

## **HOSTECH LIMITED**

**ACN 009 805 298**

### **Notice of General Meeting and Explanatory Statement**

Notice is hereby given that a General Meeting of the Shareholders of Hostech Limited will be held in the Botanic Room at the Seasons Botanic Gardens Hotel, 348 St Kilda Road, Melbourne, Victoria 3004 on Tuesday 21 April 2009 at 2:00 p.m. AEST

TO BE VALID, FORMS OF PROXY FOR USE AT THE GENERAL MEETING MUST BE  
COMPLETED AND RETURNED TO THE COMPANY NO LATER THAN  
2.00 P.M. AEST ON SUNDAY 19 APRIL 2009

**THIS DOCUMENT IS IMPORTANT AND REQUIRES  
YOUR IMMEDIATE ATTENTION.  
IF YOU ARE UNABLE TO ATTEND THE GENERAL MEETING, PLEASE COMPLETE THE  
FORM OF PROXY ATTACHED AT THE BACK OF THIS DOCUMENT AND RETURN IT IN  
ACCORDANCE WITH THE INSTRUCTIONS SET OUT ON THAT FORM.**

## **NOTICE OF GENERAL MEETING**

Notice is hereby given that a General Meeting of the Shareholders of Hostech Limited ACN 009 805 298 will be held in the Botanic Room at the Seasons Botanic Gardens Hotel, 348 St Kilda Road, Melbourne, Victoria 3004 on Tuesday April 21 2009 at 2:00 p.m. AEST.

### **1. Business**

#### **Resolution 1 – Approve the previous issue of 20,000,000 Shares and 5,000,000 Options**

To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

*“That for the purposes of ASX Listing Rule 7.4 and all other purposes, the issue of 20,000,000 Shares and 5,000,000 Options referred to in the Explanatory Statement, is approved.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 1 by a person who participated in the issue and any associate of such a person. However, the Company need not disregard a vote 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 if it is cast by the person chairing 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.

#### **Resolution 2 – Approve the issue of 250,000,000 Shares and 250,000,000 Options to Flaxton Hunter**

To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

*“That subject to the passing of Resolutions 3 and 4, for the purposes of ASX Listing Rule 7.1 and item 7 in the table in section 611 of the Corporations Act and all other purposes, the issue of 250,000,000 Shares and 250,000,000 Options to Flaxton Hunter (and the subsequent issue of Shares upon exercise of such Options) as referred to in the Explanatory Statement, is approved.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 2 by Flaxton Hunter and any of its associates. However, the Company need not disregard a vote 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 if it is cast by the person chairing 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.

**Resolution 3 – Approve the issue of up to 500,000 Convertible Notes to Flaxton Hunter or its nominees**

To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

*“That subject to the passing of Resolutions 2 and 4, for the purposes of ASX Listing Rule 7.1 and item 7 in the table in section 611 of the Corporations Act and all other purposes, the issue of 500,000 Convertible Notes to Flaxton Hunter or its nominees (and the subsequent issue of 25,000,000 Shares to Flaxton Hunter or its nominees upon conversion of such Convertible Notes) as referred to in the Explanatory Statement, is approved.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 3 by Flaxton Hunter and any of its associates. However, the Company need not disregard a vote, 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 if it is cast by the person chairing 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.

**Resolution 4 – Approve the giving of financial assistance**

To consider and, if thought fit, pass the following resolution as a Special Resolution:

*“That subject to the passing of Resolutions 2 and 3, for the purposes of section 260B(2) of the Corporations Act and all other purposes, the giving by the Company of financial assistance to Flaxton Hunter in connection with its acquisition of Shares by way of granting a charge over the Company’s assets (the **Charge**) as referred to in the Explanatory Statement and undertaking steps ancillary to that grant, is approved.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on Resolution 4 by Flaxton Hunter and any of its associates. However, the Company need not disregard a vote, 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 if it is cast by the person chairing 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.

## **2. Determination of voting entitlement**

For the purpose of determining a person's entitlement to vote at the General Meeting, a person will be recognized as a Shareholder and the holder of Shares if that person is registered as a holder of those Shares at 7:00 p.m. AEST on Friday April 17 2009.

## **3. Votes**

On a show of hands, each Shareholder present in person or by proxy or, in the case of a body corporate present by a representative, shall have one vote.

On a poll, every Shareholder present in person or by attorney or by proxy or, in the case of a body corporate present by a representative, shall have one vote for each Share held by him, her or it.

## **4. Proxies**

A Shareholder entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of the Shareholder.

Where the Shareholder is entitled to cast two or more votes, the Shareholder may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

If the Shareholder appoints two proxies and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, each proxy may exercise half of the votes.

A proxy need not be a Shareholder.

To be effective, the instrument of appointment of a proxy (and power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority) must be received by the Company at 71 Thistlethwaite Street, South Melbourne VIC 3205 or by facsimile on 03 9698 7878 by 2:00 p.m. AEST on Sunday April 19 2009.

## EXPLANATORY STATEMENT

### Resolution 1 – Approve the previous issue of 20,000,000 Shares and 5,000,000 Options

On March 4 2009, the Company issued 20,000,000 Shares at \$0.01 per Share and 5,000,000 Options. The total amount raised as a result of the issue of Shares and Options was \$200,000.

### ASX Listing Rules 7.1 & 7.4

ASX Listing Rule 7.1 provides that a listed company must not, subject to certain exceptions, issue or agree to issue more than 15% of its capital within a 12 month period without the approval of shareholders.

ASX Listing Rule 7.4 provides that an issue of shares made without approval under Listing Rule 7.1 is treated as been made with approval if each of the following applies:

- the issue did not breach Listing Rule 7.1, and
- the shareholders of ordinary securities subsequently approve the issue.

The issue of 20,000,000 Shares and 5,000,000 Options on March 4 2009 did not breach ASX Listing Rule 7.1 and the Company seeks subsequent Shareholder approval for the issue of Shares and Options for the purposes of ASX Listing Rule 7.4 and all other purposes.

The following information is provided to Shareholders in accordance with ASX Listing Rule 7.5:

- The number of securities allotted in the issue referred to in Resolution 1 was 20,000,000 Shares and 5,000,000 Options.
- Funds were raised to be used for working capital purposes.
- The Shares were issued at \$0.01 per Share. The Options were issued for nil consideration.
- The Shares issued rank equally in all respects with the Company's existing Shares.
- The Options are exercisable at \$0.01 each on or before 1 March 2012. Each Option entitles the holder to one Share upon exercise. The Company will not be applying for official quotation of the Options. The Shares that would be issued upon the exercise of the Options would rank equally in all respects with the Company's existing Shares. The Company will apply for official quotation of Shares issued upon exercise of Options.
- The Shares and Options were issued to:

<b>Name</b>	<b>Number of Shares</b>	<b>Number of Options</b>
Penleigh Banner Pty Ltd	15,000,000	3,750,000
Collins Street Group Pty Ltd	5,000,000	1,250,000
<b>TOTAL</b>	<b>20,000,000</b>	<b>5,000,000</b>

- The Company confirms that none of the Shares or Options were issued to related parties of the Company.

**Resolutions 2 & 3 - Approve the issue of 250,000,000 Shares and 250,000,000 Options to Flaxton Hunter (Resolution 2) and approve the issue of up to 500,000 Convertible Notes to Flaxton Hunter or its nominees (Resolution 3)**

**Background information**

On 16 March 2009 the Company announced that it had entered into the Agreements. The Agreements provide the Company with access to up to \$22,500,000 by way of a \$2,500,000 Share and Option issue, up to an additional \$2,500,000 to be received upon exercise of Options (if this occurs) and a Convertible Note facility which may be drawn down by the Company up to the value of \$17,500,000 subject to any necessary approval by Shareholders and Flaxton Hunter.

**Resolution 2**

Under the Subscription Agreement the Company would issue Flaxton Hunter 250,000,000 Shares at an issue price of \$0.01 per Share and 250,000,000 Options each to subscribe for 1 Share with a nil issue price but an exercise price of \$0.01 and exercisable on or before the date of expiry being 5 years from the issue date. Funds received from the issue of Shares and Options will be used for working capital purposes. Resolution 2 seeks shareholder approval for the issue of these Shares and Options to Flaxton Hunter for the purposes of ASX Listing Rule 7.1 and item 7 in the table in section 611 of the Corporations Act and all other purposes.

Please note the passing of Resolution 2 is subject to the passing of Resolutions 3 and 4.

