the shares of the four companies that are to be acquired. For the repayment of the \$99,900 loan (part (b) of Resolution 8), we have compared the consideration offered by the Company (499,500 Shares) with the value of the loan to be converted. In the case of the Services Fee Transaction (part (c) of Resolution 8), we have compared the consideration offered by HLI (1,000,000 Shares) with the ascribed \$200,000 value of the services to be provided.

- 3.5 In considering whether the terms of each of the Proposals are reasonable, we have considered other factors including the circumstances facing the Company if the Proposals are approved, compared with the circumstances if they are not approved, and any special value accruing to FCP and its associates.
- 3.6 Our assessment is impacted by a number of risks and uncertainties that are referred to throughout this Report and in the Explanatory Memorandum.

Sources of Information

- 3.7 The following information was used and relied upon in preparing this Report:

Publicly available information:

- a. annual reports of HLI for the year ended 30 June 2009 and prior years;
- b. all ASX releases made by the Company since 2007; and
- c. the Notice of Meeting and Explanatory Memorandum, for which this Report forms part, prepared for the Annual General Meeting of HLI .

Non-Public Information relating to HLI:

- a. strategy document on HLI prepared by FCA;
- b. copies of relevant agreements executed by the Company;
- c. unaudited profit & loss statement for the period 1 July 2009 to 31 March 2010 and an unaudited balance sheet as at 30 June 2010;
- d. pro-forma consolidated balance sheet for HLI as at 30 June 2010;
- e. current capital structure and pro forma capital structure;
- f. current list of HLI creditors; and
- g. discussions with HLI's directors and advisors.

Non-public information on the Proposed Acquisitions:

- a. TBSC financial statements – unaudited profit and loss statement for the year ended 30 June 2010, unaudited balance sheet as at 30 June 2010;
- b. TBSC investor presentation document dated 27 May 2010;
- c. TBSC information memorandum dated 28 May 2010; and
- d. monthly operating budget for TBSC's Sussex St operations for the period ending 31 December 2010.

Limitations and Reliance on Information

- 3.8 This Report is based upon information provided by the Company. HLI has represented to Balmoral in writing that the information provided is neither incorrect nor misleading in any respect and does not contain any material omissions. Balmoral has no reason to believe that any material information has been withheld from it. Balmoral has reviewed the information provided by the Company and has relied upon this information. It is noted, however, that any information in the form of projections is, by its very nature, subject to risks and uncertainty. This is particularly the case with financial projections relating to the performance of HLI post-implementation of the Proposals since the Company is acquiring and developing businesses at early stages of maturity. Balmoral has not conducted any form of audit of the financial information or of any of the other information provided to it and note that the HLI and TBSC financial statements for financial year 2010 provided to us have not been audited.
- 3.9 The opinion of Balmoral is based upon market, economic, business, financial and other conditions prevailing as at the date of this Report. These conditions can change materially over relatively short time periods. Consequently, Balmoral's opinion may not be the same under changed future conditions. Except as may be required by law, Balmoral has no obligation to advise any person of any change in conditions which may come to its attention after the date of this Report or to review its Report and opinion.
- 3.10 Balmoral's opinion must be considered as a whole. Selected components underlying the opinion, if used alone, could create a misleading view. This report forms part of, and should be read in conjunction with, the Notice of Meeting and Explanatory Memorandum.

4. The Proposals

- 4.1 Resolution 8 seeks shareholder approval for the Proposals.

These are:

- the issue and allotment of 13,181,818 Shares at an issue price of \$0.22 per Share to BSGI as consideration for the Proposed Acquisitions (being the entire share capital of The Beauty Spa Company Pty Ltd, Beauty Spa Talk Pty Ltd, Beauty Spa Group IP Pty Ltd and TBSC Asia Pty Ltd);
- the issue and allotment of 499,500 Shares to FCA at an issue price of \$0.20 per Share in repayment of a \$99,900 loan to equity pursuant to the Heads of Terms Agreement; and
- the issue and allotment of 1,000,000 Shares to FCA at an issue price of \$0.20 per Share in payment of a success fee pursuant to the Consulting Services Agreement.

Further information on Resolution 8 is contained in the Explanatory Memorandum accompanying the Notice of Meeting.

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4.2 Resolution 8 of the Notice of Meeting is interdependent with certain other resolutions contained in the Notice of Meeting such that if one of these Resolutions is not approved then none of these resolutions will be approved. The Proposals, therefore, should be considered in the context of all the interdependent resolutions.

4.3 The resolutions which are interdependent with Resolution 8 are:

- Resolution 4;
- Resolution 5; and
- Resolution 7

We note, also, that Resolutions 2, 3, 7 and 8 are conditional upon the re-quotations of the Shares on the ASX (refer to paragraph 1.5 of the Explanatory Memorandum). This means that these Resolutions will only be implemented, if approved, upon re-quotations of the Shares.

4.4 Since the implementation of the Proposals are conditional upon the re-quotations of HLI shares on the ASX, they should also be considered in conjunction with the plans disclosed by the Company relevant to seeking re-quotations of the Company's shares. If shareholders approve all the interdependent resolutions, the Company intends to prepare a disclosure document suitable for making an offer of securities to the public and for the proposed application for re-quotations of the Company's shares. HLI has disclosed in the Explanatory Memorandum that it intends to complete a strategic acquisition concurrently with re-quotations. The Company intends to use the funds raised for working capital purposes and towards further possible acquisitions. Additional shareholders are also needed for re-quotations to meet the spread requirements of Condition 7 of ASX Listing Rule 1.1. FCA (or a related party) is contracted under the Consultant Services Agreement, the Heads of Terms Agreement and the Investment Management Agreement to arrange funding and provide management and advisory services to facilitate these plans. Refer to the Relevant Agreements, below, and to the Explanatory Memorandum for details concerning the Company's strategy to become re-quoted.