**Resolution 3**

The Agreements would provide the Company with access to a \$17,500,000 Convertible Note facility which may be drawn down by the Company as and when funds are required (subject to any necessary approval by Shareholders and Flaxton Hunter). The Convertible Notes have a face value of \$1 and bear interest of 7% per annum (accruing daily and capitalising quarterly) and are convertible into new Shares at the option of Flaxton Hunter at a conversion ratio of 50 Shares per Convertible Note (representing an effective issue price of \$0.02 per Share) any time before the maturity date being 5 years from the issue date. Alternatively, Convertible Notes may be redeemed by a Noteholder any time on or after the maturity date. Convertible Notes are transferable.

It is currently intended that any funds received from the issue of Convertible Notes pursuant to the Agreements will be used to finance future acquisitions within the telecommunications and technology industries. The Company intends to make an initial drawdown from the Convertible Note facility of \$500,000. Resolution 3 seeks Shareholder approval for the issue of 500,000 Convertible Notes to Flaxton Hunter or its nominees and the subsequent issue of 25,000,000 Shares upon conversion of those Convertible Notes (if this occurs). Shareholder approval is sought for the purposes of ASX Listing Rule 7.1 and item 7 of section 611 of the Corporations Act.

Please note the passing of Resolution 3 is subject to the passing of Resolutions 2 and 4.

### **ASX Listing Rule 7.1**

ASX Listing Rule 7.1 provides that a listed Company must not, subject to certain exceptions, issue or agree to issue more than 15% of its capital within a 12 month period without the approval of shareholders.

In accordance with ASX Listing Rule 7.1, Resolution 2 seeks Shareholder approval for the issue of 250,000,000 Shares and 250,000,000 Options to Flaxton Hunter and the issue of 250,000,000 Shares upon exercise of such Options.

In accordance with ASX Listing Rule 7.1, Resolution 3 seeks Shareholder approval for the issue of 500,000 Convertible Notes to Flaxton Hunter or its nominees and the issue of 25,000,000 Shares upon conversion of such Convertible Notes.

In accordance with ASX Listing Rule 7.3 the Company provides the following information to Shareholders in relation to Resolutions 2 & 3.

#### **Maximum number of securities to be issued**

The maximum number of securities to be issued is 250,000,000 Shares, 250,000,000 Options (Resolution 2) and 500,000 Convertible Notes (Resolution 3).

#### **The date of allotment and issue of securities**

The Shares and Options will be allotted and issued within 3 month from the date of the meeting.

The Convertible Notes will be allotted and issued within 3 months from the date of the meeting.

#### **The issue price of the securities**

The Shares will be issued at \$0.01 per Share, the Options will be issued for nil consideration and the Convertible Notes will be issued at \$1.00 per Convertible Note.

#### **The names of the allottees**

The 250,000,000 Shares and 250,000,000 Options referred to in Resolution 2 will be issued to Flaxton Hunter.

The 500,000 Convertible Notes referred to in Resolution 3 will be issued to Flaxton Hunter or its nominees and any Shares issued upon conversion of a Convertible Note will be issued to the holder of the Convertible Note at the time of conversion.

The Company confirms that the securities referred to in Resolutions 2 and 3 will not be issued to related parties of the Company.

#### **Terms of the securities**

Shares will rank equally with the Company's existing quoted Shares upon issue and quotation.

Each Option is to subscribe for 1 Share and is exercisable at \$0.01 on or before the date of expiry being 5 years from the issue date. The Company does not intend to apply for official quotation of these Options. The Company will apply for official quotation of Shares issued upon exercise of Options. Shares issued upon conversion of Options rank equally with the Company's existing quoted Shares in all respects. For further details on the terms and conditions of the Options please see Annexure B.

Each Convertible Note has a face value of \$1 and is convertible at the option of Flaxton Hunter into 50 new Shares (representing an effective issue price of \$0.02 per Share). Convertible Notes bear interest of 7% per annum (accruing daily and capitalising quarterly) and are convertible into new Shares any time before the maturity date being 5 years from the issue date. Alternatively, Convertible Notes may be redeemed by a Noteholder any time on or after the maturity date. Convertible Notes are transferable. For further details on the terms and conditions of the Convertible Notes please see Annexure C.

### **Intended use of funds raised**

It is intended that funds raised from the issue of Shares, Options and Convertible Notes will be used for working capital purposes and to finance future acquisitions.

### **Item 7 in the table in section 611 of the Corporations Act**

Under section 606 of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a company if because of the transaction that person or someone else's voting power in the company increases:

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

Under item 7 in the table in section 611 of the Corporations Act, section 606 does not apply in relation to any acquisition of shares in a company approved by a resolution passed at a general meeting of the company at which no votes were cast in favour of the resolution by the person proposing to make the acquisition and their associates.

The requirement to obtain shareholders' approval under item 7 in the table in section 611 of the Corporations Act is a means by which the rights of existing shareholders may be protected in circumstances where control of a company may change.

The Company's major Shareholder Algebraic, as at the date of this notice of general meeting holds 29,515,080 Shares representing 12.27% of the Company's Shares. For the purposes of Resolutions 2 and 3, Algebraic is an associate of Flaxton Hunter. Therefore, Shares held by Algebraic will be taken into consideration when determining the voting power or potential voting power of Flaxton Hunter. In addition the securities in the Company proposed to be issued to Flaxton Hunter and the potential voting power resulting from the issue and exercise of such securities will be taken into consideration when determining Algebraic's voting power. For the purposes of Resolutions 2 and 3, Algebraic and Flaxton Hunter are associates of each other.

If Resolutions 2, 3 and 4 are passed, Flaxton Hunter will be issued 250,000,000 Shares, will have the ability to acquire an additional 250,000,000 Shares upon exercise of Options and will also have the ability to convert 500,000 Convertible Notes into 25,000,000 Shares. This will result in Flaxton Hunter's (and Algebraic's) voting power increasing from below 20% to more than 20%. For the purposes of Item 7 in the table in section 611 of the Corporations Act, Resolutions 2 and 3 seek Shareholder approval to allow Flaxton Hunter to be issued and to exercise or convert those securities (as relevant) thereby each obtaining voting power above 20%.

In order for Shareholder approval pursuant to item 7 in the table in section 611 of the Corporations Act to be effective, Shareholders must be provided with all information known to the Company or known to the proposed acquirer of the securities (and their associates) that is material to the decision on how to vote on the resolution.

In accordance the recommendations set out in ASIC Policy Statement 74 and ASIC Regulatory Guide 111, the following information (together with the Valuation Report attached as Annexure A) is provided to Shareholders to assist them in considering the proposed issues of securities in Resolutions 2 & 3

**1. Identity of the acquirer and their associates**

Flaxton Hunter and Algebraic are unlisted private investment vehicles. The associates of Flaxton Hunter are Campbell Corfe (director) and Andrew Robertson (director). Andrew Robertson is the sole director of Algebraic.

Algebraic currently holds 12.27% of the Company's Shares. None of Algebraic's or Flaxton Hunter's associates hold any Shares themselves.

**2. Particulars of the Shares to which the acquirer is or will be entitled immediately before and after the proposed acquisition**

Full particulars of the Shares which each of Flaxton Hunter and Algebraic are or will be entitled to immediately before and after the proposed transactions are detailed in the tables below.

**Flaxton Hunter - Shareholding**

	<b>Before</b>	<b>After - upon issue of 250,000,000 Shares</b>	<b>After - upon further exercise of 250,000,000 Options</b>	<b>After – upon further conversion of 500,000 Convertible Notes</b>
<b>Number of Shares</b>	Nil	250,00,000	500,000,000	525,000,000
<b>% of Shares</b>	0%	50.97%	67.53%	68.59%

**Algebraic - Shareholding**

	Before	After - upon issue of 250,000,000 Shares	After - upon further exercise of 250,000,000 Options	After – upon further conversion of 500,000 Convertible Notes
<b>Number of Shares</b>	29,515,080	29,515,080	29,515,080	29,515,080
<b>% of Shares</b>	12.27%	6.02%	3.99%	3.86%

Full particulars of the relevant interest in Shares of Flaxton Hunter and Algebraic immediately before and after the proposed transactions are detailed in the table below.

**Flaxton Hunter & Algebraic - Relevant Interest in Shares**

	Before	After - upon issue of 250,000,000 Shares	After - upon further exercise of 250,000,000 Options	After – upon further conversion of 500,000 Convertible Notes
<b>Number of Shares</b>	29,515,080	279,515,080	529,515,080	554,515,080
<b>% of Shares</b>	12.27%	56.99%	71.51%	72.44%

**3. The identity, associations and qualifications of any person who it is intended will be appointed a Director if Shareholders agree to the issues**

If Shareholders pass Resolutions 2,3 and 4, it is intended that Campbell Corfe (a director and shareholder of Flaxton Hunter) and Matthew Costello will be appointed Directors. In addition Flaxton Hunter may nominate an additional 2 Directors. The additional Directors to be nominated by Flaxton Hunter are yet to be determined. The details of any Directors nominated will be advised upon nomination of those Directors by Flaxton Hunter.

If Resolutions 2, 3 and 4 are passed, Damian Woods and Vince Leone will resign as Directors.

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

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

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

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

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

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

**Matthew Costello, MMgt, MAICD**

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

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

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

***4. A statement of the acquirer's intentions regarding the future of the Company if Shareholders agree to the acquisition***

**Reasons for the acquisition**

Flaxton Hunter is providing funds to finance the operations of the Company's existing businesses and to finance acquisitions that will be accretive in value and add appropriate scale for the Company to achieve growth and sustainable profits.

**Intention to change the business of the Company**

All elements of the Company's business will be reviewed periodically to ensure its growth and efficient operation. There is no present intention on the part of Flaxton Hunter (or Algebraic) to alter the principal activities of the Company.

**Intention to inject further capital into the Company**

The Subscription Agreement provides the Company with access to a further \$17,000,000 in accordance with the Convertible Note Deed Poll which may be drawn down by the Company as and when funds are required (subject to Flaxton Hunter and Shareholder approval). If further

Convertible Notes are issued to Flaxton Hunter or its nominees and holders exercise their rights to convert the Convertible Notes into Shares, this will result in the issue of new Shares subject to Shareholder approval (if required).

**Intention regarding future employment of the Company’s employees**

It is Flaxton Hunter’s and Algebraic’s present intention that the current employees of the Company will be retained in the business of the Company. However, all elements of the business will be reviewed periodically to ensure its growth and efficient operation.

**Proposals for transferring property between the Company, Flaxton Hunter or any person associated with either the Company or Flaxton Hunter**

There is no current proposal to transfer any property between the Company, Flaxton Hunter, or any person associated with either the Company or Flaxton Hunter.

**Intention to otherwise redeploy the Company’s fixed assets**

Flaxton Hunter and Algebraic have no present intention to redeploy any of the Company’s fixed assets.

**Intention to change the Company’s financial or dividend policies.**

It is the present intention of Flaxton Hunter and Algebraic that the Company pay dividends at a rate appropriate in the light of the Company’s then prevailing need for capital, when sustainable profits are achieved.

**Intention to make further strategic acquisitions and alliances**

It is the present intention of Flaxton Hunter and Algebraic that the Company will complete future acquisitions in the telecommunications and technology sectors from time to time.

***5. The interest of Directors and Directors’ recommendations regarding Resolutions 2 and 3***

None of the Directors have any personal interest in the issue of new Shares and Options to Flaxton Hunter or the issue of Convertible Notes to Flaxton Hunter, except in their capacity as Shareholders. The Directors’ relevant interests in Shares are as follows:

<b>Director . . .</b>	<b>. . . has a relevant interest in this number of Shares . . .</b>
Terence Wills Cooke	1,000,000
Michael Abela	3,567,169
Damian Woods	17,096,667
Vince Leone	800,000

All of the Directors approved the proposal to put Resolutions 2, 3 and 4 to Shareholders. The Directors unanimously recommend that Shareholders vote in favour of Resolutions 2, 3 and 4.

Each Director considers that the proposed issue of new Shares, Options and Convertible Notes (and the issue of Shares upon exercise/conversion of Options and Convertible Notes - if this occurs) to Flaxton Hunter is fair and reasonable when considered in the context of the interest of the Company's Shareholders who are not-associated to Flaxton Hunter. The Directors consider the proposed issues of securities as fair and reasonable for the reasons set out in the accompanying Valuation Report.

***6. Particulars of the terms of the proposed acquisition and any other contract between the acquirer and the Company which is conditional upon Shareholder agreement to the acquisition***

Details of the Agreements have been set out elsewhere in this Explanatory Statement. It is a condition of the Subscription Agreement that Resolutions 2, 3 and 4 all be passed by Shareholders.

Any conversion of Convertible Notes and/or Options into Shares will be subject to and undertaken in accordance with the provisions of the Corporations Act and the ASX Listing Rules.

Subject to the passing of Resolutions 2, 3 and 4, funds provided to the Company by Flaxton Hunter or its nominee as consideration for the issue of Convertible Notes (and any interest payable on Convertible Notes) will be secured by a fixed and floating charge over the Company's assets in favor of Flaxton Hunter. Upon redemption or conversion of all of the Convertible Notes and payment of any outstanding interest, the Charge will be released.

**Resolution 4 – Approve the giving of financial assistance**

This Explanatory Statement is given to Shareholders for the purposes of section 260B(4) of the Corporations Act. It contains all the information known to the Company that is material to the decision on how to vote on Resolution 4.

**Background**

Any Convertible Notes issued pursuant to the Agreements by the Company to Flaxton Hunter or its nominees are debt obligations of the Company. The Convertible Notes and the Company's obligations in respect of the Convertible Notes, are to be secured by a fixed and floating charge over the Company's assets in favour of Noteholders.

By providing a fixed and floating charge over the Company's assets in respect of the Convertible Notes, the Company is providing financial assistance to Noteholders in relation to the acquisition by them of Shares which would be issued upon conversion of the Convertible Notes.

Under Part 2J.3 of the Corporations Act, such actions on behalf of the Company may constitute financial assistance. Accordingly, the Company is seeking the approval of Shareholders under section 260B of the Corporations Act to authorise the giving of financial assistance by the Company in the form described in this Explanatory Statement.

## **Sections 260A and 260B of the Corporations Act**

Under section 260A of the Corporations Act, a company may financially assist a person to acquire shares in a company only if (relevantly) the assistance is approved by shareholders under section 260B.

### **Particulars of the financial assistance**

Financial assistance will be given by way of the Company providing a fixed and floating charge over the Company's assets in favour of Noteholders as security for the Convertible Notes. The Charge will provide the Noteholders with security for the amount of the face value of the Convertible Notes issued plus any interest payable on the Convertible Notes up to maximum amount of \$25,000,000.

The Charge will be granted upon receipt of funds and subscription for the Convertible Notes by the initial Noteholders. Subject to the passing of Resolution 3 and 4 the Convertible Notes will be issued and the Charge will be granted within 3 months from the date of the meeting.

### **Reasons for the proposed financial assistance**

The Company requires access to funds to enable the Company to undertake acquisitions that will add scale and improve the financial performance of the Company. In order to assist in gaining access to appropriate funds the Company has agreed to provide security by way of the Charge to protect the Noteholders against certain potential losses arising from their investment in the Convertible Notes.

The Company will benefit from the provision of the financial assistance by having access to up to \$17,500,000 in Convertible Notes pursuant to the Agreements to invest in assets and resources that will promote growth and increase profitability.

### **Effect of giving the financial assistance**

In the event the Noteholders become entitled to enforce rights under the Charge, the enforcement will enable the Noteholders to procure the sale of the Company's assets. The Directors do not currently have any reason to believe that the Company is likely to default on its obligations under the Agreements and the terms and conditions of the Convertible Notes.

### **Recommendation of Directors**

No Directors have a personal interest in Resolution 4, except in their capacity as Shareholders.

The Directors are of the opinion that the granting of the Charge is in the best interests of the Company.

The Directors unanimously recommend that Shareholders vote in favour of Resolution 4.

### **Notice to ASIC**

In accordance with section 260B(5) of the Corporations Act a copy of this notice of general meeting was lodged with ASIC before being sent to Shareholders.