4.5 The impact of the passing and implementation of Resolutions 2, 3, 5, 7, 8, 9 and 10 on the share capital of the Company (on the basis that the convertible notes and options to be issued pursuant to Resolutions 4 and 9 are converted and if the maximum number of Shares under Resolutions 10 are issued) is set out in the table, below. For information on all Resolutions refer to the Notice of Meeting and the Explanatory Memorandum.

No. of ordinary fully paid shares currently on issue	262,856,506
No. of ordinary fully paid shares held by FCP and its associates pre-consolidation and prior to the approval and implementation of the Proposals	nil
Shares post-consolidation held by existing shareholders	257,304
Shares Issued pursuant to the Resolutions:	
Resolution 2	1,149,273

Resolution 3	593,423
Resolution 4	12,656,250
Resolution 8	14,681,318
Resolution 9	1,406,250
Resolution 10	50,000,000
Total Shares on issue post-consolidation on a fully diluted basis	80,743,818
Shares (on a fully diluted basis) held by FCP and its associates	14,681,318
Maximum voting power held by FCP and its associates, prior to conversion of convertible notes and exercise of any options, if all resolutions are approved and a minimum of \$5million is raised under Resolution 10.	35.22%

5. Relevant Agreements

5.1 The following agreements are relevant to the Proposals contained in Resolution 8:

- the Sale and Purchase Agreement dated 20 November 2009 and Deeds of Amendment dated 12 April 2010 and 6 May 2010;
- the Heads of Terms Agreement dated 17 February 2010; and
- the Consulting Services Agreement dated 17 February 2010 and Deed of Amendment.

5.2 Certain key terms of these agreements are set out below.

Sale and Purchase Agreement

5.3 Under the terms of the Sale and Purchase Agreement, the Company has agreed to acquire the entire share capital of The Beauty Spa Company Pty Ltd, Beauty Spa Talk Pty Ltd, Beauty Spa Group IP Pty Ltd, and TBSC Asia Pty Ltd from BSGI.

5.4 Resolution 8 of the Notice of Meeting seeks the approval of HLI shareholders for the issue and allotment of 13,181,818 Shares by the Company to BSGI at an issue price of \$0.22 per Share. The Shares are to be issued and allotted to BSGI in satisfaction of the purchase price for the Proposed Acquisitions of \$2.9 million.

5.5 The Sale and Purchase Agreement is subject to a number of conditions precedent. Included among the conditions is that HLI shareholders approve the Proposed Acquisitions and issue and allot 13,181,818 Shares to BSGI. BSGI has the right to terminate the Sale and Purchase Agreement if the Company's shareholders do not approve Resolution 8.

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- 5.6 The Sale and Purchase Agreement anticipates that the Company may take management control of the Proposed Acquisitions prior to completion. Two nominees of BSGI were appointed to the board of the Company on 19 April 2010 pursuant to the terms of the Sale and Purchase Agreement.

Heads of Terms Agreement

- 5.7 Under this agreement, dated 17 February 2010, FCA agreed to advance \$99,500 to the Company. FCA advanced \$52,500 to the Company in July 2009 and a further \$47,400 has been advanced, making the total sum advanced by FCA equal to \$99,900 by the date of this Report, all of which is interest free. The advance provided the Company with required interim funding. FCA and the Company agreed that the funds advanced (the loan) could be converted to equity and repayment thereby satisfied by Shares. Pursuant to Resolution 8, the Company is seeking shareholder approval to issue and allot 499,500 Shares at an issue price of \$0.20 to FCA in satisfaction of the \$99,900 advance.

- 5.8 The agreement also states that FCA is acting to facilitate:

- the completion of the Sale and Purchase Agreement;
- the restructuring and re-branding of HLI; and
- capital raisings.

- 5.9 The Heads of Terms Agreement contemplates that the following agreements will be entered into by the Company and an associate of FCP, as conditions precedent to the implementation of the Proposals:

- Deed of Amendments to the Sale and Purchase Agreement;
- Investment Management Agreement; and
- Services Contract for the provision of ongoing accounting and company secretarial services.

Implementation of the Proposals is conditional also on the adoption of a mutually agreed business strategy for HLI, receiving the necessary regulatory and HLI shareholder approvals, and on the re-quoting of the Company's securities.

- 5.10 Under the Heads of Terms Agreement, HLI and FCA agree to work together to restructure and re-position the Company. This is to be carried out in two phases. The first phase includes items, which are the subject of resolutions in this Notice of Meeting. FCA also has the right to provide a working capital loan to HLI of up to \$500,000. In the second phase, the parties agree that FCA will work with HLI to facilitate a capital raising for HLI.

Consulting Services Agreement

- 5.11 FCA agrees to provide consulting services to HLI to assist the Company in its proposed restructuring and in the implementation of its business strategy in the beauty and health

sector.

- 5.12 The services FCA agrees to provide include introducing potential acquisitions and other business opportunities, advising on opportunities for expanding operations in Asia, and assisting with promotion of the Company. FCA also agreed to assist the Company in identifying strategic investors and to participate in the proposed capital raising.
- 5.13 HLI agrees to pay FCA service fees upon the completion of certain events. The service fees payable to FCA are:
- \$200,000 payable upon the completion of the restructuring and re-quotation of the Company;
 - Shares equal to 2.5% of the capital raised in the proposed capital raising by the Company of up to \$2,500,000 and of any subsequent capital raising within 3 years of the date of the agreement; and
 - one option for each dollar raised by the Company for capital raised by HLI (up to a maximum of \$10,000,000) within 12 months of the agreement.