## **GLOSSARY**

The following terms have these meanings when used in this document:

**AEST** means Australian Eastern Standard Time

**Agreements** means the Subscription Agreement and the Convertible Note Deed Poll entered into by the Company and Flaxton Hunter on 13 March 2009

**Algebraic** means Algebraic Pty Ltd ACN 111 825 015

**ASIC** means the Australian Securities and Investments Commission

**ASX** means ASX Limited

**ASX Listing Rules** means the listing rules of ASX

**Board** means the board of directors of the Company

**Charge** means the proposed fixed and floating charge over the assets of the Company

**Company** means Hostech Limited ABN 98 009 805 298

**Convertible Note** means a secured interest bearing note issued by the Company convertible into Shares and issued in accordance with the terms and conditions set out in Annexure C

**Convertible Note Deed Poll** means the convertible note deed poll entered into by the Company and Flaxton Hunter on 13 March 2009

**Corporations Act** means Corporations Act 2001 (Cth)

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

**Explanatory Statement** means the explanatory statement to this notice of general meeting

**Flaxton Hunter** means Flaxton Hunter Pty Ltd ACN 126 948 034

**Noteholder** means a registered holder of a Convertible Note

**Option** means an option to subscribe for a Share in the Company

**Subscription Agreement** means the subscription agreement entered into by the Company and Flaxton Hunter on 13 March 2009

**Share** means a fully paid ordinary share in the capital of the Company

**Shareholder** means a holder of Shares

**Valuation Report** means the report attached as Annexure A prepared by the Directors

**Annexure A**  
**HOSTECH LIMITED**  
**ACN 009 805 298**

**Valuation Report**  
**Prepared by the Board**

This report has been prepared by the Board of Hostech Limited to assist Shareholders of the Company to vote on resolutions to be put at the General Meeting of the Shareholders of Hostech Limited on the 21<sup>st</sup> day April 2009 at 2:00 p.m. AEST.



**Document Date: March 13, 2009**

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## **Glossary of Terms**

**Algebraic** means Algebraic Pty Ltd (ACN: 111 825 015)

**ASIC** means Australian Securities and Investment Commission

**ASX** means ASX Limited

**ASX Listing Rules** or **Listing Rules** means the Listing Rules of the ASX

**Board** means the board of directors of the Company

**Charge** means fixed and floating charge over the assets of the Company

**Company** or **Hostech** means Hostech Limited (ABN: 98 009 805 298)

**Convertible Note** or **Note** means an interest bearing note issued by the Company convertible into Shares in accordance with the terms and conditions specified in Annexure C.

**Convertible Note Deed Poll** means the Convertible Note Deed Poll entered into by Flaxton Hunter and the Company on March 13 2009.

**Corporations Act** means Corporations Act 2001 (Cth)

**Directors** means the current Directors of the Company

**Flaxton Hunter** or the **Investor** means Flaxton Hunter Pty Ltd (ACN: 126 948 034)

**Meeting** means the ExtraOrdinary General Meeting called for Shareholders of Hostech to consider various resolutions relating to the proposed investment by Flaxton Hunter

**Noteholder** means a registered holder of a Convertible Note (Note) being Flaxton Hunter or their nominee.

**Option** means an option to subscribe for a Share in the Company

**Subscription Agreement** means the subscription agreement entered into by the Company and Flaxton Hunter on 13 March 2009

**Share** means a fully paid Ordinary Share in the capital of the Company

**Shareholder** means a holder of Shares

## **1.0 Details of Proposed Transaction**

On 16 March 2009 Hostech announced that it had entered into a Subscription Agreement with Flaxton Hunter. Under the Subscription Agreement the Company will issue 250,000,000 Shares at an issue price of \$0.01 (1 cent) per Share and 250,000,000 free attaching Options exercisable at 1 cent on or before the date of expiry being 5 years from the issue date. Funds received from the issue of Shares and Options will be used for working capital purposes.

In addition, the Subscription Agreement provides the Company with access for a Convertible Note facility up to \$17,500,000. The Company has entered into a Convertible Note Deed Poll as a binding agreement specifying the terms of any future draw down of the Convertible Note facility.

When drawn down, Convertible Notes issued will incur interest of 7% per annum and will be convertible into Shares at a conversion or issue price of \$0.02 (2 cents) any time before the maturity date being the fifth anniversary of the issue date.

It is intended that any funds received from the issue of Convertible Notes pursuant to the Subscription Agreement will be used to finance future acquisitions within the telecommunications and technology industries. The Company intends to make an initial draw down of Convertible Notes worth \$500,000 (within 3 months of Shareholder approval) with the equivalent conversion or issue price of \$0.02 (resulting in 25,000,000 new Ordinary Shares if and when converted). The funds will be used to commence the search for potential acquisitions.

The Company will seek Shareholder approval for the initial draw down and creation of the \$500,000 Convertible Note at the same Shareholders Meeting it seeks approval for the \$2,500,000 equity issue. Subsequent draw downs of the Convertible Note Deed Poll are not considered in this Report as any further draw downs are likely to be subject to Shareholder approval if and when the board seeks additional funding.

Upon approval of the Share and Convertible Note issue, Damian Woods and Vince Leone will retire from the Board of Hostech. Flaxton Hunter has the capability of nominating up to 4 new directors to the Board. Flaxton Hunter intend to nominate Mr Campbell Corfe and Mr Matthew Costello to the Board after Shareholder approval of the investment is provided.

Please see the attached Notice of General Meeting and Explanatory Statement for complete details and terms of the proposed transaction.

## **1.1 Explanation of Proposed Transaction**

The purpose of the proposed transaction is to provide sufficient working capital to Hostech to enable the business to maintain current operations. The proposed transaction will provide Hostech with \$2.5 million dollars of new equity and \$500,000 of funding through a Convertible Note upon approval by Shareholders.

In addition to the immediately available funds, the Company will have access to an additional \$17 million dollars through a Convertible Note Deed Poll, effectively providing the opportunity to draw down additional funds in the form of new Convertible Notes to fund future acquisitions. Future draw downs are likely to be subject to Shareholder approval and acceptance by Flaxton Hunter.

Without an injection of funds in the short term, the future of Hostech Limited and its subsidiaries is likely to be significantly impaired. As such, if the proposed transaction is not approved by Shareholders, the Board of the Company will have to consider immediate asset sales, seek alternative funding arrangements if available or consider its future viability.

Importantly, the funds provide the Company the ability to continue its turnaround strategy, in particular seeking to improve the scale of the business to drive profitability.

Moreover, the recent global economic uncertainty has resulted in a significant reduction in asset values for companies in the technology and telecommunications industry. The funds made available through the Shares issued, Convertible Note and up to a further \$17 million available from the Convertible Note Deed Poll will result in the ability for the Company to grow aggressively, through cash accretive acquisitions.

In the view of the Board, this outcome will provide the best opportunity for Hostech to increase Shareholder value over the medium to long term.

## 2.0 Summary and Conclusions

In the opinion of the Directors of Hostech, the proposed transaction is both fair and reasonable in considering the interests of non-associated Shareholders of the Company.

The principal advantage of the transaction is that it provides a material amount of immediate funds to ensure the survival of the Company. Further, it provides access to a significant future facility to take advantage of depressed market conditions and as such creates the opportunity for existing Shareholders to gain from an aggressive acquisition strategy to build both scale and profitability with the ultimate aim of generating an improvement in Share performance.

As demonstrated by the review of valuation methodology, the proposed subscription to Shares by Flaxton Hunter at \$0.01 represents a significant premium of 43% compared to the volume weighted average price of Shares over the three months leading up to the announcement of the non binding terms.

The attaching Options are in line with the price paid for Shares to be subscribed. Given the quantum of investment, the additional commitment provided in the Deed Poll for up to a further \$17m in funding through Convertible Notes (providing significant upside potential through acquisitions) this would appear to be fair.

The Convertible Note pricing of \$0.02 represents an even further premium on pricing.

Furthermore, the deal is in line with a recent placement conducted in March 2009 for \$200,000 raised at \$0.01.

Finally, the Board undertook a rigorous search for alternatives. Given the global financial crisis, the Company's desperate requirement for funding, the offers received were inferior in terms of pricing and dilution compared to the proposed transaction with Flaxton Hunter in the view of the Board.

Finally, and significantly, the report to the Shareholders must consider whether the proposed transaction is fair and reasonable. The report has provided several alternative views of valuation to reach the conclusion of fairness and as such that the proposed transaction is also reasonable.

However, if any individual was to disagree with the basis for valuation or use alternative methods to reach an unfair view of the transaction, this does not automatically deem the transaction unreasonable. Hostech is in clear and immediate need for funding to support working capital. Whilst it has sought alternatives, it has not found any that are on par with Flaxton Hunter's proposal. There will be little or no value for current Shareholders should immediate funding not be provided.

As such, regardless of the view taken on the fairness of the transaction, in the opinion of the Board it is clearly reasonable in that it will ensure continuation of business and is the only proposition available today that is likely to provide the ability to realise material value in the future. That is, non associated Shareholders will be better off by accepting this proposal compared to not accepting the proposal (regardless of the fairness).

### 3.0 Purpose and Scope of the Report

The Board of Hostech has prepared this report in accordance with ASIC Regulatory Guide 111 (dated October 2007), which provides guidance where there is a control transaction to take place which may be approved by Shareholders under item 7 of s611 of the Act.

According to the Regulatory Guide, the transaction should be analysed as if it was a takeover bid (RG 111.22).

The two specific criteria to be analysed in the report are: is the offer *fair* and is it *reasonable*?

Essentially, if the price paid for the Shares is equal to or greater than their value then the proposal is both fair and reasonable. It is possible for the proposal to be unfair and yet still reasonable in the event that the price paid is not equal or greater than the value of the Shares but the non-associated Shareholders would still be better off if it is implemented compared to if it is not.

### 3.1 Note on Independence

Regulatory Guide 111 published by ASIC provides for content expected in an experts report. The Guide specifically provides examples of transactions for which entities commission an independent experts report (Table 1). The Guide explicitly states:

<i>Acquisitions approved by security holders under item 7 of s611</i>	<i>The Company commissions an expert report (or, if it has the expertise, a director's report to the same standard) to discharge the requirement to disclose all material information on how to vote on the resolution: item 7(b) of s611.</i>
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The Board of Hostech has chosen to provide a 'director's report' for the following reasons:

1. The information provides the same level of disclosure and is to the same standard as would appear in an independent experts report;

2. The Company sought independent legal opinion (from Prosperity Legal) that supported the view that a 'director's report' would be sufficient according to the ASIC guidelines and taking into account the circumstances. Furthermore, this report was reviewed by Prosperity Legal to ensure that it contained the information prescribed in the relevant ASIC guidelines.
3. The additional time required to engage an independent expert and the cost to complete the report could seriously impact the ability of Company to continue to operate;
4. The funding requirement of the Company is critical and the best interests of Shareholders will only be served by speeding up the process to provide Shareholders the ability to vote on the proposed transaction;
5. The Board has an independent Chairman, who has had decades of board experience and is a founding member of the AICD. Further, the Managing Director has had experience as a public company director (including Chairman of another listed entity) and prior to joining Hostech was a principal of a private corporate advisory and investment bank operating under an Australian Financial Services License; and
6. **To determine if a proposal is both fair and reasonable. The transaction cannot be deemed as anything other than 'reasonable' given that the alternative to not accepting the proposed transaction is that the Company will be severely impaired with a significant chance that it would not continue to operate as a going concern – resulting in little or no value for current Shareholders.**

### 3.2 Information Relied Upon

In preparing this report, the Board has relied upon the following information:

- Subscription Agreement, Convertible Note Deed Poll and Fixed and Floating Charge prepared for the proposed transaction with Flaxton Hunter Pty Ltd and summarized throughout this document and in the Notice of General Meeting and Explanatory Statement;
- The Annual Report for the year ending June 30, 2008 and Half Yearly report for the six months ending 31 December 2008 for Hostech Limited (previously Mobi Limited);
- Releases made to the ASX and other public filings by Hostech Limited; and
- Share trading performance of Hostech Limited for the 12 months up to the date of this report.

## **4.0 Background and Overview**

### **4.1 Company History**

Hostech Limited is an Australian based provider of telecommunications services.

Hostech has been a listed entity on the ASX since 1986, over which time it has had several identities and business focus. The Company was most recently known as Mobi Limited and changed its name to Hostech in February 2009.

On September 12, 2007 the Company acquired Sholl Communications (Aust) Pty Ltd and OneNetwork Pty Ltd. In January 2008, the Company acquired AK Communications (Australia) Pty Ltd to provide Sholl branded operations in Melbourne and Sydney.

In July 2008, the Company disposed of its MobiData Holdings Ltd operations (including its wholly owned subsidiary MobiData Group Pty Ltd).

### **4.2 Current Operations**

Hostech's principal activities include the sale, installation and maintenance of phone systems for small to medium enterprises.

The Company operates with two key brands:

- (a) OneNetwork provides an emerging commercial grade hosted IP telephony solution for business. OneNetwork generates annuity revenue from customers that lock into a typical three year contract for a hosted telephony solution as opposed to a traditional PABX telephone system.
- (b) Sholl Communications was established over 20 years ago and sells, installs and maintains traditional PABX telephony systems, carriage (reselling fixed and mobile phone solutions) and cabling.

### 4.3 Industry Overview

The telephony market is well established and provides a raft of choices and technologies to service the needs of business users in Australia. Common technologies include key systems, PABX, VoIP and IP Telephony.

For any business with more than a handful of staff, in addition to ordering telephone lines, they must also consider how the inbound and outbound calls will be handled from their premises. A PABX is essentially a piece of equipment that sits in a business premises that manages the switching of calls. It provides functionality such as transferring calls between extensions, establishing conference calls, providing phone messages and voicemail and a raft of other more complex features.

Recently the communications industry has seen the emergence of Voice over IP (VoIP). VoIP allows telephone calls to be carried on internet based data networks by transmitting packets containing audio.

VoIP can be contrasted with IP Telephony, which wraps greater functionality such as voice, data and other features traditionally available on a PABX. The IP telephony functionality is normally provided on a hosted basis, which means that the functionality actually resides offsite and is provided on a rental basis. The telephony connection (data and voice) is provided over either dedicated or public internet connections.

IP Telephony is still an emerging offering in the Australian market. To an extent, its emergence has been more subdued compared to other countries, largely due to the lack of appropriate broadband infrastructure meaning some sites require expensive and dedicated internet connections.

However, the use of internet technology combined with business based PABXs (IPBXs) is growing. The leap to an offsite managed solution is another paradigm in telephony.

The drivers for hosted IP Telephony are numerous and include:

- Reduced total cost of ownership compared to traditional telephony
- Limited or no capital investment
- Greater range of solutions (as you benefit from more complex hosted environment even if you are a small company)
- Reduced telephony charges
- Scalable solution (as you only pay for what is connected and no need to retool if you expand or contract drastically)

- Technology redundancy (as the hosted environment has new features added, it is offered to all customers. Traditional PABXs are out of date almost the day they are installed)

#### 4.4 Capital Structure and Shareholders

Hostech has the following securities on issue as at the date of this report:

- 240,466,942 Ordinary Shares;
- 17,958,367 Options as follows;
  - 5,000,000 Options with an exercise price of \$0.01 (1c) which expire on 1 March 2012;
  - 6,125,000 employee Options with an exercise price of \$0.013 (1.3c) which expire on 31 December 2011;
  - 5,000,000 director Options with an exercise price of \$0.013 (1.3c) which expire on 30 June 2012;
  - 404,041 Options with an exercise price of \$0.175 (17.5c) which expire on 12 September 2011;
  - 329,326 Options with an exercise price of \$0.0995 (9.9c) which expire on 27 November 2010;
  - 550,000 Options with an exercise price of \$0.03 (3c) which expire on 24 April 2011;
  - 550,000 Options with an exercise price of \$.028 (2.8c) which expire on 26 June 2011; and
- 1,680,000 Ordinary Shares at a strike price of \$0.125 (12.5c) would result from the conversion of Convertible Notes. The Convertible Notes are held by 4 separate parties (total amount outstanding \$210,000). These Notes are able to be redeemed or converted at the discretion of the Note Holder.

The major Shareholders in Hostech as at the date of this report (prior to conversion of Convertible Notes or exercise of Options) are summarized below:

<b>Investor</b>	<b>No. of fully paid Shares</b>	<b>Percentage</b>
Algebraic Pty Ltd **	29,515,080	12.27%
Mr Damian Ashley Woods	17,096,667	7.11%
Penleigh Banner Pty Ltd	15,000,000	6.24%
Lewis & Lewis Corp Pty Ltd	11,160,000	4.64%
Sholstra Pty Ltd	9,237,840	3.84%
Lilly Bianca Pty Ltd	7,648,000	3.18%
Mr Daniel Benedict Wallis	7,280,000	3.03%
Harjoe Corporation	5,983,000	2.49%
Mr Anthony Charles Sterpin	5,466,667	2.27%
Collins Street Group Pty Ltd	5,000,000	2.08%
<b>Total Top 10</b>	<b>113,387,254</b>	<b>47.15%</b>
Other Shareholders with less than 2%	127,079,688	52.85%
<b>Total Ordinary Shares on Issue</b>	<b>240,466,942</b>	<b>100%</b>

\*\* Associated party with Flaxton Hunter Pty Ltd

## 4.5 Share Issues

In the 12 months to the date of this report there have been several Share issues completed, each summarized below:

March 4, 2009 Penleigh Banner Pty Ltd acquired 15,000,000 Ordinary Shares for \$0.01 per Share and 3,750,000 free attaching Options exercisable at \$0.01 per Option and Collins Street Group Pty Ltd acquired 5,000,000 Ordinary Shares for \$0.01 per Share and 1,250,000 free attaching Options exercisable at \$0.01 per Option.