Other Agreements

- 5.14 The following agreements are relevant to the Company's new business strategy if the Proposals are approved and implemented:
- the Investment Management Agreement dated 12 April 2010; and
 - the Heads of Terms Agreement (refer to summary above).
- 5.15 Certain key terms of the Investment Management Agreement is set out below.

Investment Management Agreement

- 5.16 The Company entered into an agreement with FCM, an associate of FCA, whereby FCM agrees to provide management services to the Company. The Company agrees to pay FCM the following fees:
- an Administration and Management Fee equal to the greater of \$500,000, 2.5% of the Company's Net Assets, or 2.5% of the Company's market capitalisation;
 - a Performance Fee calculated by reference to the return on equity of the Shares; and
 - a Transaction Management Fee for divestments or acquisitions made by HLI equal to 2.5% of the transaction value subject to a minimum fee of \$50,000.
- 5.17 The agreement is for a term of 10 years. It can be renewed subject to approval by HLI shareholders. The agreement gives FCM the right to appoint a majority of the directors of HLI.

6. Profile of HLI Limited

Background

- 6.1 HLI is listed on the ASX; however, the Company sought and was granted a suspension from trading of the Company's securities on 16 July 2004. This followed a trading halt during 13-15 July 2004. The suspension was sought and granted after problems arose in relation to the Company's joint venture investment in Chongqing Hailian University, China.
- 6.2 The directors of HLI have been investigating possible acquisitions and other opportunities in an endeavour to place the Company in a position to seek re-quotation of its shares on the ASX. In this regard, the Company announced in a release to the ASX on 6 May 2008 that it had entered into a heads of agreement to acquire Zoogole Interactive Ltd ('Zoogole'). Zoogole was described as a provider of eBusiness and digital marketing solutions. However, HLI advised in a release to the ASX on 9 February 2009 that, although it had completed its due diligence, it had terminated the agreement due to 'difficulties with the vendors'.
- 6.3 On 15 June 2009, HLI announced that it had entered into a Heads of Terms Agreement with FCP under which the parties agreed to co-operate in developing business opportunities and in undertaking investments in the beauty and health market. This followed an announcement on 11 June 2009 in which the Company advised that it was considering business opportunities in the beauty and health market.

Overview of Financial Information

- 6.4 HLI advised, in a release to the ASX dated 9 February and in its 2009 Annual Report, that certain Directors had advanced unsecured funds to the Company without which 'the Company would not exist today'. HLI also advised that certain executives and consultants agreed to be issued Shares in lieu of cash for salaries or fees owed by the Company. These transactions are relevant to Resolutions 2 and 3.

- 6.5 Simplified unaudited Balance Sheet for HLI as at 30 June 2010:

Total Assets		\$112,712
Total Liabilities		\$773,056
Trade Creditors	\$329,980	
Short-term Loans	\$55,722	
GST Adjustment	\$(26,355)	
Post-reconstruction Loan	\$139,733	
AIS Loan	\$52,500	
Other Long-term Loans	\$221,476	
Net Assets		\$(660,344)

- 6.6 Pro forma consolidated balance sheet as at 30 June 2010 after implementation of all Resolutions (including the conversion of convertible notes, and the raising of \$10 million

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under Resolution 10) but prior to the exercise of any options:

Assets	
Cash on Hand	17,281
Proceeds from Convertible Note issue (Resolutions 4 and 9)	1,500,000
Proceeds from Public Offering (Resolution 10)	10,000,000
Inventory	16,913
Fixed assets	140,222
Other assets (goodwill arising from the Proposed Acquisitions)	<u>2,682,826</u>
Total Assets	<u>14,357,242</u>
Current Liabilities	
Trade Creditors	257,325
GST Liabilities	(5,773)
Payroll Liabilities	42,181
Loans	<u>55,722</u>
Total Current Liabilities	<u>349,455</u>
Long Term Liabilities	
Superannuation liability	22,767
Other Loans	121,475
Loan AIS	<u>52,500</u>
Total Long Term Liabilities	<u>196,742</u>
Total Liabilities	<u>546,197</u>
Net Assets	<u>13,811,045</u>
Equity	
Issued Share Capital	2,900,001
Additional Issued Share Capital - Convertible Note conversion	1,500,000
Issued Share Capital - Loan Conversion	500,000
Issued Share Capital - Public Offering	10,000,000
Retained Earnings	(633,230)
Current Year Earnings	<u>(455,726)</u>
Total Equity	<u>13,811,045</u>

Note: Amounts have been rounded to the nearest dollar.

Directors

6.7 The directors of HLI as at the date of this report are:

- David McCann (Chairman);
- Michael Knee (Managing Director);
- Ian Smith (Independent Director);
- Karen Matthews (Director); and
- Andrew Phillips (Director).

7. Details of Proposed Acquisitions

The Beauty and Health Industry

- 7.1 The beauty and health sector has traditionally concentrated on skincare products and services. The industry has, however, broadened from beauty salons to wellness and health spas that provide services such as massages, naturotherapy and reflexology, and related products. Some operators have medi-clinics staffed with registered nurses.
- 7.2 The beauty and spa industry in Australia has been growing rapidly. The Company provided estimates indicating that there are some 650 specialist spas and thousands of beauty salons operating in Australia. The industry is fragmented, consisting of numerous small operators.

Proposed Acquisitions

- 7.3 The four companies comprising the Proposed Acquisitions (TBSC and its sister companies) potentially cover the provision of services, products, distribution, and Internet portal within the beauty and health industry. At the date of this Report, only one company, TBSC, has existing operations.

Description of Business of Proposed Acquisitions and Future Strategy

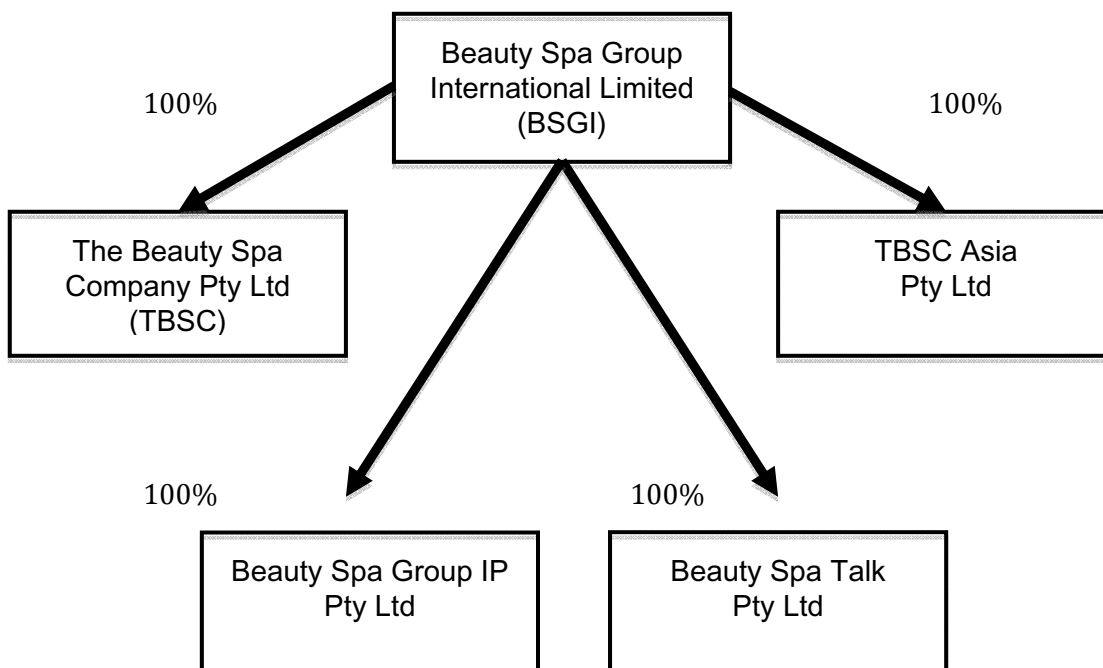
- 7.4 TBSC has two spa clinics in Sydney located in Paddington and Sussex Street. The Sussex Street spa operates as a day spa providing a range of treatments for male and female clients. Services include skin and face treatments, body scrubs, sauna and steam treatments, massage, and clinical skin treatments (such as laser and Botox treatments). The Luxe Spa in Paddington is currently closed for refurbishment and we are advised that it is planned to be re-opened as a high-end spa/clinic later in this financial year.

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- 7.5 The Company has adopted a strategy and business model that envisages expanding activities through four operating business streams: services; products; distribution; and online sales. The objective is to also extend these activities throughout the Asian region. A brief outline of the proposed four business streams is given, below.
- 7.6 **Services**
The objective is to operate a network of spas and medi-clinics throughout the region. The medi-clinics are intended to provide high end and high margin treatments such as laser, micro-dermabrasion, colonics and detox treatments and are to be developed by franchised and company-owned outlets. The intention is that high-end spas will generally operate out of, or adjacent to, hotels so as to access a ready potential client pool. These spas will and offer treatments such as massages, naturotherapy and reflexology. TBSC cites its existing spa business - 'The Beauty Spa' at Four Points Sheraton, in Sussex Street - as an example of this concept.
- 7.7 **Products**
The product range is to comprise skin care treatments, cosmetics, and cosmeceuticals and are to include company-owned branded products prepared by third parties.
- 7.8 **Distribution**
TBSC plans to invest in product distribution logistics to ensure greater control.
- 7.9 **Online sales**
Beauty Spa Talk Pty Ltd (refer below) plans to have a custom built online retail portal incorporating an online payment facility. We are advised by the Company's adviser that TBSC expects this service to be launched during the 2011 financial year.
- 7.10 Other than TBSC, the other three companies in the Proposed Acquisitions do not have operations at the present time.

BSGI Ownership Chart



The Beauty Spa Company Pty Ltd

Unaudited Financial Information

Summarised Profit and Loss Statement for the period ended 30 June 2010:

Revenue	\$163,480
Net Loss	\$(182,818)

Net Asset position as at 30 June 2010:

Total Assets	\$61,703
Total Liabilities	\$372,898
Net Assets	\$(311,195)

Beauty Spa Talk Pty Ltd

7.11 Beauty Spa Talk Pty Ltd was established to undertake distribution of the products sold through the TBSC spas and to other spa businesses. At this stage, the company has not commenced activities and has no material assets or liabilities.

7.12 No financial accounts have been prepared for this company.

Beauty Spa Group IP Pty Ltd

7.13 Beauty Spa Group IP Pty Ltd was established to house the intellectual property of TBSC and Beauty Spa Talk Pty Ltd. The company has no material assets or liabilities.

7.14 No financial accounts have been prepared for this company.

TBSC Asia Pty Ltd

7.15 TBSC Asia Pty Ltd was established to be the entity through which the group intends expanding its operations in the Asian region.