As part of the Equity Line of Credit provided by Fortrend Securities Pty Ltd, two draw downs occurred in the 12 months up to the date of this report, resulting in the issue of Shares and Options in accordance with the facility. These transactions are summarized below:

- April 24, 2008 1,696,371 Ordinary Shares issued for \$0.03 per Share and 550,000 free attaching Options exercisable at \$0.03 per Option;
- June 26, 2008 2,200,000 Ordinary Shares issued for \$0.028 per Share and 550,000 free attaching Options exercisable at \$0.028 per Option;

During the 12 months up to the date of this report, Shares were issued as a result of the conversion of Convertible Notes. These transactions are summarized below:

- May 21, 2008 - 5,166,669 Ordinary Shares issued for \$0.03 per Share
- May 29, 2008 - 1,500,000 Ordinary Shares issued for \$0.03 per Share
- June 5, 2008 - 2,066,667 Ordinary Shares issued for \$0.03 per Share

## 4.6 Financial Performance

The audited consolidated financial results of Hostech for the 12 months ending 30 June 2007 and 30 June 2008 and the 6 months ending 31 December 2008 are summarized in the table below.

	<b>12 months to 30 June 2007 (\$)</b>	<b>12 months to 30 June 2008 (\$)</b>	<b>6 months to 31 December 2008 (\$)</b>
<b>Revenue</b>	163,282	4,569,096	2,960,277
<b>Profit / (loss)</b>	(2,270,019)	(9,732,152)	(481,469)

For full details in relation to the Company's financial performance for periods up to 31 December 2008 please refer to the Company's annual and half year reports which can be viewed at [www.asx.com.au](http://www.asx.com.au) or [www.hostech.com.au](http://www.hostech.com.au) via a link on the "Investors" page.

## **4.7 Share Market Performance**

Approximately 39% of all the Company's Shares were traded on the ASX during the 12 months up to the date of this report. Over this 12 month period, the average monthly trading volume has been 3% of the Company's total Ordinary Shares on issue.

The trading price for Shares in Hostech has ranged from a high of \$0.072 (7.2c) to a low of \$0.005 (0.5c) over the past twelve months.

The last substantial Share issue was on March 4, 2009 for 20,000,000 new Shares for \$0.01 per Share (representing a total of 8.32% of issued capital).

Given the liquid nature of the trading in the stock, it is the view of the Board that the Share price will provide a true indication of value of the Shares of Hostech.

## 5.0 Impact on the Control of the Company

The Company's major Shareholder Algebraic, as at the date of the Meeting holds 29,515,080 Shares representing 12.27% of the Company's Shares. Algebraic is an associate of Flaxton Hunter. Therefore Shares held by Algebraic will be taken into consideration when determining the voting power or potential voting power of Flaxton Hunter. In addition the Securities issued to Flaxton Hunter and the potential voting power resulting from the issue and exercise of securities will be taken into consideration when determining Algebraic's voting power.

Full particulars of the Shares in the Company which Flaxton Hunter and Algebraic does or will have a relevant interest immediately before and after the proposed transactions are detailed in the table below.

	Before	After - upon issue of 250,000,000 Shares	After - upon exercise of 250,000,000 Options	After – upon conversion of 500,000 Notes
# of Shares	29,515,080	279,515,080	529,515,080	554,515,080
% of Shares	12.27%	56.99%	71.51%	72.44%

By way of Flaxton Hunter's association with Algebraic, Flaxton Hunter's (and Algebraic's) voting power is 12.27% as at the date of the Meeting. Upon issue of the 250,000,000 Shares to Flaxton Hunter, Flaxton Hunter's and Algebraic's voting power will increase to 56.99%.

Upon exercise of all of the 250,000,000 Options (if this occurs) and assuming no other new Shares are issued (by way of new Share issue, conversion of Convertible Notes or Options currently held by parties not associated with Flaxton Hunter) Flaxton Hunter's and Algebraic's voting power will increase to 71.51%.

Upon conversion of 500,000 Convertible Notes (if this occurs), and assuming no other new Shares are issued (by way of new Share issue, conversion of Convertible Notes or Options currently held by parties not associated with Flaxton Hunter), Flaxton Hunter's and Algebraic's voting power will increase to 72.44%.

## 6.0 Basis of Technical Valuations

ASIC Regulatory Guide 111 provides that where a transaction takes place which may be approved under item 7 of s611 of the Act, the transaction should be analysed as if it was a takeover bid. Therefore, consideration needs to be provided as to whether the transaction is fair *and* reasonable.

The Regulatory Guide 111 indicates that a transaction may be considered to *be fair if the value of the offer price is equal to or greater than the value of the securities the subject of the offer.*

The Regulatory Guide 111 also highlights that a transaction is *'reasonable' if it is fair. It may also be 'reasonable' if despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of offer.*

The Board considered all methods for valuation recommended in Regulatory Guide 111 (RG111.53). These included:

- (a) Discounted cash flow method and the estimated realizable value of any surplus assets;*
- (b) The application of earnings multiples (appropriate to the business or industry in which the entity operates) to the earnings or cash flows of the entity; added to the estimated realizable value of any surplus assets;*
- (c) The amount that would be available for distribution to security holders on an orderly realization of assets;*
- (d) The quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale; and*
- (e) Any recent genuine offers received by the target for any business units or assets for valuation of those business units or assets.*

The methodologies chosen are consistent with Regulatory Guide 111. That is, based on the quoted price for the listed securities (and allowing for a control premium) and recent genuine offers.

It must be noted, the Board did consider the alternative methodologies, in particular the discounted cash flow method.

Significant attention was shown toward this methodology during the Company's recent Half Year Audit (for the six months ending December 31, 2008) for impairment testing of the Company's assets, particularly the carrying value of goodwill in the Company (approximately \$11.3m). Significant stress testing was

completed and indicated a reasonable level of comfort based on the assumptions, not the least of which was future projections and the injection of new funds to maintain the carrying value for the present.

Utilising this methodology may seemingly result in an unfair finding given the value of intangible and other assets exceeds the value of the proposed transaction. However, in the view of the Board, this would be misleading.

As indicated in the Half Year Report, Hostech received an emphasis of matter around the Company's going concern basis. That is, without the injection of future working capital, the future prospects for the business are 'significantly' impaired.

Given this level of uncertainty, the value ranges provided by a discounted cash flow would be significantly reduced and represent a far larger downside. That is, given the assets require funding to achieve future growth, the value of the assets would be significantly reduced and potentially worth very little if funding was not provided.

As such, any guidance provided using this valuation would ultimately be of little value to Shareholders, in that regardless of whether the view provided was deemed either a fair or unfair result, ultimately in the Board's view the only objective conclusion that can be taken is that it is a 'reasonable' proposal as the Company, and thus Shareholders, will have significantly diminished (if any) value should this transaction not take place.

The use of an earnings multiple comparison posed significant difficulty in that Hostech has in recent history delivered negative earnings. In addition, any potential forward looking projections would be highly speculative in the view of the Board given the uncertain economic conditions and future acquisition targets have not yet been determined to appropriately estimate future earnings. As a result of this underlying speculative uncertainty, any comparison to industry peers would remain flawed.

## **6.1 Valuation of Hostech Limited**

### **Quoted Price of Listed Securities**

There is sufficient volume over the last 12 months to use the price of Shares traded in Hostech Limited as a fair basis for valuation.

Upon notification to the market of a proposed transaction (February 13, 2009), Shares in Hostech limited have appreciated slightly. As a result, calculations of volume weighted average pricing (VWAP) are based

on the pricing prior to the announcement and as such the terms of the transactions proposed being determined.

The VWAP for Hostech for the 3 months up to February 13, 2009 was \$0.007 (0.7c). For the 6 months up to February 13, 2009, the VWAP was \$0.01 (1c). The deterioration was in line with market falls across the ASX and a deteriorating cash position within Hostech.

Given this deterioration, the Directors believe it is fair to use the last three months trading as a basis for comparison with the offer made by Flaxton Hunter.

On this basis, (and assuming the Options are fully exercised at \$0.01 raising an additional \$2,500,000) the offer represents a 43% premium to market. In the opinion of Directors, this represents a 'fair' offer to the non associated Shareholders of Hostech.