7.16 No financial accounts have been prepared for this company.

8. Methodology for the Fair and Reasonable Assessment

8.1 We have determined the basis of our assessment of fair and reasonable after taking into account the requirements of RG 111 referred to in paragraph 3.3 of this Report.

8.2 We have assessed the fairness and reasonableness of each of the three components of Resolution 8, individually, prior to making our overall assessment of the fairness and

reasonableness of Resolution 8 as a whole. We have also made our assessment of the Resolution 8 Proposals in the context of the interdependent resolutions to be considered at the Meeting. We have further considered our assessment in the context of the conditionality associated with the implementation of Resolution 8, if approved, particularly the requirement for HLI's Shares to be re-quoted on the ASX prior to implementation; refer to paragraph 1.5 of the Explanatory Memorandum.

Fairness

- 8.3 Determining present value ranges for the securities to be issued under the Proposals relevant to Resolution 8 represents an important component of an assessment of fairness in line with the requirements of RG 111 and as to whether or not the existing non-associated shareholders would be unfairly diluted.
- 8.4 In considering whether the terms of the Proposed Acquisitions are fair, we have assessed the present values of HLI and of the four companies to be acquired and we have examined the value exchange: that is, the value of HLI securities (on a 100% ownership and control basis) being offered compared with the value of the securities being acquired.
- 8.5 The value of any asset, including an equity security, may be represented by the present value of the expected future free cashflow stream that the asset generates discounted by the weighted average cost of capital. Other valuation methods are essentially surrogates for a cashflow-based valuation. Usually, the nature and characteristic of an asset will determine the most appropriate valuation method. However, other factors, including the availability of reliable information and the ability to make financial projections or forecasts, may impact on the selection of the most appropriate method.
- 8.6 This practice results in the following five primary methodologies being commonly used:
- a. discounting expected future free cash flows at the weighted average cost of capital;
 - b. capitalising future maintainable earnings or free cashflows at an appropriate rate;
 - c. capitalisation of future maintainable dividends;
 - d. reference to the market price at which the securities or assets trade or by reference to identical or comparable transactions; and
 - e. estimating the net realisable value of assets and liabilities and the amount distributable to shareholders from their orderly realisation.
- 8.7 HLI has no current business activities or material assets and no prospective earnings and cashflows. The Company's securities are not traded on any market.
- 8.8 The Proposed Acquisition involves the use of HLI as a listed 'shell'. HLI is an ASX-listed but suspended company shell for which there is a variable supply and demand at any particular time. Company shells are often used by parties wishing to effect a reverse takeover, ('backdoor listing'), transaction. The re-quotations of a suspended company shell that proposes a new business activity normally requires shareholder approval for

the change of activities and the company must meet the Chapter 1 requirements of ASX Listing Rules for a new listing and the preparation of a disclosure document. The costs and timetable may be broadly similar to the alternative course of undertaking an initial public offering with the new business.

8.9 The value of a suspended ASX-listed company shell (separately from the value of any existing business or of its net assets) at any particular time is normally dependent upon a number of factors, including the following:

- the supply of and demand for company shells, particularly those shells not quoted and removed from the Official List;
- the total number of shareholders in the company and the number of shareholders who would hold marketable parcels of shares at the public offer share price;
- the value of any existing tax losses to the incoming business;
- the period of time during which the company has been suspended;
- the state of affairs of the company, including any outstanding compliance issues; and
- the willingness of the directors of the shell company to engage in a reverse takeover transaction.

If a company shell has significant cash reserves, the premium payable for the company shell is typically greater than otherwise would be the case. Conversely, the value of a company shell will be lower if it has significant debts, contingent liabilities or requires substantial 'clean-up' work. We also note that the imputed price paid for control of a listed company shell set by historic, reverse takeover transactions involving the exchange of shares may not reflect the market value of the shell if the consideration for control of the shell were to be payable as cash.

8.10 For the purpose of considering the Proposals we have assessed the present value of HLI on an 'as is' basis. We have not considered the present value of HLI on the basis of those liabilities relevant to Resolutions 2 and 3 being satisfied by the issue of Shares since the implementation of these resolutions is also conditional upon re-quotations (refer to paragraph 1.5 of the Explanatory Memorandum). For the reasons given it is not appropriate to employ valuation methods listed in paragraph 8.6(a)-(d). Instead, we have considered the net asset position of HLI, as well as its value as a listed shell, in order to estimate HLI's present value.

8.11 In the case of TBSC – the only company of the Proposed Acquisitions that currently has any material assets – we have estimated its present value based upon its existing business assets and future prospects, on a stand-alone basis. As noted, TBSC is seeking to expand its scale within the fragmented beauty spa and salon industry. TBSC's growth prospects depend in large part on its ability to fund its future organic growth and possible acquisitions.

8.12 In the 12-month period ending 30 June 2010, TBSC recorded a trading loss and as at 30 June 2010 it had negative net assets amounting to approximately \$(0.31) million. Its

present value on a stand-alone basis is dependent on ongoing funding from FCP and its associates or from other parties.

- 8.13 In considering the present value of TBSC and its sister companies (on a stand-alone basis) we note that projected future net cashflows for several future annual periods are not available. We could not employ any of the valuation methods listed in paragraph 8.6 of this Report. We have endeavoured to estimate the present value of TBSC and its sister companies by considering the future prospects for TBSC to trade profitably and generate positive free net cashflows in the context of its existing assets, liabilities and funding requirements. However, in the absence of the Proposals, it is not known whether TBSC and its sister companies would have access to capital needed to fund their operations or potential acquisitions and, if they do, on what terms any capital could be raised.
- 8.14 In assessing the fairness of the terms of the Resolution 8 items other than the Proposed Acquisitions, being the conversion to HLI equity of a \$99,900 loan made by FCA and the issue of shares to FCA in satisfaction of a \$200,000 fee payable on re-quotation of HLI on the ASX, we have adopted the present value of HLI's shares derived using the methodology referred to in paragraph 8.10.

Reasonableness

- 8.15 In assessing the reasonableness of the Proposals, we considered the circumstances facing the Company if one of the interdependent resolutions is not approved (or is approved but not implemented) and also the circumstances and prospects for the Company if Resolution 8 and all interdependent resolutions are approved and implemented.
- 8.16 In considering the reasonableness of the Proposals, it is relevant to consider them in terms of the prospects of the Company, with support from FCP and its associates, raising the requisite capital and becoming re-quoted if all interdependent resolutions are approved.

9. Assessment of the Proposals

Value of HLI

- 9.1 HLI currently has approximately 1401 shareholders, but it is estimated that only 7 of these would have marketable parcels after the proposed consolidation of share capital and at a public issue price of \$0.20 per Share.
- 9.2 In the current, relatively volatile, stockmarket conditions, we believe that the demand for listed but suspended company shells is relatively limited, particularly for company shells like HLI that have no cash and have a minimal number of shareholders that hold marketable parcels of shares. At the date of preparing this Report, the large majority of upcoming IPOs posted on the ASX website are for companies in the resources sector rather than in the industrial sector.

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- 9.3 HLI has incurred costs (which have resulted in liabilities) to develop the Proposals to the present stage and the Company will incur further costs in connection with the calling of this Meeting. Subsequently, we are advised that HLI intends to prepare a disclosure document as part of the process for re-quotation of its securities on the ASX.
- 9.4 As at 30 June 2010, the Company had negative net assets and negative net tangible assets ('NTA') of \$(660,344). The Company has advised us that, as at the date of this Report, there are no material changes other than an increase in liabilities to fund operations.
- 9.5 HLI's future depends upon the acquisition of new assets and funding to meet ongoing obligations. This is more likely to occur through the Company presenting itself as a listed shell for a reverse takeover and re-quotation, but if the Proposals are not approved there can be no certainty that another acquisition opportunity will be available and approved. If the Proposals are not approved there must be some doubt as to whether the Company will be able to pay its debts and survive.
- 9.6 We are advised that the existing tax losses in HLI will not be available to the Company post-acquisition of TBSC.
- 9.7 Taking into account the factors set out in paragraphs 9.1 and 9.2, we consider the component value of HLI, that is represented by it being a listed but suspended shell, to be nominal and, indicatively, in the range of zero to \$0.5 million. The current net asset value of HLI is \$(660,344). The sum of the two components, being the shell value and the negative net asset value, suggests that the indicative present value of HLI is zero.

Value of TBSC

- 9.8 The NTA of TBSC as at 30 June 2010 is \$(311,195) and for the year ending 30 June 2010 the unaudited net profit/(loss) was \$(182,818). The Company has advised us that, as at the date of this Report, there are no material changes other than an increase in liabilities to fund operations.
- 9.9 TBSC's Sussex Street business is currently not trading profitably on a monthly basis. However, operations appear to have been improving and management expects the business to reach a profit break-even level by December 2010. Management expects the business to be profitable during 2011. In order for the business to generate a satisfactory level of profitability, the revenue received from products and services is required to increase significantly from current levels. In particular, there are good prospects to expand revenue from products. We also note that opportunities exist for acquisitions to achieve scale in the industry, consistent with the transaction contemplated by Resolution 10. As noted, the Paddington business is closed for the time being but is scheduled to re-start operations during the current financial year.
- 9.10 While, as noted, there appear to be reasonable prospects for a corporate aggregating presence in the beauty and health industry in Australia in order to achieve advantages of scale and synergies, there may be a funding limitation for TBSC to implement this future business expansion if the Proposals are not approved and implemented. There is, therefore, uncertainty concerning the future growth and profitability of TBSC on a stand-alone basis, particularly in view of this funding uncertainty.

9.11 Taking into account the business strategy for TBSC and the three sister companies (the Proposed Acquisitions), their organic (and acquisition) growth prospects and the expected near term profitability of the Sussex Street business, we assess the present value of the existing businesses to be indicatively in a range of zero to \$0.5 million. Taking into account the net assets for TBSC of approximately \$(311,000), we assess the indicative present value of TBSC to be indicatively in a range of zero to \$0.19 million. However, we do not attribute a high confidence level to this valuation due to the start-up nature of the Paddington business and the current unprofitability of the Sussex Street business.

Value of the Proposed Acquisitions other than TBSC

9.12 We are advised that, aside from TBSC, the companies being acquired by HLI from BSGI are not operational and have no assets or liabilities. Therefore, the present value of the three companies, other than TBSC, is zero.

Value of the Loan to be satisfied by Shares; part (b) of Resolution 8

9.13 We have adopted the value of the loan as being the cash sum of \$99,900 advanced.

Value of the Services provided to be satisfied by Shares; part(c) of Resolution 8

9.14 We have adopted the value of the Services to be satisfied by Shares at the cash value of the agreed fee; that is, \$200,000.

HLI Post-completion

9.15 The impact of implementing all the resolutions (but prior to the exercise of any options) on the Company's consolidated balance sheet is to increase net assets to approximately \$13.8 million (assuming \$10 million cash is raised pursuant to Resolution 10, \$1.50 million is raised through the issue and conversion of convertible notes pursuant to Resolutions 4 and 9). In this event, the number of issued Shares would be 76,056,318 and net assets per Share would be approximately \$0.18.