The pricing for the proposed Convertible Notes is the equivalent of \$0.02 cents per Share. This represents a premium of 207% compared to the three month VWAP and 100% premium compared to the 6 months VWAP (which is \$0.01). In the opinion of Directors, this represents a "fair" offer to the non associated Shareholders of Hostech.

## **Recent Genuine Transactions**

As stated previously in this report, the Company completed a Share issue on March 4, 2009. This placement was conducted after the announcement of a proposed transaction with Flaxton Hunter but prior to the detailed terms of the offer being disclosed to the market or the parties involved with the March 4 placement.

As disclosed to the market, the purpose of the Share issue was to provide working capital to ensure that Hostech had sufficient funds to maintain operations. The placement was concluded at a Share price of \$0.01 cent per Share (for 20,000,000 Shares) and 1:4 free attaching Options at an exercise price of \$0.01 cent.

The proposed Share price for Flaxton Hunter is equal to that offered in the placement of March 4. The Option value is also equal although the volume of Options is increased to 1:1. The conversion price for the proposed Convertible Notes represents a 100% premium to the Shares placed on March 4 2009.

Given the greater level of investment (12.5 times larger on the Share subscription alone) as well as increased commitment of future Convertible Notes (worth up to \$17m on top of the initial draw down), in

the opinion of the Board, the price of the placement, quantity of Options, and pricing of Convertible Notes represents a “fair” offer to non associated Shareholders.

### **Recent Genuine Offers**

Through the end of 2008 and into 2009, the Company announced that it was in need of additional funds to support the business, to add scale and achieve profitability. Until this occurs the Company is relying on existing working capital which is limited and being diminished. As a result, the Company undertook an exhaustive search of alternative funding through the last quarter of calendar 2008 and into 2009.

Given the current instability in the global economy, there was limited support for a straight equity placement (even at reduced prices compared to the proposed transaction from Flaxton Hunter). However, the Company was able to garner interest from companies seeking to complete transactions that would merge their entities into Hostech’s public entity.

A significant number of opportunities (greater than 10) were explored in detail with draft term sheets being prepared for at least two of the prospects to provide the Board of Hostech alternatives to explore with the intention of providing the strongest alternative to Shareholders.

All genuine alternatives were subject to non disclosure agreements. However, all material propositions available and explored by Hostech resulted in a greater level of dilution compared to the outcome from Flaxton Hunter. Arguably the alternatives also provided less scope for growth and as such reduced the potential positive outcomes compared to the outcome possible from the proposed transaction. As such, the Directors only conclusion is that based on the depressed investment climate and alternatives explored, the Flaxton Hunter proposal is fair.

## 7.0 Advantages and Disadvantages

The Directors of Hostech believe the advantages of the proposal include:

- (a) It is fair and reasonable as demonstrated in the review of the valuation methodology;
- (b) The proposal is likely to dilute current Shareholders less than if alternative funding was sought;
- (c) The proposal provides immediate access to working capital to stabilise the business and provide greater likelihood of realising value from existing assets;
- (d) The proposal is timely in that the funds are critical to the ongoing operations of the Company;
- (e) The access to the potential draw down of an additional \$17 million (Convertible Notes) will provide significant upside potential for existing Shareholders as the Company will be able to take advantage of the depressed market to acquire cash accretive assets at historically low prices;
- (f) It will eliminate any short term pressure to sell company assets, put the company into administration or seek to otherwise windup operations, avoiding a significantly impaired outcome for Shareholders in comparison;
- (g) Other than legal costs to prepare for the transaction, there are no capital raising costs, investment bank fees or other associated costs in raising the funds;
- (h) Flaxton Hunter have stated their intention to retain Hostech as a listed entity and that it will not make a takeover bid for the remaining Share capital of Hostech;
- (i) The likely injection of suitably qualified and experienced directors to the board of Hostech to augment the performance of the Board; and
- (j) Any future dilution as a result of a draw down of Convertible Notes (according to the terms of the Convertible Note Deed Poll) are subject to Shareholder approval (unless within the exclusion allowed according to the regulations).

**In the view of the Directors, the advantages clearly outweigh the disadvantages.** However, the disadvantages considered include:

- (a) The proposed transaction will result in the issue of a material amount of additional Shares. Whilst the Board believes that ultimately this will result in the best chance for an improvement in Share performance for existing non associated Shareholders, the immediate result is a dilution for existing Shareholders;

- (b) The proposed transaction will result in loss of control (in that Flaxton Hunter will have more than 50% of the Ordinary Shares in the Company) and board changes that ultimately provide Flaxton Hunter the ability to nominate a controlling number of directors to the Board. It must be noted that the Company intends, where practical, to abide by ASX guidelines in terms of level of representation on its Board by independent directors; and
- (c) There is always the potential that there may be an alternative transaction or source of funds to ensure the Company's survival. However, given the current market conditions, the critical timing and necessity for funds to ensure Company survival and the exhaustive reviews conducted, this is deemed highly unlikely.

## ANNEXURE B

### Terms of Options

#### 1. Definitions and interpretation

##### 1.1. Definitions

In these terms, unless the context otherwise requires:

“**ASX**” means ASX Limited.

“**ASX Listing Rules**” means the listing rules (as defined in chapter 7 of the Corporations Act) of the financial market operated by ASX.

“**Business Day**” means a day that is not a Saturday, Sunday, public holiday or bank holiday in Victoria.

“**Company**” means Hostech Limited ABN 98 009 805 298.

“**Constitution**” means the constitution of the Company as amended from time to time.

“**Corporations Act**” means the *Corporations Act 2001* (Cth).

“**Exercise Price**” means, with respect to any Options, the price payable to exercise them as specified in the Option Certificate.

“**Expiry Date**” means, with respect to any Options, the fifth anniversary of the First Issue Date.

“**First Issue Date**” has the same meaning as in the Subscription Agreement.

“**Option**” means an option to subscribe for one Share in accordance with these terms.

“**Option Certificate**” means the Option Certificate issued in respect of Options to which these terms are attached.

“**Share**” means an ordinary share in the capital of the Company.

“**Subscription Agreement**” means the subscription agreement executed by the Company and Flaxton Hunter Pty Ltd on or about March 2009.

## **1.2. Interpretation**

In these terms, unless the context otherwise requires:

- (a) words importing any gender include the other genders, the plural includes the singular and vice versa, and references to corporate persons include non-corporate persons and vice versa;
- (b) any reference to a corporation, body corporate or company includes a reference to each of them;
- (c) unless otherwise defined herein, a word which is given a particular meaning by the Corporations Act has the same meaning in these terms;
- (d) references to an act of parliament or any rules or regulations made subsidiary or pursuant thereto include that act or those rules or regulations as amended, consolidated or re-enacted from time to time;
- (e) if a word is defined, then other grammatical forms of that word have a corresponding meaning;
- (f) headings and bold typing are included for convenience only and do not affect interpretation; and
- (g) a reference to these terms includes any schedule or annexure to these terms.

## **2. Exercise**

### **2.1. Notice of exercise**

An exercise of any Options shall be effected by the holder of the Options completing and signing a notice of exercise of the Options in the form or substantially in the form of the notice set out at the end of these terms, and giving the notice to the Company together with the Option Certificate for the Options and payment of the Exercise Price for each Option exercised and, unless otherwise agreed by the Company, only upon receipt by the Company of that notice, certificate and payment shall the Options be taken to have been duly exercised.

### **2.2. Time for exercise**

Options may be exercised by the holder at any time prior to the fifth anniversary of the First Issue Date.

### **2.3. Exercise Price**

Payment of the Exercise Price of any Options by cheque shall be deemed to have been received by the Company at the time the cheque is received if and only if the amount of the cheque is subsequently paid by the drawer's bank to or for the account of the Company as cleared funds.

### **3. Issue of Shares**

#### **3.1. Issue**

If any Options are duly exercised the Company shall issue to the holder of the Options one fully paid Share for each Option exercised within 30 days from the date of receipt by the Company of payment of the Exercise Price in cleared funds.

#### **3.2. Ranking**

Shares issued pursuant to the exercise of Options shall rank for dividend from the date they are issued and shall otherwise rank pari passu with all other Shares then on issue.

#### **3.3. ASX quotation**

If Shares are quoted on the stock market of ASX, the Company shall apply for quotation on the stock market of ASX of all Shares issued pursuant to the exercise of Options as soon as reasonably practicable after their issue, but in any case within the time limit prescribed by the ASX Listing Rules.