Fairness

9.16 We note that if Resolution 8 is approved the Shares to be issued and allotted under Resolution 8 will not be issued unless and until HLI is re-quoted on the ASX. This is discussed further under Reasonableness.

Part 8(a) of Resolution 8

9.17 This part concerns the exchange of 13,181,818 Shares for shares of the Proposed Acquisitions. In present value terms, this is an exchange of securities of HLI, which are assessed as having zero present value, for the shares of TBSC and the 3 sister companies,

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which we assess as having a nominal present value indicatively in the range of zero to \$0.19 million.

Part 8(b) of Resolution 8

- 9.18 This part concerns the exchange of 499,500 Shares (having an assessed, indicative present value of zero) in satisfaction of a \$99,900 advance provided by FCA to HLI. The value to be received is greater than the value offered.

Part 8(c) of Resolution 8

- 9.19 This part concerns the exchange of 1,000,000 Shares (having an assessed, indicative present value of zero) in lieu of the payment of \$200,000 cash for services to be provided by FCA to HLI. The value to be received is greater than the value offered.

Fairness Opinion in respect of Resolution 8

- 9.20 In our opinion, the terms of each of the parts of Resolution 8 and Resolution 8 as a whole are fair to the non-associated shareholders of FCP and associates.

- 9.21 The fairness of part 8(a) is finely balanced since the present values for each HLI and the Proposed Acquisitions are assessed as being zero or near to zero. However, the part 8(b) and part 8(c) proposed transactions are, in our opinion, clearly fair since the value received by HLI significantly exceeds the value of the Shares offered. Taken as a whole, the terms of the Proposals are fair since the aggregate value received by HLI exceeds the value paid in Shares.

- 9.22 Both our assessment and our fairness opinion given in this Report are necessarily qualified by the risks and levels of uncertainty that are associated with HLI and also with the four companies to be acquired. We note that there are risks inherent in all transactions involving early stage and start-up businesses such as those contemplated by the Proposals and the FY10 financial statements of HLI and TBSC are unaudited.

Reasonableness

- 9.23 The Proposals are reasonable in accordance with RG 111 since they are assessed as being fair. Nevertheless, it is particularly appropriate to consider reasonableness in this case since our fairness opinion is necessarily based on limited, and unaudited, financial information, particularly in the case of assessing the value of the Proposed Acquisitions.

- 9.24 We have noted the conditionality of the Proposals whereby the Shares to be issued if Resolution 8 is approved are to be issued only if the restructure is completed and the Company becomes re-quoted. This protects the non-associated shareholders in that the scenario in which the Shares are issued but the Company does not become re-quoted cannot arise. The position of the non-associated shareholders should be improved if the Proposals are implemented on the basis that they are not being unfairly diluted and also since they would gain a market for their Shares. At the present time, the existing shareholders of the Company have no market for their shares and no market price. According to HLI, there is a possibility that the Company will be privatised if the interdependent Resolutions are not approved; refer to the Explanatory Memorandum.

- 9.25 The value of each of HLI and the Proposed Acquisitions is likely to be greater to FCP and its associates than the stand-alone values that we have assessed for them. This is because FCP and its associates are expected to benefit if the Proposals are approved and implemented as a result of their control position in a re-quoted HLI and as a result also of future benefits that are expected to be derived by FCP and its associates from the Consulting Services Agreement and Investment Management Agreement.
- 9.26 If Resolution 8 or another interdependent resolution is not approved, the non-associated shareholders of HLI are likely to be worse off than if the resolutions are approved and implemented. This is because HLI is unlikely to survive unless another suitable acquisition can be identified and implemented or unless alternative funding can be obtained, events which themselves are not highly likely.
- 9.27 FCP and its associates currently hold no shares in HLI. However, the FCP nominees to the HLI board of the Company currently represent a majority of the board of directors. If all Resolutions are approved and implemented, FCP and its associates would hold approximately 35% of the voting share capital of the Company if all Resolutions are approved and \$5 million is raised pursuant to Resolution 10, prior to the conversion of convertible notes and the exercise of options.
- 9.28 FCP and its associates have been providing financial support to HLI. The Company is likely to be dependent on FCP and its associates, irrespective of whether or not the interdependent resolutions are approved; however, there might be little incentive for FCP and its associates to continue to provide financial support to HLI if the resolutions are not approved. Refer to the Explanatory Memorandum for the information concerning the intentions of FCP and its associates.
- 9.29 We note that FCP and its associates have experience and a track record in advising and assisting start-up businesses and small listed companies, including with the raising of capital.
- 9.30 In our opinion, in view of the factors outlined in paragraphs 9.23 to 9.29, the terms of the Proposals in Resolution 8 are reasonable to the non-associated shareholders of HLI.

10. Qualifications, Disclaimer, and Consents

Qualifications

- 10.1 Balmoral holds an Australian Financial Services Licence number 245578. Balmoral provides a range of corporate advisory services and has advised on a number of corporate valuations, capital raisings, restructures and mergers and acquisitions. Alan J Humphris, Managing Director of Balmoral, was primarily responsible for preparing this Report. Mr Humphris has been responsible for the preparation of a number of independent expert reports. Prior to establishing Balmoral in 1996, Mr Humphris was Group Executive Director of Hambros Australia Limited and Head of Hambros Corporate Finance Limited. Earlier, he was a director of J P Morgan Australia Limited. Mr Humphris has had over 30 years experience in corporate finance in Australia and overseas markets. Mr Humphris is a Fellow of the Australian Society of CPAs and holds

Bachelor degrees in Science, Economics (econ), and Economics (accounting) and a Master of Laws degree. He has also undertaken advanced short courses presented by the Harvard Business School and the Harvard Law School in valuation theory, takeovers and securities law.