### **4. Expiry**

#### **4.1. Expiry Date**

All Options remaining unexercised by 11.59 pm on the Expiry Date for those Options shall lapse and terminate immediately after that time.

### **5. Bonus Issues**

(a) If:

(i) at any time after the issue of Options there is a pro-rata issue of bonus Shares (namely Shares for whose issue no consideration is payable to the Company) to the holders of Shares, and

(ii) after that time the holder of Options exercises any of his or her Options,

the Company must issue to the holder at the same time it issues the Shares the subject of the exercised Options the number of bonus Shares which the holder would have received if, before the bonus issue, the holder held the Shares he or she would have been entitled to had he or she duly exercised the Options.

(b) Except as set out in this clause, Options do not entitle their holder to participate in any issue of securities in or in respect of the Company other than the Shares to be issued upon exercise of the Options in accordance with these terms and conditions.

## 6. Reconstruction

If at any time after the issue of Options:

- (a) the Shares are converted into a larger or smaller number of Shares, the number of Options immediately prior to such conversion must be converted in the same ratio as the Shares and the Exercise Price must be adjusted in inverse proportion to that ratio;
- (b) the Company reduces its share capital by a return of capital to the holders of Shares then the number of Options will remain the same but the Exercise Price must be reduced by the same amount as the return of capital on each Share; or
- (c) there is a pro-rata cancellation of Shares, the number of Options must be reduced in the same ratio as the Shares and the Exercise Price will be amended in inverse proportion to that ratio,

**provided that** all entitlements must be rounded down to the nearest whole number and fractions will be disregarded (subject to the provisions with respect to rounding the entitlements as sanctioned by the meeting of shareholders approving the reconstruction of the Shares) and in all other respects the terms and conditions for exercise of the Options will remain unchanged as a consequence of any reconstruction.

## 7. Notices

### 7.1. Service of notices

A notice, demand, consent, approval or communication under these terms (**Notice**) must be:

- (a) in writing, in English and signed by a person duly authorised by the sender; and
- (b) hand delivered or sent by prepaid post or facsimile to the recipient's latest address notified to the sender in writing, as varied by any Notice given by the recipient to the sender.

## **8. Effective on receipt**

A Notice given in accordance with clause 7.1 takes effect when taken to be received (or at a later time specified in it), and is taken to be received:

- (a) if hand delivered, on delivery;
- (b) if sent by prepaid post, the second Business Day after the date of posting (or the seventh Business Day after the date of posting if posted to or from a place outside Australia); and
- (c) if sent by facsimile, when the sender's facsimile system generates a message confirming successful transmission of the entire Notice unless, within one Business Day after the transmission, the recipient informs the sender that it has not received the entire Notice,

but if the delivery, receipt or transmission is not on a Business Day or is after 5.00pm on a Business Day, the Notice is taken to be received at 9.00am on the next Business Day.

## **9. Governing law and jurisdiction**

These terms are governed by the law of Victoria and each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Victoria.

## Annexure C

### Summary of terms and conditions of the Notes

The following terms have these meanings when used in this annexure:

**ASIC** means the Australian Securities and Investments Commission

**ASX** means ASX Limited

**ASX Listing Rules** means the listing rules of ASX

**Company** means Hostech Limited ABN 98 009 805 298

**Convertible Note** or **Note** means a secured interest bearing note issued by the Company convertible into Shares and issued in accordance with the terms and conditions set out below.

**Corporations Act** means Corporations Act 2001 (Cth)

**Face Value** means \$1

**Flaxton Hunter** means Flaxton Hunter Pty Ltd ACN 126 948 034

**Maturity Date** means 5 years from the date of issue of a Convertible Note

**Noteholder** means a registered holder of a Convertible Note

**Share** means a fully paid ordinary share in the capital of the Company

A summary of the terms and conditions of the Convertible Notes is set out below:

<b>Noteholder:</b>	Flaxton Hunter or its nominee
<b>Principal Amount:</b>	\$500,000
<b>Issue Price and Face Value of Convertible Notes:</b>	The issue price and face value of each Note is AUD\$1.00 and will be payable in full by Flaxton Hunter or its nominee on application.
<b>Maximum number of shares to be issued on conversion:</b>	25,000,000 new Shares at a conversion or issue price of \$0.02 per Share plus 50 new Shares for each \$1.00 of interest that is unpaid and capitalised at the date of conversion (where the note holder elects to receive this amount in Shares rather than cash).
<b>Interest Rate:</b>	7% per annum payable quarterly in arrears.
<b>Capitalisation of Interest:</b>	Outstanding interest will be capitalised and accrue interest of 7% per annum from the due date until it is paid.
<b>Issue Date of Convertible Notes:</b>	Within 3 months from the date of the General Meeting.

<b>Last date for Conversion:</b>	5 years from the issue date, which is the "Maturity Date".
<b>Security:</b>	Convertible Notes and any outstanding interest on the Notes will be secured by a fixed and floating charge over the assets of the Company

***Issue***

On the date of issue, the Company must issue the Notes to Flaxton Hunter or its nominee and the Holderholder must pay \$1.00 for each Note.

***Notice of Conversion***

The Noteholder has the right to convert any or all of its Notes (at any time prior to the Maturity Date) into Shares at an issue price of \$0.02 per Share.

***Conversion***

Each Share issued upon conversion of the Notes will rank equally with the Shares existing at the date of conversion. Any conversion of Notes into Shares will be subject to and undertaken in accordance with the provisions of the Corporations Act and the ASX Listing Rules.

***Redemption***

The Noteholder has the right at any time on or after the Maturity Date to redeem all or any of the Notes held by the Noteholder at the Face Value of the Notes.

***Reorganisation of Capital***

If, while any Note remains capable of being converted, there is a reorganisation of the issued capital of the Company, the number of Shares a Noteholder is entitled to on the conversion of a Note will be adjusted so that the Notes are convertible into the same percentage of the issued ordinary share capital as the percentage into which they are convertible immediately prior to the relevant reorganisation event.

***Transferability***

The Noteholder may transfer by way of instrument of transfer, assignment or novation all of its rights, benefits or obligations under this document to any third party.

# HOSTECH LIMITED PROXY FORM FOR GENERAL MEETING

I/We \_\_\_\_\_

of \_\_\_\_\_

am/are a member of Hostech Limited and I/We appoint as my/our proxy:

\_\_\_\_\_

of \_\_\_\_\_

Or failing him or her, the Chairman of the General Meeting of the Company, to be held on Tuesday April 21, 2009 at 2:00 p.m. in the Botanic Room at the Seasons Botanic Gardens Hotel, 348 St Kilda Road, Melbourne, VIC, 3004 to vote for me/us at the meeting and at any adjournment of it.

If 2 proxies are being appointed the proportion of voting rights this proxy is authorised to exercise is .....%.  
(The Company will supply an additional form on request).

		For	Against	Abstain
<b>Resolution 1</b>	Approve the previous issue of Shares and Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 2</b>	Approve the issue of Shares and Options to Flaxton Hunter	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 3</b>	Approve the issue of Convertible Notes to Flaxton Hunter or its nominees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Resolution 4</b>	Approve the giving of Financial Assistance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman intends to vote all undirected proxies in favour of all resolutions.

If you do not wish to direct your proxy on how to vote, please tick the box:

By ticking this box, I/We acknowledge that the Chairman may exercise my/our proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as a proxy holder will be disregarded because of that interest.

If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

If the member is a Company:

The COMMON SEAL of

\_\_\_\_\_

was hereunto affixed by the authority of its director(s) in the presence of:

\_\_\_\_\_

If the member is an individual or joint shareholder:

\_\_\_\_\_

**Signature**

\_\_\_\_\_

**Signature**

#### **PROXY INSTRUCTIONS**

A member entitled to attend and vote at a meeting is entitled to appoint not more than 2 proxies.

Where more than 1 proxy is appointed, each proxy may be appointed to represent a specific portion of the member's voting rights.

A proxy need not be a member of the Company.

A proxy form must be signed by the member or his or her attorney. Proxies given by corporations must either be signed under seal or under the hand of a duly authorised officer of attorney.

To be valid, the form appointing the proxy and the Power of Attorney or other authority (if any) under which it is signed (or a certified copy) must be lodged with:

The Company Secretary  
Hostech Limited  
71 Thistlethwaite Street  
SOUTH MELBOURNE VIC 3205

Fax: +61 (0)3 9 698 7878

**Not later than 2:00 p.m. on April 19, 2009.**