Disclaimer

Statement

- 10.2 This Report has been prepared for the purpose of providing Balmoral's opinion as to the fairness and reasonableness of the Proposals to HLI shareholders not associated with FCP and its associates. The Report is to accompany the Notice of Meeting to be sent to shareholders of HLI. This Report has been provided for this purpose and in this context and is not to be used or relied upon for any other purpose. Balmoral expressly disclaims any liability to any HLI shareholder who relies or purports to rely on the Report for any other purpose and to any other person who relies or purports to rely on the Report for any purpose whatsoever.
- 10.3 A final draft of sections of this Report was provided to HLI and in advance for factual verification. As a result certain minor factual corrections were made but no changes were made to our methodology, conclusions or opinion.
- 10.4 The statements and opinions given in this Report are given in good faith and in the belief that such statements and opinions are not false or misleading. HLI represented to Balmoral that the information it provided to Balmoral for this Report is correct, is not misleading in any way, and does not contain any material omissions.
- 10.5 Nothing contained in this Report is, or should be, relied upon as a representation of fact or a promise to the future. We have not carried out any form of audit on the financial or other records of HLI or of any of their subsidiaries or affiliates. We do not warrant that our inquiries have revealed all of the matters that an audit or extensive examination might disclose. In producing our Report we have found no evidence to suggest that the information disclosed to us may be inaccurate or unreliable and we have no reason to believe that any material facts have been withheld from us.
- 10.6 Aside from the Report, Balmoral has not been involved in the preparation of the Explanatory Memorandum or Notice of Meeting. Balmoral takes no responsibility for the content of the Explanatory Memorandum or Notice of Meeting.

Indemnification

- 10.7 HLI Limited has agreed to indemnify and hold harmless, and to keep indemnified and hold harmless, Balmoral (including any director, officer, employee, representative, related body corporate or agent) from and against all liability, loss or damage (including but without limiting the generality of the foregoing: all sums of money, actions, proceedings, suits, claims, demands, costs, expenses, fines, settlements, assessments, judgments, costs and expenses for advice or concerning any compromise, and legal costs on a solicitor-client basis) arising out of or in connection with the carrying out of the terms of this engagement or resulting from or attributable directly or indirectly to the carrying out of this engagement. This indemnity survives the termination or expiration of the engagement, but does not extend to any liability arising out of or in connection with Balmoral's wilful misconduct, dishonesty, or fraud.

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Consents

10.8 Balmoral consents to the inclusion of this Report in the form and context in which it is included in the Explanatory Memorandum. Neither the whole nor any part of this Report nor any reference thereto may be included in or with or attached to any document, circular, resolution, letter or statement without the prior written consent of Balmoral to the form and context in which it appears.

Yours faithfully



Alan J Humphris

Financial Services Guide

Balmoral Capital Pty Limited ('Balmoral') holds Australian Financial Services Licence number 245578, which authorises it to provide financial product advice to retail and wholesale investors.

The *Corporations Act 2001* requires Balmoral to provide this Financial Services Guide ('FSG') with our independent expert report ('Report') that forms part of the Explanatory Memorandum prepared by HLI Limited. The FSG is included to assist the decision making of retail shareholders and to comply with our obligations as financial service licensees.

Balmoral does not provide financial product advice directly to retail clients nor does it receive remuneration from retail clients for financial services.

HLI Limited shareholders have not engaged Balmoral directly. HLI Limited shareholders will receive a copy of our Report since it forms part of the Explanatory Memorandum and is relevant to Resolution 8 of the Notice of Meeting.

Balmoral has been engaged by HLI Limited to prepare a Report on the acquisition of certain companies and other transactions which together form Resolution 8 of the Notice of Meeting.

General Financial Product Advice

In our Report, we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account individual objectives, financial situations or needs. HLI Limited shareholders should consider the appropriateness of this general advice having regard to their own objectives, financial situation and needs

Fees and Benefits

Balmoral will receive a fixed fee, payable on signing the Report, of \$55,000 (excluding GST) for preparing and providing this Report. The fee is not dependent on the outcome of the Proposals nor does it depend on whether the Resolutions are approved or implemented.

Aside from the fee referred to above, neither Balmoral nor any of its directors or employees has a pecuniary or other interest, directly or indirectly, attributable to the preparation and provision of this Report. Balmoral has no pecuniary interest affecting its ability to give an independent and unbiased opinion on the Proposal.

Relationships

Balmoral has and has never had any shareholding in HLI Limited or First Capital Partners Limited (including any associated entities of either company).

Balmoral has not been retained previously by HLI Limited or by First Capital Partners Limited.

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During 2009, Balmoral prepared an independent expert report for Connexion Limited, a company listed on the ASX, concerning a transaction with a company associated with First Capital Partners Limited. In 2005, Balmoral prepared an independent expert report for DCS Technologies Limited concerning the acquisition of companies associated with First Capital Partners Limited.

At the date of this Report, neither Balmoral nor its directors and employees has any interest in the outcome of the proposals included in the Notice of Meeting. Neither Balmoral nor its directors and employees has any relationship with FCP (and its associates) or with HLI or any of their directors or management that impacts Balmoral's independence.

Complaints Resolution

Balmoral has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service.

If you have any concerns regarding our Report, please contact the Compliance Officer in writing at Suite 2, 3B Macquarie Street, Sydney, NSW, 2000. If you are not satisfied with our response, you are entitled to contact the Financial Ombudsman Service at GPO Box 3, Melbourne, VIC, 3001 or by phone on 1300 780 808. The Financial Ombudsman Service provides advice free of charge.